

COMMUNITY TRUST BANCORP INC /KY/  
Form 10-Q  
August 10, 2009

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2009

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-11129

COMMUNITY TRUST BANCORP, INC.  
(Exact name of registrant as specified in its charter)

Kentucky 61-0979818  
(State or other jurisdiction of incorporation or organization) IRS Employer Identification No.

346 North Mayo Trail 41501  
Pikeville, Kentucky (Zip Code)  
(address of principal executive offices)

(606) 432-1414  
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer, large accelerated filer, and smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer  Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common stock – 15,144,256 shares outstanding at July 31, 2009

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

The accompanying information has not been audited by independent registered public accountants; however, in the opinion of management such information reflects all adjustments necessary for a fair presentation of the results for the interim period. All such adjustments are of a normal and recurring nature.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Registrant's annual report on Form 10-K. Accordingly, the reader of the Form 10-Q should refer to the Registrant's Form 10-K for the year ended December 31, 2008 for further information in this regard.

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Community Trust Bancorp, Inc.  
Condensed Consolidated Balance Sheets

	(unaudited) June 30 2009	December 31 2008
(dollars in thousands)		
Assets:		
Cash and due from banks	\$ 84,289	\$ 89,576
Interest bearing deposits	7,372	5,422
Federal funds sold	34,118	45,880
Cash and cash equivalents	125,779	140,878
Other short-term investments	29,500	100
Securities available-for-sale at fair value (amortized cost of \$294,872 and \$265,999, respectively)	298,006	267,376
Securities held-to-maturity at amortized cost (fair value of \$20,409 and \$25,496, respectively)	19,875	25,597
Loans held for sale	600	623
Loans	2,380,255	2,348,651
Allowance for loan losses	(31,422)	(30,821)
Net loans	2,348,833	2,317,830
Premises and equipment, net	51,096	51,590
Federal Reserve Bank and Federal Home Loan Bank stock	29,048	29,040
Goodwill	65,059	65,059
Core deposit intangible (net of accumulated amortization of \$6,539 and \$6,222, respectively)	965	1,282
Bank owned life insurance	25,524	24,135
Mortgage servicing rights	3,407	2,168
Other real estate owned	20,369	10,425
Other assets	17,906	18,428
Total assets	\$ 3,035,967	\$ 2,954,531
Liabilities and shareholders' equity:		
Deposits		
Noninterest bearing	\$ 463,164	\$ 450,360
Interest bearing	1,930,789	1,881,474
Total deposits	2,393,953	2,331,834
Repurchase agreements	152,290	157,422
Federal funds purchased and other short-term borrowings	19,712	11,492
Advances from Federal Home Loan Bank	60,696	60,727
Long-term debt	61,341	61,341
Other liabilities	33,201	23,509
Total liabilities	2,721,193	2,646,325
Shareholders' equity:		
Preferred stock, 300,000 shares authorized and unissued	-	-

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Common stock, \$5 par value, shares authorized 25,000,000; shares outstanding 2009 –15,134,245 ; 2008 – 15,066,248	75,671	75,331
Capital surplus	151,668	150,037
Retained earnings	85,398	81,943
Accumulated other comprehensive income, net of tax	2,037	895
Total shareholders' equity	314,774	308,206
Total liabilities and shareholders' equity	\$ 3,035,967	\$ 2,954,531

See notes to condensed consolidated financial statements.

Community Trust Bancorp, Inc.  
Condensed Consolidated Statements of Income and Other Comprehensive Income  
(unaudited)

