COMMUNITY TRUST BANCORP INC /KY/
Form 10-Q
August 08, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended June 30, 2011
	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 Pikeville, Kentucky (address of principal executive offices)	41501 (Zip Code)

(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 ü	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 ü	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 ü	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 ü

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

Common stock – 15,415,211 shares outstanding at July 31, 2011

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, 2010 for further information in this regard.

Community Trust Bancorp, Inc.
Condensed Consolidated Balance Sheets

(dollars in thousands)	(unaudited) June 30 2011	December 31 2010
Assets:		
Cash and due from banks	$76,815	$62,559
Interest bearing deposits	105,129	70,086
Federal funds sold	1,379	26,338
Cash and cash equivalents	183,323	158,983
Certificates of deposits in other banks	13,043	14,762
Securities available-for-sale at fair value (amortized cost of $445,164 and $332,658, respectively)	456,790	338,675
Securities held-to-maturity at amortized cost (fair value of $1,662 and $1,662, respectively)	1,662	1,662
Loans held for sale	621	455
Loans	2,580,487	2,605,180
Allowance for loan losses	(35,152)	(34,805)
Net loans	2,545,335	2,570,375
Premises and equipment, net	55,620	55,343
Federal Home Loan Bank stock	25,673	25,673
Federal Reserve Bank stock	4,882	4,434
Goodwill	65,490	65,499
Core deposit intangible (net of accumulated amortization of $7,392 and $7,260, respectively)	1,223	1,342
Bank owned life insurance	42,754	39,697
Mortgage servicing rights	3,029	3,161
Other real estate owned	46,791	42,935
Other assets	38,438	32,876
Total assets	$3,484,674	$3,355,872
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing	$567,638	$525,478
Interest bearing	2,213,483	2,180,639
Total deposits	2,781,121	2,706,117
Repurchase agreements	212,266	188,275
Federal funds purchased and other short-term borrowings	13,386	9,680
Advances from Federal Home Loan Bank	21,708	21,238
Long-term debt	61,341	61,341
Other liabilities	42,586	30,583
Total liabilities	3,132,408	3,017,234
Shareholders' equity:		

Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, $5 par value, shares authorized 25,000,000; shares outstanding 2011 – 15,405,348; 2010 – 15,334,410	76,542	76,408
Capital surplus	155,788	154,880
Retained earnings	112,379	103,439
Accumulated other comprehensive income, net of tax	7,557	3,911
Total shareholders' equity	352,266	338,638
Total liabilities and shareholders' equity	$3,484,674	$3,355,872

See notes to condensed consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands except per share data)	2011	2010	2011	2010
Interest income:				
Interest and fees on loans, including loans held for sale	$36,182	$35,165	$72,868	$70,316
Interest and dividends on securities				
Taxable	2,751	2,394	5,033	4,608
Tax exempt	412	394	808	818
Interest and dividends on Federal Reserve and Federal Home Loan Bank stock	357	343	713	962
Other, including interest on federal funds sold	139	148	279	237
Total interest income	39,841	38,444	79,701	76,941
Interest expense:				
Interest on deposits	5,511	7,637	11,341	15,233
Interest on repurchase agreements and other short-term borrowings	426	512	854	1,047
Interest on advances from Federal Home Loan Bank	26	17	54	38
Interest on long-term debt	1,000	1,000	2,000	2,000
Total interest expense	6,963	9,166	14,249	18,318
Net interest income	32,878	29,278	65,452	58,623
Provision for loan losses	3,320	3,106	7,707	8,828
Net interest income after provision for loan losses	29,558	26,172	57,745	49,795
Noninterest income:				
Service charges on deposit accounts	6,438	5,949	12,318	11,246
Gains on sales of loans, net	347	337	728	779
Trust income	1,577	1,458	3,193	2,882
Loan related fees	476	46	1,359	886
Bank owned life insurance	426	407	836	812
Other noninterest income	1,329	1,345	2,897	2,678
Total noninterest income	10,593	9,542	21,331	19,283
Noninterest expense:				
Officer salaries and employee benefits	2,337	1,945	4,510	3,847
Other salaries and employee benefits	10,380	9,687	20,291	19,230
Occupancy, net	1,933	1,742	4,030	3,483
Equipment	905	959	1,773	1,942
Data processing	1,650	1,697	3,442	3,283
Bank franchise tax	1,119	977	2,283	1,955
Legal fees	570	688	1,500	1,281
Professional fees	279	326	685	557
FDIC insurance	839	1,140	1,963	2,139

Other real estate owned provision and expense	2,186	606	3,032	1,478
Other noninterest expense	4,948	3,888	10,184	7,901
Total noninterest expense	27,146	23,655	53,693	47,096
Income before income taxes	13,005	12,059	25,383	21,982
Income taxes	4,035	3,506	7,109	6,638
Net income	8,970	8,553	18,274	15,344
Other comprehensive income, net of tax:				
Unrealized holding gains on securities available-for-sale	2,978	964	3,646	1,281
Comprehensive income	$11,948	$9,517	$21,920	$16,625
Basic earnings per share	$0.59	$0.56	$1.19	$1.01
Diluted earnings per share	$0.58	$0.56	$1.19	$1.01
Weighted average shares outstanding-basic	15,308	15,228	15,301	15,215
Weighted average shares outstanding-diluted	15,332	15,305	15,328	15,252
Dividends declared per share	$0.305	$0.30	$0.61	$0.60

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)	2011	2010
Cash flows from operating activities:		
Net income	$18,274	$15,344
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,990	2,326
Deferred taxes	(1,941)	(690)
Stock-based compensation	402	380
Excess tax benefits of stock-based compensation	(86)	21
Dividends on restricted stock	60	37
Provision for loan losses	7,707	8,828
Fair value adjustments to other real estate owned	2,177	395
Gains on sale of mortgage loans held for sale	(728)	(779)
(Gains)/losses on sale of assets, net	105	16
Proceeds from sale of mortgage loans held for sale	33,863	36,794
Funding of mortgage loans held for sale	(33,301)	(35,663)
Amortization of securities premiums and discounts, net	1,434	954
Change in cash surrender value of bank owned life insurance	(679)	(695)
Death benefits received on bank owned life insurance	79	0
Mortgage servicing rights:		
Fair value adjustments	383	981
New servicing assets created	(251)	(267)
Changes in:		
Other assets	(5,548)	265
Other liabilities	11,827	6,348
Net cash provided by operating activities	35,767	34,595
Cash flows from investing activities:		
Certificates of deposit in other banks:		
Purchase of certificates of deposit	0	(16,363)
Maturity of certificates of deposit	1,719	955
Securities available-for-sale (AFS):		
Purchase of AFS securities	(156,846)	(129,723)
Proceeds from prepayments and maturities of AFS securities	42,906	5,005
Proceeds from sales	0	43,358
Securities held-to-maturity (HTM):		
Purchase of HTM securities	0	(480)
Proceeds from prepayments and maturities of HTM securities	0	13,153
Change in loans, net	7,077	(17,230)
Purchase of premises and equipment	(2,160)	(1,170)
Proceeds from sale of premises and equipment	13	2
Additional investment in Federal Reserve Bank stock	(448)	(6)
Proceeds from sale of other real estate and other repossessed assets	4,171	3,304

Additional investment in other real estate and other repossessed assets	(61)	(185)
Additional investment in bank owned life insurance	(2,458)	0
Net cash used in investing activities	(106,087)	(99,380)
Cash flows from financing activities:		
Change in deposits, net	75,004	108,918
Change in repurchase agreements, federal funds purchased, and other short-term borrowings, net	27,697	(924)
Proceeds from Federal Home Loan Bank advances	571	0
Payments on advances from Federal Home Loan Bank	(101)	(612)
Issuance of common stock	728	975
Excess tax benefits of stock-based compensation	86	(21)
Dividends paid	(9,325)	(9,115)
Net cash provided by financing activities	94,660	99,221
Net increase in cash and cash equivalents	24,340	34,436
Cash and cash equivalents at beginning of period	158,983	142,129
Cash and cash equivalents at end of period	$183,323	$176,565
Supplemental disclosures:		
Income taxes paid	$8,380	$4,200
Interest paid	12,925	15,288
Non-cash activities:		
Loans to facilitate the sale of other real estate and other repossessed assets	739	146
Common stock dividends accrued, paid in subsequent quarter	4,665	4,568
Real estate acquired in settlement of loans	10,938	6,599

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, 2011, the results of operations for the three and six months ended June 30, 2011 and 2010, and the cash flows for the six months ended June 30, 2011 and 2010. 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 results of operations for the three and six months ended June 30, 2011 and 2010, and the cash flows for the six months ended June 30, 2011 and 2010, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2010 has been derived from the audited consolidated financial statements of Community Trust Bancorp, Inc. ("CTBI") for that period. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2010, 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 condensed consolidated financial statements to conform to current year classifications. These reclassifications had no effect on net income.

New Accounting Standards –

Ø Improving Disclosures about Fair Value Measurements – In January 2010, the FASB released Accounting Standards Update (ASU) 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 amends Accounting Standards Codification (ASC) Subtopic 820, Fair Value Measurements and Disclosures, and Subtopic 715-20, Compensation—Retirement Benefits—Defined Benefit Plans. This ASU expanded the existing fair value disclosures required by these two subtopics. Additional disclosures required by the new standard must be made for each period beginning after the effective date. Expansion of disclosures for prior periods to include those required by the ASU is optional.