(in thousands except per share data)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
<b>Interest income:</b>				
Interest and fees on loans, including loans held for sale	\$ 34,435	\$ 37,308	\$ 68,622	\$ 77,063
<b>Interest and dividends on securities</b>				
Taxable	2,499	3,226	5,098	6,638
Tax exempt	498	471	928	945
Interest and dividends on Federal Reserve and Federal	339	285	684	794
<b>Home Loan Bank stock</b>				
Other, including interest on federal funds sold	154	380	269	910
<b>Total interest income</b>	<b>37,925</b>	<b>41,670</b>	<b>75,601</b>	<b>86,350</b>
<b>Interest expense:</b>				
Interest on deposits	10,436	13,522	21,489	29,049
<b>Interest on repurchase agreements and other short-term</b>				
Borrowings	598	1,090	1,271	2,558
<b>Interest on advances from Federal Home Loan Bank</b>				
Bank	482	376	958	753
Interest on long-term debt	1,000	1,000	2,000	2,000
<b>Total interest expense</b>	<b>12,516</b>	<b>15,988</b>	<b>25,718</b>	<b>34,360</b>
<b>Net interest income</b>	<b>25,409</b>	<b>25,682</b>	<b>49,883</b>	<b>51,990</b>
Provision for loan losses	4,522	2,648	6,503	5,017
<b>Net interest income after provision for loan losses</b>	<b>20,887</b>	<b>23,034</b>	<b>43,380</b>	<b>46,973</b>
<b>Noninterest income:</b>				
Service charges on deposit accounts	5,517	5,503	10,466	10,602
Gains on sales of loans, net	1,309	494	3,240	1,040
Trust income	1,249	1,298	2,411	2,489
Loan related fees	1,494	1,079	2,242	1,378
Bank owned life insurance	287	269	543	532
Securities gains (losses)	(4)	0	515	(50)
Other	1,103	1,038	2,291	2,433
<b>Total noninterest income</b>	<b>10,955</b>	<b>9,681</b>	<b>21,708</b>	<b>18,424</b>
<b>Noninterest expense:</b>				
Salaries and employee benefits	10,650	10,600	21,918	21,311
Occupancy, net	1,714	1,708	3,518	3,334
Equipment	1,269	1,114	2,388	2,167

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Data processing	1,514	1,426	3,001	2,807
Bank franchise tax	918	914	1,828	1,804
Legal and professional fees	924	724	1,994	1,437
FDIC Insurance	2,250	65	3,746	132
Other	4,339	3,892	8,982	7,452
Total noninterest expense	23,578	20,443	47,375	40,444
Income before income taxes	8,264	12,272	17,713	24,953
Income taxes	2,327	3,652	5,196	7,788
Net income	5,937	8,620	12,517	17,165
Other comprehensive income, net of tax:				
Unrealized holding gains (losses ) on securities available-for-sale	56	(3,618)	1,142	(587)
Comprehensive income	\$ 5,993	\$ 5,002	\$ 13,659	\$ 16,578

See notes to condensed consolidated financial statements.

Community Trust Bancorp, Inc.  
Condensed Consolidated Statements of Income and Other Comprehensive Income  
(continued)  
(unaudited)

	Three Months Ended		Six Months Ended	
	June 30		June 30	
(in thousands except per share data)	2009	2008	2009	2008
Basic earnings per share	\$ 0.39	\$ 0.58	\$ 0.83	\$ 1.14
Diluted earnings per share	0.39	0.57	0.82	1.13
Weighted average shares outstanding-basic	15,127	14,989	15,101	14,995
Weighted average shares outstanding-diluted	15,219	15,152	15,194	15,145
Dividends declared per share	\$ 0.30	\$ 0.29	\$ 0.60	\$ 0.58

See notes to condensed consolidated financial statements.



Community Trust Bancorp, Inc.  
Condensed Consolidated Statements of Cash Flows  
(unaudited)

	Six months ended	
	June 30	
(in thousands)	2009	2008
<b>Cash flows from operating activities:</b>		
Net income	\$ 12,517	\$ 17,165
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	2,712	2,567
Deferred taxes	581	(222)
Stock based compensation	283	368
Excess tax benefits of stock-based compensation	596	421
Provision for loan and other real estate losses	7,030	5,142
Securities (gains)/losses	(515)	50
Gains on sale of mortgage loans held for sale	(3,240)	(1,040)
Gains on sale of assets, net	(11)	(70)
Proceeds from sale of mortgage loans held for sale	162,972	52,933
Funding of mortgage loans held for sale	(159,708)	(51,053)
Amortization of securities premiums, net	929	(96)
Change in cash surrender value of bank owned life insurance	(444)	(451)
Fair value adjustments of mortgage servicing rights	(237)	2
<b>Changes in:</b>		
Other liabilities	8,786	1,826
Other assets	(535)	4,137
Net cash provided by operating activities	31,715	31,679
<b>Cash flows from investing activities:</b>		
<b>Securities available-for-sale:</b>		
Proceeds from sales	37,451	29,950
Proceeds from prepayments and maturities	51,744	41,076
Purchase of securities	(118,454)	(54,648)
<b>Securities held-to-maturity:</b>		
Proceeds from prepayments and maturities	6,179	3,684
Purchase of securities	(480)	(53,073)
<b>Other short term investments</b>		
Purchase of securities	(29,400)	0
Change in loans, net	(49,582)	(1,314)
Purchase of premises, equipment, and other real estate	(1,900)	(643)
Proceeds from sale of premises and equipment	24	0
Additional investment in equity securities	(8)	0
Proceeds from sale of other real estate and other repossessed assets	2,155	2,422
Additional investment in other real estate owned	(508)	(104)
Additional investment in bank owned life insurance	(945)	0
Net cash used in investing activities	\$ (103,724)	\$ (32,650)

See notes to condensed consolidated financial statements.