Disclosure changes made by ASU 2010-06 include:

- The amounts of and reasons for significant transfers in and out of Level 1, Level 2 and Level 3 fair value measurements and the accounting policy for the date used to recognize such transfers, e.g., actual transaction date, beginning of reporting period date or end of reporting period date

- Presentation of purchases, sales, issuances and settlements as separate lines, rather than one net number, in the table reconciling activity for assets and liabilities measured at fair value on a recurring basis using Level 3 inputs

- Provision of fair value measurement disclosures for each class of assets and liabilities with a class often being a subset of assets or liabilities within a balance sheet line item. Class should be determined on the basis of the nature and risks of investments in debt and equity securities and generally will not require change from the classifications already employed in disclosures for those investments

- Provision of explanations about the valuation techniques and inputs used to determine fair value for both recurring and nonrecurring fair value measurements falling in either Level 2 or Level 3

- Revision of the existing disclosures made by a plan sponsor about fair value for assets of defined benefit pension and other postretirement benefit plans to require those disclosures be made by asset class instead of asset category

ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, with early adoption permitted. The one exception involves reporting certain items gross instead of net in the existing activity table for items measured at fair value on a recurring basis using Level 3 inputs, which was effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years and may be adopted earlier if desired. Except for the Level 3 table item, each SEC issuer must apply the ASU starting with its first interim period beginning after December 15, 2009. CTBI did not elect to early adopt the provisions which were effective for years beginning after December 15, 2009 or the December 15, 2010 provisions. ASU 2010-06 has not had a material impact on CTBI's consolidated financial statements.

Ø Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset – a consensus of the FASB Emerging Issues Task Force – In April 2010, the FASB issued ASU No. 2010-18, Receivables (Topic 310) – Effect of a Loan Modification When the Loan is Part of a Pool that is Accounted for as a Single Asset – a consensus of the FASB Emerging Issues Task Force. ASU 2010-18 provides guidance on account for acquired loans that have evidence of credit deterioration upon acquisition. It allows acquired assets with common risk characteristics to be accounted for in the aggregate as a pool. ASU 2010-18 was effective for modifications of loans accounted for within pools under Subtopic 310-30 in the first interim or annual reporting period ending on or after July 15, 2010. ASU 2010-18 did not have an impact on our financial condition, results of operations, or disclosures.

Ø Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses – In July 2010, the FASB released ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. The standard will help investors assess the credit risk of a company's receivables portfolio and the adequacy of its allowance for credit losses held against the portfolios by expanding credit risk disclosures. Companies will be required to provide more information about the credit quality of their financing receivables in the disclosures to financial statements, such as aging information and credit quality indicators. Both new and existing disclosures must be disaggregated by portfolio segment or class. The disaggregation of information is based on how a company develops its allowance for credit losses and how it manages its credit exposure.

The standard requires CTBI to expand disclosures about the credit quality of our loans and the related reserves against them. The additional disclosures include details on our past due loans, credit quality indicators, and modifications of loans, and are included in note 4. CTBI adopted the standard beginning with our December 31, 2010 financial statements.

Ø Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings – In January 2011, the FASB released ASU 2011-01, Receivables (Topic 310): Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings. The amendments in this ASU temporarily delayed the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 discussed above. The delay was intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring.

Ø A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring – In April 2011, the FASB issued ASU No. 2011-02, A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring. The provisions of ASU No. 2011-02 provide additional guidance related to determining whether a creditor has granted a concession, include factors and examples for creditors to consider in evaluating whether a restructuring results in a delay in payment that is insignificant, prohibit creditors from using the borrower's effective rate test to evaluate whether a concession has been granted to the borrower, and add factors for creditors to use in determining whether a borrower is experiencing financial difficulties. A provision in ASU No. 2011-02 also ends the FASB's deferral of the additional disclosures about troubled debt restructurings as required by ASU No. 2010-20. The provisions of ASU No. 2011-02 will be effective for CTBI's reporting period ending September 30, 2011. The adoption of ASU No. 2011-02 is not expected to have a material impact on CTBI's consolidated financial statements.

Ø Reconsideration of Effective Control for Repurchase Agreements – In April 2011, the FASB issued ASU 2011-03, Reconsideration of Effective Control for Repurchase Agreements. The main objective in developing this ASU is to improve the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The amendments in this ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this Update. The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of ASU No. 2011-03 is not expected to have a material impact on CTBI's consolidated financial statements.

Ø Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs – In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendments in this ASU generally represent clarifications of Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs.

The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. CTBI will adopt the methodologies prescribed by this ASU by the date required and does not anticipate that the ASU will have a material effect on its financial position or results of operations.

Ø Amendments to Topic 220, Comprehensive Income – In June 2011, the FASB issued ASU No. 2011-05, Amendments to Topic 220, Comprehensive Income. Under the amendments in this ASU, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income.

The amendments in this ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. Due to the recency of this pronouncement, CTBI is evaluating its timing of adoption of ASU 2011-05, but will adopt the ASU retrospectively by the due date.

Note 2 – Stock-Based Compensation

CTBI's compensation expense related to stock option grants was $48 thousand and $198 thousand for the six months ended June 30, 2011 and 2010, respectively. Restricted stock expense for the first six months of 2011 and 2010 was $354 thousand and $182 thousand, respectively. As of June 30, 2011, there was a total of $0.1 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 1.7 years and a total of $1.9 million of unrecognized compensation expense related to restricted stock grants that will be recognized as expense as the awards vest over a weighted average period of 2.9 years.

There were no shares of restricted stock granted during the three months ended June 30, 2011, and 45,542 shares granted during the six months ended June 30, 2011. 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 no options granted to purchase shares of CTBI common stock during the three or six months ended June 30, 2011. There were options to purchase 4,525 shares of CTBI common stock and 44,996 shares of restricted stock granted during the six months ended June 30, 2010.

The fair values of options granted during the six months ended June 30, 2010, 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 2010	
Expected dividend yield	4.78	%
Risk-free interest rate	3.14	%
Expected volatility	39.12	%
Expected term (in years)	7.5	
Weighted average fair value of options	$6.53	

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, 2011 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	$32,132	$301	$(101)	$32,332
State and political subdivisions	61,608	1,909	(32)	63,485
U.S. government sponsored agency mortgage-backed securities	330,842	8,828	(20)	339,650

Total debt securities	424,582	11,038	(153)	435,467
Marketable equity securities	20,582	741	0	21,323
Total available-for-sale securities	$445,164	$11,779	$(153)	$456,790

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$1,182	$0	$0	$1,182
Other debt securities	480	0	0	480
Total held-to-maturity securities	$1,662	$0	$0	$1,662

The amortized cost and fair value of securities as of December 31, 2010 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	$29,154	$330	$(230)	$29,254
State and political subdivisions	52,017	690	(842)	51,865
U.S. government sponsored agency mortgage-backed securities	230,905	6,690	(352)	237,243
Total debt securities	312,076	7,710	(1,424)	318,362
Marketable equity securities	20,582	41	(310)	20,313
Total available-for-sale securities	$332,658	$7,751	$(1,734)	$338,675

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$1,182	$0	$0	$1,182
Other debt securities	480	0	0	480
Total held-to-maturity securities	$1,662	$0	$0	$1,662

The amortized cost and fair value of securities at June 30, 2011 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$4,579	$4,611	$0	$0
Due after one through five years	22,826	23,340	0	0
Due after five through ten years	39,313	40,298	1,182	1,182
Due after ten years	27,022	27,568	0	0
U.S. government sponsored agency mortgage-backed securities	330,842	339,650	0	0
Other securities	0	0	480	480

Total debt securities	424,582	435,467	1,662	1,662
Marketable equity securities	20,582	21,323	0	0
Total securities	$445,164	$456,790	$1,662	$1,662

There were no pre-tax gains or losses as of June 30, 2011 and December 31, 2010.

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $139.4 million at June 30, 2011 and $106.2 million at December 31, 2010.

The carrying value of securities sold under agreements to repurchase amounted to $212.3 million at June 30, 2011 and $188.3 million at December 31, 2010.

CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of June 30, 2011 indicates that all impairment is considered temporary, market driven, and not credit-related. The percentage of total investments with unrealized losses as of June 30, 2011 was 6.6% compared to 18.9% as of December 31, 2010. 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, 2011 that are not deemed to be other-than-temporarily impaired.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	$5,072	$(101)	$4,971
State and political subdivisions	4,278	(21)	4,257
U.S. government sponsored agency mortgage-backed securities	20,540	(20)	20,520
Total debt securities	29,890	(142)	29,748
Marketable equity securities	0	0	0
Total securities	29,890	(142)	29,748
12 Months or More			
U.S. Treasury and government agencies	0	0	0
State and political subdivisions	590	(11)	579
U.S. government sponsored agency mortgage-backed securities	0	0	0
Total debt securities	590	(11)	579
Marketable equity securities	0	0	0
Total securities	590	(11)	579
Total			
U.S. Treasury and government agencies	5,072	(101)	4,971
State and political subdivisions	4,868	(32)	4,836
U.S. government sponsored agency mortgage-backed securities	20,540	(20)	20,520
Total debt securities	30,480	(153)	30,327
Marketable equity securities	0	0	0
Total securities	$30,480	$(153)	$30,327

As of June 30, 2011, there were no held-to-maturity securities with unrealized losses.

The analysis performed as of December 31, 2010 indicated that all impairment was 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 December 31, 2010 that are not deemed to be other-than-temporarily impaired.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	$10,384	$(230)	$10,154
State and political subdivisions	24,624	(826)	23,798
U.S. government sponsored agency mortgage-backed securities	30,016	(352)	29,664
Total debt securities	65,024	(1,408)	63,616
Marketable equity securities	42	(17)	25
Total securities	65,066	(1,425)	63,641
12 Months or More			
U.S. Treasury and government agencies	0	0	0
State and political subdivisions	590	(16)	574
U.S. government sponsored agency mortgage-backed securities	0	0	0
Total debt securities	590	(16)	574
Marketable equity securities	329	(293)	36
Total securities	919	(309)	610
Total			
U.S. Treasury and government agencies	10,384	(230)	10,154
State and political subdivisions	25,214	(842)	24,372
U.S. government sponsored agency mortgage-backed securities	30,016	(352)	29,664
Total debt securities	65,614	(1,424)	64,190
Marketable equity securities	371	(310)	61
Total securities	$65,985	$(1,734)	$64,251

As of December 31, 2010, there were no held-to-maturity securities with unrealized losses.