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Community Trust Bancorp, Inc.  
Condensed Consolidated Statements of Cash Flows (continued)  
(unaudited)

	Six months ended	
	June 30	
(in thousands)	2009	2008
<b>Cash flows from financing activities:</b>		
Change in deposits, net	\$ 62,119	\$ (15,041)
Change in repurchase agreements and other short-term borrowings, net	3,088	(17,011)
Payments on advances from Federal Home Loan Bank	(31)	(97)
Issuance of common stock	1,375	932
Purchase of common stock	0	(2,630)
Excess tax benefits of stock-based compensation	(596)	(421)
Dividends paid	(9,045)	(8,699)
Net cash provided by (used in) financing activities	56,910	(42,967)
Net increase in cash and cash equivalents	(15,099)	(43,938)
Cash and cash equivalents at beginning of period	140,878	137,250
Cash and cash equivalents at end of period	\$ 125,779	\$ 93,212
<b>Supplemental disclosures:</b>		
Income taxes paid	\$ 3,468	\$ 9,529
Interest paid	23,353	31,430
<b>Non-cash activities</b>		
Loans to facilitate the sale of other real estate and other repossessed assets	281	885
Common stock dividends accrued, paid in subsequent quarter	4,540	8,686
Real estate acquired in settlement of loans	12,357	4,234

See notes to condensed consolidated financial statements.

Community Trust Bancorp, Inc.  
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 - Summary of Significant Accounting Policies

In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (which consist of normal recurring accruals) necessary, to present fairly the condensed consolidated financial position as of June 30, 2009, the results of operations for the three and six months ended June 30, 2009 and 2008, and the cash flows for the six months ended June 30, 2009 and 2008. In accordance with accounting principles generally accepted in the United States of America for interim financial information, these statements do not include certain information and footnote disclosures required by accounting principles generally accepted in the United States of America for complete annual financial statements. The condensed consolidated balance sheet as of December 31, 2008 has been derived from the audited consolidated financial statements of Community Trust Bancorp, Inc. ("CTBI") for that period. The results of operations for the three and six months ended June 30, 2009 and 2008, and the cash flows for the six months ended June 30, 2009 and 2008, are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2008, included in CTBI's Annual Report on Form 10-K.

**Principles of Consolidation** – The unaudited condensed consolidated financial statements include the accounts of CTBI and its separate and distinct, wholly owned subsidiaries Community Trust Bank, Inc. (the "Bank") and Community Trust and Investment Company. All significant intercompany transactions have been eliminated in consolidation.

**Reclassifications** – Certain reclassifications considered to be immaterial have been made in the prior year consolidated financial statements to conform to current year classifications. These reclassifications had no effect on net income.

These financial statements consider events that occurred through August 10, 2009, the date the financial statements were issued.

**New Accounting Standards** –

Ø **Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities** – This FASB Staff Position No. EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, Earnings Per Share. This FSP was effective January 1, 2009, and did not have a significant impact on our consolidated financial statements.

Ø **Business Combinations (Revised 2007)** – The FASB recently issued SFAS 141(R), which replaces FAS 141, Business Combinations, and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities, and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities, would have to be met in

order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting, and instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS 5, Accounting for Contingencies. This Statement defines a bargain purchase as a business combination in which the total acquisition date fair value of the identifiable net assets acquired exceeds the fair value of the consideration transferred plus any noncontrolling interest in the acquiree, and it requires the acquirer to recognize that excess in earnings as a gain attributable to the acquirer. In contrast, Statement 141 required the “negative goodwill” amount to be allocated as a pro rata reduction of the amounts that otherwise would have been assigned to particular assets acquired. SFAS 141R is effective for business combinations occurring after January 1, 2009.

Ø Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly –FSP SFAS 157-4 affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. FSP SFAS 157-4 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. FSP SFAS 157-4 also amended SFAS 157, Fair Value Measurements, to expand certain disclosure requirements. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. CTBI did not elect to early adopt. This FSP did not have a significant impact on our consolidated financial statements.

Ø Recognition and Presentation of Other-Than-Temporary Impairments – FSP SFAS 115-2 and SFAS 124-2 (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the existing requirement that the entity’s management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under FSP SFAS 115-2 and SFAS 124-2, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. CTBI did not elect to early adopt. This FSP did not have a significant impact on our consolidated financial statements.

Ø Interim Disclosures about Fair Value of Financial Instruments – FSP SFAS 107-1 and APB 28-1 amends SFAS 107, Disclosures about Fair Value of Financial Instruments, to require an entity to provide disclosures about fair value of financial instruments in interim financial information and amends Accounting Principles Board (APB) Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. Under FSP SFAS 107-1 and APB 28-1, a publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, entities must disclose, in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods, the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by SFAS 107. This FSP did not have a significant impact on our consolidated financial statements.

Ø Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies – FSP SFAS 141R-1 amends the guidance in SFAS 141R to require that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with SFAS 5, Accounting for Contingencies, and FASB Interpretation (FIN)

No. 14, Reasonable Estimation of the Amount of a Loss. FSP SFAS 141R-1 removes subsequent accounting guidance for assets and liabilities arising from contingencies from SFAS 141R and requires entities to develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies. FSP SFAS 141R-1 eliminates the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, entities are required to include only the disclosures required by SFAS 5. FSP SFAS 141R-1 also requires that contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be treated as contingent consideration of the acquirer and should be initially and subsequently measured at fair value in accordance with SFAS 141R. FSP SFAS 141R-1 is effective for assets or liabilities arising from contingencies CTBI acquires in business combinations occurring after January 1, 2009.

Ø Disclosure of Subsequent Events - SFAS No. 165 — In May 2009, the FASB issued Statement No. 165 — Subsequent Events. SFAS No. 165 establishes the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements and the circumstances under which an entity shall recognize events or transactions that occur after the balance sheet date. SFAS No. 165 also requires disclosure of the date through which subsequent events have been evaluated. The new standard becomes effective for interim and annual periods ending after June 15, 2009. The Company adopted this standard for the interim reporting period ending June 30, 2009. The adoption of this statement did not have a material impact on the Company's consolidated financial position or results of operations.

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Ø Accounting for transfers of Financial Assets - SFAS No. 166 — In June 2009, the FASB issued Statement No. 166 — Accounting for Transfers of Financial Assets — an amendment of FASB Statement No. 140. SFAS No. 166 amends SFAS No. 140 and removes the concept of a qualifying special-purpose entity and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. The new standard will become effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting SFAS No. 166 on the consolidated financial statements.

Ø Determining when to consolidate variable purpose entities - SFAS No. 167 — In June 2009, the FASB issued Statement No. 167 — Amendments to FASB Interpretation No. 46(R). SFAS No. 167 amends tests under Interpretation No. 46(R) for variable interest entities to determine whether a variable interest entity must be consolidated. SFAS No. 167 requires an entity to perform an analysis to determine whether an entity's variable interest or interests give it a controlling financial interest in a variable interest entity. This statement requires ongoing reassessments of whether an entity is the primary beneficiary of a variable interest entity and enhanced disclosures that provide more transparent information about an entity's involvement with a variable interest entity. The new standard will become effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting SFAS No. 167 on the consolidated financial statements.

Ø Codification of authoritative accounting principles - SFAS No. 168 — In June 2009, the FASB issued Statement No. 168 — The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. SFAS No. 168 replaces SFAS No. 162 and establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles ("GAAP"). Rules and interpretative releases of the Securities and Exchange Commission under federal securities laws are also sources of authoritative GAAP for SEC registrants. The new standard becomes effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this statement is not expected to have a material impact on the Company's consolidated financial position or results of operations.

Ø Disclosures regarding postretirement benefit plan assets - FSP FAS 132(R)-1 — In December 2008, the FASB issued FASB Staff Position No. 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets. This FASB staff position amends FASB Statement No. 132 to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. FSP FAS 132(R)-1 requires disclosure of the fair value of each major category of plan assets for pension plans and other postretirement benefit plans. This FASB staff position becomes effective for the Company on January 1, 2010. The Company is currently evaluating the impact of adopting FSP FAS 132(R)-1 on the consolidated financial statements, but it is not expected to have a material impact.