Note 4 – Loans

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

(in thousands)	June 30 2011	December 31 2010
Commercial construction	$126,628	$135,091
Commercial secured by real estate	805,638	807,049
Equipment lease financing	10,365	14,151
Commercial other	382,210	388,746
Real estate construction	48,195	56,910
Real estate mortgage	641,165	623,851
Home equity	83,727	85,103

Consumer direct	123,080	126,046
Consumer indirect	359,479	368,233
Total loans	$2,580,487	$2,605,180

Not included in the loan balances above were loans held for sale in the amount of $0.6 million and $0.5 million at June 30, 2011 and December 31, 2010, respectively. The amount of capitalized fees and costs related to origination of loans under ASC 310-20, included in the above loan totals were $0.9 million and $0.8 million at June 30, 2011 and December 31, 2010, respectively.

CTBI acquired loans through the acquisition of First National Bank of LaFollette in the fourth quarter 2010. At acquisition, the transferred loans with evidence of deterioration of credit quality since origination were not significant; therefore, none of the loans acquired were accounted for under the guidance in ASC 310-30.

Credit discounts representing principal losses expected over the life of the loans are a component of the initial fair value for purchased loans acquired that are not deemed impaired at acquisition. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. Subsequent to the acquisition date, the methods used to estimate the required allowance for credit losses for these loans is similar to originated loans; however, the Bank records a provision for loan losses only when the required allowance exceeds any remaining credit discounts. The remaining difference between the purchase price and the unpaid principal balance at the date of acquisition is recorded in interest income over the life of the loans. Management estimated the cash flows expected to be collected at acquisition using a third party that incorporated estimates of current key assumptions, such as default rates, severity, and prepayment speeds. The carrying amounts of those loans included in the balance sheet are $101.0 million and $115.7 million at June 30, 2011 and December 31, 2010, respectively.

Changes in accretable yield during the six months ended June 30, 2011 and the year ended December 31, 2010 are as follows:

(in thousands)	June 30 2011	December 31 2010
Beginning balance	$2,995	$0
Additions	0	3,152
Accretion	(540)	(126)
Disposals	(923)	(31)
Ending balance	$1,532	$2,995

The amount of loans on a non-accruing income status was $32.8 million at June 30, 2011 and $45.0 million at December 31, 2010. The total of loans on non-accrual that were in homogeneous pools and not evaluated individually for impairment were $7.9 million, and $7.6 million at June 30, 2011 and December 31, 2010, respectively. Additional interest which would have been recorded during the quarter ended June 30, 2011 was $0.2 million compared to $0.3 million and $0.2 million for quarters ended December 31, 2010 and June 30, 2010, respectively. Any loan greater than 90 days past due must be well secured and in the process of collection to continue accruing interest. The amount of loans 90 days or more past due and still accruing interest was $26.8 million, $17.0 million, and $16.9 million at June 30, 2011, December 31, 2010, and June 30, 2010, respectively. Refer to note 1 to the consolidated financial statements for the year ended December 31, 2010 included in CTBI's Annual Report on Form 10-K for further information regarding our nonaccrual policy. Nonaccrual loans segregated by class of loans were as follows:

(in thousands)	June 30 2011	December 31 2010

Commercial:		
Commercial construction	$7,008	$13,138
Commercial secured by real estate	14,308	15,608
Commercial other	3,681	9,338
Residential:		
Real estate construction	872	636
Real estate mortgage	6,792	6,137
Home equity	184	164
Total nonaccrual loans	$32,845	$45,021

The following tables present the Bank’s loan portfolio aging analysis, segregated by class, as of June 30, 2011 and December 31, 2010:

	June 30, 2011						
(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*
Commercial:							
Commercial construction	$3,490	$1,426	$16,938	$21,854	$104,774	$126,628	$10,110
Commercial secured by real estate	2,064	1,771	25,433	29,268	776,370	805,638	12,526
Equipment lease financing	0	0	0	0	10,365	10,365	0
Commercial other	2,003	300	3,326	5,629	376,581	382,210	511
Residential:							
Real estate construction	236	0	1,543	1,779	46,416	48,195	685
Real estate mortgage	2,029	3,000	8,615	13,644	627,521	641,165	2,319
Home equity	972	72	440	1,484	82,243	83,727	303
Consumer:							
Consumer direct	1,227	243	70	1,540	121,540	123,080	70
Consumer indirect	2,641	747	234	3,622	355,857	359,479	234
Total	$14,662	$7,559	$56,599	$78,820	$2,501,667	$2,580,487	$26,758

	December 31, 2010						
(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*
Commercial:							
Commercial construction	$1,800	$545	$14,290	$16,635	$118,456	$135,091	$1,178
Commercial secured by real estate	6,382	8,618	22,195	37,195	769,854	807,049	9,641
Equipment lease financing	0	0	0	0	14,151	14,151	0
Commercial other	6,737	539	5,039	12,315	376,431	388,746	1,692
Residential:							
	109	767	1,009	1,885	55,025	56,910	372

Real estate construction							
Real estate mortgage	1,478	3,764	8,844	14,086	609,765	623,851	3,337
Home equity	885	276	295	1,456	83,647	85,103	226
Consumer:							
Consumer direct	1,569	242	70	1,881	124,165	126,046	70
Consumer indirect	2,851	684	498	4,033	364,200	368,233	498
Total	$21,811	$15,435	$52,240	$89,486	$2,515,694	$2,605,180	$17,014

*90+ and Accruing are also included in 90+ Days Past Due column.