## Note 2 – Stock-Based Compensation

CTBI's compensation expense related to stock option grants was \$238 thousand and \$343 thousand, respectively, for the six months ended June 30, 2009 and 2008, respectively. Restricted stock expense for the first six months of 2009 and 2008 was \$45 thousand and \$25 thousand, respectively. As of June 30, 2009, there was a total of \$0.7 million of unrecognized compensation expense related to unvested stock option awards that will be recognized as expense as the awards vest over a weighted average period of 1.1 years.

There were options to purchase 9,000 shares of CTBI common stock and 5,710 shares of restricted stock granted during the six months ended June 30, 2009. The options were granted pursuant to the terms of the 2006 Stock Ownership Incentive Plan, with an exercise price per share of \$29.82 (equal to fair market value on date of grant), a term of 10 years, and vesting in five years. The restrictions on the restricted stock will lapse at the end of five

years. However, in the event of a change in control of CTBI or the death of the participant, the restrictions will lapse. In the event of the disability of the participant, the restrictions will lapse on a pro rata basis (with respect to 20% of the participant's restricted stock for each year since the date of award). The Compensation Committee of the Board of Directors will have discretion to review and revise restrictions applicable to a participant's restricted stock in the event of the participant's retirement. There were options to purchase 63,700 shares of CTBI common stock and 11,076 shares of restricted stock granted during the six months ended June 30, 2008.

The fair values of options granted during the six months ended June 30, 2009 and 2008, were established at the date of grant using a Black-Scholes option pricing model with the weighted average assumptions as follows:

	Six Months Ended	
	June 30	
	2009	2008
Expected dividend yield	4.02%	4.10%
Risk-free interest rate	2.23%	3.23%
Expected volatility	37.12%	31.01%
Expected term (in years)	7.5	7.5
Weighted average fair value of options	\$ 7.69	\$ 6.41



## Note 3 – Securities

Securities are classified into held-to-maturity and available-for-sale categories. Held-to-maturity securities are those that CTBI has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale securities are those that CTBI may decide to sell if needed for liquidity, asset-liability management or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains or losses included as a separate component of equity, net of tax.

The amortized cost and fair value of securities at June 30, 2009 are summarized as follows:

## Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$ 2,002	\$ 0	\$ (23)	\$ 1,979
State and political subdivisions	48,147	784	(503)	48,428
U.S. government sponsored agencies and mortgage-backed pass through certificates	224,182	3,546	(68)	227,660
Collateralized mortgage obligations	1	0	0	1
Total debt securities	274,332	4,330	(594)	278,068
Marketable equity securities	20,540	0	(602)	19,938
Total available-for-sale securities	\$ 294,872	\$ 4,330	\$ (1,196)	\$ 298,006

## Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	\$ 1,576	\$ 9	\$ 0	\$ 1,585
U.S. government sponsored agencies and mortgage-backed pass through certificates	17,819	525	0	18,344
Other debt securities	480	0	0	480
Total held-to-maturity securities	\$ 19,875	\$ 534	\$ 0	\$ 20,409

The amortized cost and fair value of securities as of December 31, 2008 are summarized as follows:

## Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$ 18,330	\$ 576	\$ 0	\$ 18,906
State and political subdivisions	39,738	757	(651)	39,844
U.S. government sponsored agencies and mortgage-backed pass through certificates	187,390	1,305	(390)	188,305
Collateralized mortgage obligations	1	0	0	1
Total debt securities	245,459	2,638	(1,041)	247,056
Marketable equity securities	20,540	0	(220)	20,320
Total available-for-sale securities	\$ 265,999	\$ 2,638	\$ (1,261)	\$ 267,376

## Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	\$ 1,576	\$ 9	\$ 0	\$ 1,585
U.S. government sponsored agencies and mortgage-backed pass through certificates	24,021	0	(110)	23,911
Total held-to-maturity securities	\$ 25,597	\$ 9	\$ (110)	\$ 25,496

The amortized cost and fair value of securities at June 30, 2009 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 8,094	\$ 8,167	\$ 0	\$ 0
Due after one through five years	21,812	22,402	395	404
Due after five through ten years	5,194	5,101	0	0
Due after ten years	15,049	14,737	1,181	1,181
Mortgage-backed securities and collateralized mortgage obligations	224,183	227,661	17,819	18,344
Other securities	0	0	480	480
Total debt securities	274,332	278,068	19,875	20,409
Marketable equity securities	20,540	19,938	0	0
	\$ 294,872	\$ 298,006	\$ 19,875	\$ 20,409

Pre-tax gains on the sale of available for sale securities for the six months ended June 30, 2009 totaled \$519 thousand and pre-tax losses for the same period were \$4 thousand. For the six months ended June 30, 2008 there were no realized gains on sales of available for sale securities while pre-tax realized losses were \$50 thousand.