The Bank utilizes an internal risk grading system on all commercial credits. A description of the general characteristics of the risk grades is as follows:

Ø Pass grades include investment grade, low risk, moderate risk, and acceptable risk loans. The loans range from loans that have no chance of resulting in a loss to loans that have a limited chance of resulting in a loss. Customers in this grade have excellent to fair credit ratings. The cash flows are adequate to meet required debt repayments.

Ø Watch graded loans are loans that warrant extra management attention but are not currently criticized. Loans on the watch list may be potential troubled credits or may warrant "watch" status for a reason not directly related to the asset quality of the credit. The watch grade is a management tool to identify credits which may be candidates for future classification or may temporarily warrant extra management monitoring.

Ø Other assets especially mentioned (OAEM) reflects loans that are currently protected but are potentially weak. These loans constitute an undue and unwarranted credit risk but not to the point of justifying a classification of substandard. The credit risk may be relatively minor yet constitute an unwarranted risk in light of circumstances surrounding a specific asset. Loans in this grade display potential weaknesses which may, if unchecked or uncorrected, inadequately protect the Bank's credit position at some future date. The loans may be adversely affected by economic or market conditions.

Ø Substandard grading indicates that the loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. These loans have a well-defined weakness or weaknesses that jeopardize the orderly liquidation of the debt with the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Ø Doubtful graded loans have the weaknesses inherent in the substandard grading with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The probability of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the Bank's advantage or strengthen the asset(s), its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Ø A loss grading applies to loans that are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery value, but rather it is not practical or desirable to defer writing off the asset. Losses must be taken in the period in which they surface as uncollectible.

The following tables present the credit risk profile of the Bank's commercial loan portfolio based on rating category and payment activity, segregated by class of loans, as of June 30, 2011 and December 31, 2010:

(in thousands)	Real Estate Commercial Construction	Commercial Secured by Real Estate	Commercial Other	Equipment Leases
June 30, 2011				
Pass	$ 77,140	$ 647,444	$ 318,552	$ 10,365
Watch	21,247	87,901	50,078	0
OAEM	899	6,435	1,520	0
Substandard	19,702	49,096	5,428	0
Doubtful	6,786	12,646	3,614	0
Loss	854	2,116	3,018	0
Total	$ 126,628	$ 805,638	$ 382,210	$ 10,365
December 31, 2010				
Pass	$ 80,064	$ 651,281	$ 313,444	$ 14,151
Watch	27,510	80,128	57,716	0
OAEM	853	8,163	731	0
Substandard	13,987	53,141	7,348	0
Doubtful	12,506	13,813	7,456	0
Loss	171	523	2,051	0
Total	$ 135,091	$ 807,049	$ 388,746	$ 14,151

The following tables present the credit risk profile of the Bank's residential real estate and consumer loan portfolios based on performing or nonperforming status, segregated by class, as of June 30, 2011 and December 31, 2010:

(in thousands)	Real Estate Consumer Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect
June 30, 2011					
Performing	$ 46,638	$ 632,054	$ 83,240	$ 123,010	$ 359,245
Nonperforming	1,557	9,111	487	70	234
Total	$ 48,195	$ 641,165	$ 83,727	$ 123,080	$ 359,479
December 31, 2010					
Performing	$ 55,902	$ 614,377	$ 84,713	$ 125,976	$ 367,735
Nonperforming	1,008	9,474	390	70	498
Total	$ 56,910	$ 623,851	$ 85,103	$ 126,046	$ 368,233

A loan is considered nonperforming if it is 90 days or more past due or on nonaccrual.

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The following table presents impaired loans at June 30, 2011:

	June 30, 2011

(in thousands)	Recorded Balance	Unpaid Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Commercial construction	$14,403	$14,403	$0
Commercial secured by real estate	32,050	34,403	0
Commercial other	3,788	4,380	0
Real estate construction	28	28	0
Real estate mortgage	84	84	0
Consumer direct	111	111	0
Consumer indirect	86	86	0
Loans with a specific valuation allowance:			
Commercial construction	7,036	8,327	2,724
Commercial secured by real estate	5,217	5,382	1,977
Commercial other	2,257	4,834	918
Commercial	64,751	71,729	5,619
Residential	112	112	0
Consumer	197	197	0
Total	$65,060	$72,038	$5,619

The following table presents the average investment in impaired loans and interest income recognized on impaired loans for the three and six months ended June 30, 2011:

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
(in thousands)	Average Investment in Impaired Loans	Interest Income Recognized	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:				
Commercial construction	$14,464	$46	$11,021	$117
Commercial secured by real estate	32,037	316	32,405	573
Commercial other	4,025	32	3,956	88
Real estate construction	28	1	14	1
Real estate mortgage	85	1	85	3
Consumer direct	112	3	78	4
Consumer indirect	89	3	89	5
Loans with a specific valuation allowance:				
Commercial construction	7,045	0	8,194	0
Commercial secured by real estate	5,229	0	5,224	23
Commercial other	4,230	0	6,086	0
Commercial	67,030	394	66,886	801
Residential	113	2	99	4
Consumer	201	6	167	9
Total	$67,344	$402	$67,152	$814

The following table presents impaired loans at December 31, 2010 and the average investment in impaired loans and interest income recognized on impaired loans for the year ended December 31, 2010:

	December 31, 2010				
(in thousands)	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial construction	$6,313	$6,313	$0	$6,262	$43
Commercial secured by real estate	23,503	24,034	0	23,629	330
Commercial other	4,357	4,616	0	4,407	71
Real estate construction	790	790	0	790	0
Real estate mortgage	950	950	0	950	0
Loans with a specific valuation allowance:					
Commercial construction	9,528	10,813	2,554	9,686	0
Commercial secured by real estate	9,188	9,358	2,575	9,191	2
Commercial other	8,680	10,338	3,093	8,090	85
Commercial	61,569	65,472	8,222	61,265	531
Residential	1,740	1,740	0	1,740	0
Total	$63,309	$67,212	$8,222	$63,005	$531

The recorded investments in impaired loans at June 30, 2010 are summarized below:

(in thousands)	June 30 2010
Impaired loans without specific reserves	$26,143
Impaired loans with specific reserves	28,443
Restructured loans	5,604
Total	$60,190

The average investment in impaired loans for the six months ended June 30, 2010 was $54.7 million and interest income recognized on impaired loans was $0.2 million for the same period.

Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. Restructured loans segregated by class of loans were as follows:

(in thousands)	June 30 2011	December 31 2010
Commercial:		
Commercial construction	$5,354	$2,973
Commercial secured by real estate	12,064	2,511
Commercial other	2,500	1,156
Residential:		
Real estate construction	28	
Real estate mortgage	84	0

Consumer:		
Consumer direct	111	0
Consumer indirect	86	0
Total restructured loans	$20,227	$6,640

Presented below, segregated by class of loans, are troubled debt restructurings, which are included in the above table, that were performing in accordance with their modified terms:

(in thousands)	June 30 2011	December 31 2010
Commercial:		
Commercial construction	$1,009	$1,633
Commercial secured by real estate	10,206	2,427
Commercial other	1,554	771
Residential:		
Real estate construction	28	
Real estate mortgage	84	0
Consumer:		
Consumer direct	88	0
Consumer indirect	86	0
Total restructured loans	$13,055	$4,831

The following tables present the activity in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method for the three and six months ended June 30, 2011 and the year ended December 31, 2010:

	Three Months Ended June 30, 2011									
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Commercial Other	Equipment Lease Financing	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	$4,668	$11,952	$7,504	$138	$262	$3,345	$439	$1,061	$5,783	$35,152
Provision charged to expense	363	1,379	(233)	(15)	103	872	148	33	670	3,320
Losses charged off	406	198	1,960	0	75	309	81	118	919	4,066
Recoveries	12	69	141	0	6	30	8	91	389	746
Ending balance	$4,637	$13,202	$5,452	$123	$296	$3,938	$514	$1,067	$5,923	$35,152
Ending balance:										
	$2,724	$1,977	$918	$0	$0	$0	$0	$0	$0	$5,619

Individually evaluated for impairment										
Collectively evaluated for impairment	$1,913	$11,225	$4,534	$123	$296	$3,938	$514	$1,067	$5,923	$29,533
Loans										
Ending balance:										
Individually evaluated for impairment	$21,439	$37,267	$6,045	$0	$28	$84	$0	$111	$86	$65,060
Collectively evaluated for impairment	$105,189	$768,371	$376,165	$10,365	$48,167	$641,081	$83,727	$122,969	$359,393	$2,515,427

	Six Months Ended June 30, 2011									
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Commercial Other	Equipment Lease Financing	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	$4,332	$12,327	$7,392	$148	$271	$2,982	$407	$1,169	$5,777	$34,805
Provision charged to expense	796	2,992	673	(25)	86	1,555	226	76	1,328	7,707
Losses charged off	504	2,213	2,835	0	75	651	127	409	1,914	8,728
Recoveries	13	96	222	0	14	52	8	231	732	1,368
Ending balance	$4,637	$13,202	$5,452	$123	$296	$3,938	$514	$1,067	$5,923	$35,152
Ending balance:										
Individually evaluated for impairment	$2,724	$1,977	$918	$0	$0	$0	$0	$0	$0	$5,619
Collectively evaluated for impairment	$1,913	$11,225	$4,534	$123	$296	$3,938	$514	$1,067	$5,923	$29,533

Loans										
Ending balance:										
Individually evaluated for impairment	$21,439	$37,267	$6,045	$0	$28	$84	$0	$111	$86	$65,060
Collectively evaluated for impairment	$105,189	$768,371	$376,165	$10,365	$48,167	$641,081	$83,727	$122,969	$359,393	$2,515,427