Securities in the amount of \$258 million and \$276 million at June 30, 2009 and December 31, 2008, respectively, were pledged to secure public deposits, trust funds, repurchase agreements, and advances from the Federal Home Loan Bank.

CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of June 30, 2009 indicates that all impairment is considered temporary, market driven, and not credit-related. The following tables provide the amortized cost, gross unrealized losses, and fair market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of June 30, 2009.

## Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
<b>Less Than 12 Months</b>			
U.S. Treasury and government agencies	\$ 2,002	\$ (23)	\$ 1,979
State and political subdivisions	13,521	(260)	13,261
U.S. government sponsored agencies and mortgage-backed pass through certificates	29,093	(68)	29,025
Total debt securities	44,616	(351)	44,265
Marketable equity securities	540	(234)	306
Total securities	\$ 45,156	\$ (585)	\$ 44,571
<b>12 Months or More</b>			
U.S. Treasury and government agencies	\$ 0	\$ 0	\$ 0
State and political subdivisions	4,023	(243)	3,780
U.S. government sponsored agencies and mortgage-backed pass through certificates	0	0	0
Total debt securities	4,023	(243)	3,780
Marketable equity securities	20,000	(368)	19,632
Total securities	\$ 24,023	\$ (611)	\$ 23,412
<b>Total</b>			
U.S. Treasury and government agencies	\$ 2,002	\$ (23)	\$ 1,979
State and political subdivisions	17,544	(503)	17,041
U.S. government sponsored agencies and mortgage-backed pass through certificates	29,093	(68)	29,025
Total debt securities	48,639	(594)	48,045
Marketable equity securities	20,540	(602)	19,938
Total securities	\$ 69,179	\$ (1,196)	\$ 67,983

As of June 30, 2009, there were no held-to-maturity securities with unrealized losses.

The analysis performed as of December 31, 2008 indicated that all impairment was considered temporary, due to fluctuations in interest rates, and not credit-related. The following tables provide the amortized cost, gross unrealized losses, and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of December 31, 2008.

## Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
<b>Less Than 12 Months</b>			

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State and political subdivisions	\$	8,929	\$	(453)	\$	8,476
U.S. government sponsored agencies and mortgage-backed pass through certificates		76,984		(321)		76,663
Total debt securities		85,913		(774)		85,139
Marketable equity securities		20,000		(220)		19,780
Total securities	\$	105,913	\$	(994)	\$	104,919

12 Months or More

State and political subdivisions	\$	1,385	\$	(198)	\$	1,187
U.S. government sponsored agencies and mortgage-backed pass through certificates		22,299		(69)		22,230
Total debt securities		23,684		(267)		23,417
Marketable equity securities		0		0		0
Total securities	\$	23,684	\$	(267)	\$	23,417

Total

State and political subdivisions	\$	10,314	\$	(651)	\$	9,663
U.S. government sponsored agencies and mortgage-backed pass through certificates		99,283		(390)		98,893
Total debt securities		109,597		(1,041)		108,556
Marketable equity securities		20,000		(220)		19,780
Total securities	\$	129,597	\$	(1,261)	\$	128,336

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
State and political subdivisions	\$ 0	\$ 0	\$ 0
U.S. government sponsored agencies and mortgage-backed pass through certificates	24,021	(110)	23,911
Total securities	\$ 24,021	\$ (110)	\$ 23,911

## Note 4 – Loans

Major classifications of loans, net of unearned income and deferred loan origination costs, are summarized as follows:

	June 30	December 31
(in thousands)	2009	2008
Commercial construction	\$ 143,224	\$ 156,425
Commercial secured by real estate	702,892	663,663
Commercial other	365,415	365,685
Real estate construction	48,763	56,298
Real estate mortgage	589,639	609,394
Consumer	511,541	484,843
Equipment lease financing	18,781	12,343
Total loans	\$ 2,380,255	\$ 2,348,651

Activity in the allowance for loan and lease losses was as follows:

	Six Months Ended	
	June 30	
(in thousands)	2009	2008
Allowance balance at January 1	\$ 30,821	\$ 28,054
Additions to allowance charged against operations	6,503	5,017
Recoveries credited to allowance	1,668	1,253
Losses charged against allowance	(7,570)	(5,228)
Allowance balance at June 30	\$ 31,422	\$ 29,096

## Note 5 – Mortgage Servicing Rights

The following table presents the components of mortgage banking income:

	Six Months Ended	
	June 30	
(in thousands)	2009	2008
Net gain on sale of loans held for sale	\$ 3,240	\$ 1,040
Net loan servicing income		
Servicing fees	500	431
Late fees	33	31
Ancillary fees	388	114
Fair value adjustments	237	(245)
Net loan servicing income (loss)	1,158	331
Mortgage banking income	\$ 4,398	\$ 1,371

Mortgage loans serviced for others are not included in the accompanying balance sheets. Loans serviced for the benefit of others (primarily FHLMC) were \$425 million at June 30, 2009 and \$349 million at December 31, 2008. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and processing foreclosures. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$1.2 million at June 30, 2009 compared to \$0.4 million at December 31, 2008.



Activity for capitalized mortgage servicing rights using the fair value method was as follows:

(in thousands)	Six Months Ended	
	June 30	
	2009	2008
Fair value, beginning of period	\$ 2,168	\$ 3,258
New servicing assets created	1,002	243
Change in fair value during the period due to:		
Time decay (1)	(76)	(91)
Payoffs (2)	(392)	(186)
Changes in valuation inputs or assumptions (3)	705	32
Fair value, end of period	\$ 3,407	\$ 3,256

(1) Represents decrease in value due to regularly scheduled loan principal payments and partial loan paydowns.

(2) Represents decrease in value due to loans that paid off during the period.

(3) Represents change in value resulting from market-driven changes in interest rates and prepayment speeds.

The fair value of capitalized mortgage servicing rights was \$3.4 million at June 30, 2009 compared to \$2.2 million at December 31, 2008 and \$3.3 million at June 30, 2008. Fair values were determined by third-party valuations using a discount rate of 10.0% for the quarters ended June 30, 2009 and December 31, 2008, and 10.06% for the quarter ended June 30, 2008 and weighted average default rates of 1.5%, 1.7% and 1.3% respectively. Prepayment speeds generated using the Andrew Davidson Prepayment Model averaged 13.3% at June 30, 2009 compared to 20.7% at December 31, 2008 and 12.5% at June 30, 2008. MSR values are very sensitive to movement in interest rates as expected future net servicing income depends on the projected balance of the underlying loans, which can be greatly impacted by the level of prepayments. CTBI does not currently hedge against changes in the fair value of its MSR portfolio.

#### Note 6 – Borrowings

Short-term debt consists of the following:

(in thousands)	June 30	December
	2009	31 2008
Subsidiaries:		
Repurchase agreements	\$ 152,290	\$ 157,422
Federal funds purchased	19,712	11,492
Total short-term debt	\$ 172,002	\$ 168,914

On July 28, 2009, Community Trust Bancorp, Inc. was notified by Fifth Third Bank of the extension of the expiration date of our \$12 million line of credit from July 29, 2009 to October 29, 2009. Currently, all \$12 million remain available for general corporate purposes.

All federal funds purchased and the majority of repurchase agreements mature and reprice daily. The average rates paid for federal funds purchased and repurchase agreements on June 30, 2009 were 0.20% and 1.32%, respectively.

Federal Home Loan Bank advances consisted of the following monthly amortizing and term borrowings:

(in thousands)	June 30
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	2009	December 31 2008
Monthly amortizing	\$ 696	\$ 727
Term	60,000	60,000
	\$ 60,696	\$ 60,727

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The advances from the Federal Home Loan Bank that require monthly principal payments were due for repayment as follows:

(in thousands)	Principal Payments Due by Period at June 30, 2009						
	Total	Within 1 Year	2 Years	3 Years	4 Years	5 Years	After 5 Years
Outstanding advances, weighted average interest rate – 3.75%	\$ 696	\$ 638	\$ 8				