	December 31, 2010									
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Commercial Other	Equipment Lease Financing	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	$3,381	$10,961	$7,472	$221	$291	$3,041	$455	$1,258	$5,563	$32,643
Provision charged to expense	2,640	5,029	4,416	(73)	(17)	526	287	532	3,144	16,484
Losses charged off	1,695	3,826	5,184	0	22	684	358	1,256	4,611	17,636
Recoveries	6	163	688	0	19	99	23	635	1,681	3,314
Ending balance	$4,332	$12,327	$7,392	$148	$271	$2,982	$407	$1,169	$5,777	$34,805
Ending balance:										
Individually evaluated for impairment	$2,554	$2,575	$3,093	$0	$0	$0	$0	$0	$0	$8,222
Collectively evaluated for impairment	$1,778	$9,752	$4,299	$148	$271	$2,982	$407	$1,169	$5,777	$26,583
Loans										
Ending balance:										
Individually evaluated for impairment	$15,841	$32,691	$13,037	$0	$790	$950	$0	$0	$0	$63,309
Collectively evaluated	$119,250	$774,358	$375,709	$14,151	$56,120	$622,901	$85,103	$126,046	$368,233	$2,541,871

for
impairment

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

(in thousands)	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Allowance balance, beginning of period	$34,874	$32,643
Additions to allowance charged against operations	3,106	8,828
Recoveries credited to allowance	793	1,618
Losses charged against allowance	(2,617)	(6,933)
Allowance balance, end of period	$36,156	$36,156

Note 5 – Mortgage Banking and Servicing Rights

Mortgage banking activities primarily include residential mortgage originations and servicing. Mortgage servicing rights ("MSRs") are carried at fair market value. The fair value is determined quarterly based on an independent third-party valuation using a discounted cash flow analysis and calculated using a computer pricing model. The computer valuation is based on key economic assumptions including the prepayment speeds of the underlying loans, the weighted-average life of the loan, the discount rate, the weighted-average coupon, and the weighted-average default rate, as applicable. Along with the gains received from the sale of loans, fees are received for servicing loans. These fees include late fees, which are recorded in interest income, and ancillary fees and monthly servicing fees, which are recorded in noninterest income. Costs of servicing loans are charged to expense as incurred. Changes in fair market value of the MSRs are reported as an increase or decrease to mortgage banking income.

The following table presents the components of mortgage banking income:

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands)	2011	2010	2011	2010
Net gain on sale of loans held for sale	$347	$337	$728	$779
Net loan servicing income (loss)				
Servicing fees	268	275	536	548
Late fees	19	18	41	34
Ancillary fees	54	57	120	123
Fair value adjustments	(337)	(855)	(383)	(981)
Net loan servicing income (loss)	4	(505)	314	(276)
Mortgage banking income (loss)	$351	$(168)	$1,042	$503

Mortgage loans serviced for others are not included in the accompanying balance sheets. Mortgage loans serviced for the benefit of others (primarily FHLMC) at June 30, 2011, December 31, 2010, and June 30, 2010, were $423 million, $425 million, and $438 million, respectively. 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, 2011, $0.5 million at December 31, 2010, and $1.2 million at June 30, 2010.

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

	Six Months Ended June 30	
(in thousands)	2011	2010
Fair value, beginning of period	$3,161	$3,406
New servicing assets created	251	267
Change in fair value during the period due to:		
Time decay (1)	(86)	(74)
Payoffs (2)	(103)	(58)
Changes in valuation inputs or assumptions (3)	(194)	(849)
Fair value, end of period	$3,029	$2,692

(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 $3.0 million at June 30, 2011 compared to $3.2 million at December 31, 2010 and $2.7 million at June 30, 2010. Fair values were determined by third-party valuations using a discount rate of 10.0% for the quarters ended June 30, 2011, December 31, 2010 and June 30, 2010, and weighted average default rates of 1.8%, 2.0%, and 2.1% respectively. Prepayment speeds generated using the Andrew Davidson Prepayment Model averaged 13.9%, 13.3%, and 17.9% at June 30, 2011, December 31, 2010, and June 30, 2010, respectively. 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 – Other Real Estate Owned

Activity for foreclosed properties during the three and six months ended June 30, 2011 and 2010 was as follows:

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands)	2011	2010	2011	2010
Beginning balance	$47,667	$38,612	$42,935	$37,333
New assets acquired	4,617	3,495	10,938	6,450
Capitalized costs	48	133	61	185
Fair value adjustments	(1,759)	(66)	(2,177)	(395)
Sale of assets	(3,782)	(2,069)	(4,966)	(3,468)
Ending balance	$46,791	$40,105	$46,791	$40,105

Carrying costs and fair value adjustments associated with foreclosed properties were $2.2 million and $0.6 million for the quarters ended June 30, 2011 and June 30, 2010, respectively, and $3.0 million and $1.5 million for the six months ended June 30, 2011 and 2010, respectively.

Note 7 – Borrowings

Short-term debt consists of the following:

(in thousands)	June 30 2011	December 31 2010
Subsidiaries:		
Repurchase agreements	$212,266	$188,275

Federal funds purchased	13,386	9,680
Total short-term debt	$225,652	$197,955

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, 2011 were 0.15% and 0.79%, respectively.

The maximum balance for repurchase agreements at any month-end during the six months ended June 30, 2011 occurred at April 30, 2011, with a month-end balance of $214.4 million. The average balance of repurchase agreements for the six months ended June 30, 2011 was $196.9 million.

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

(in thousands)	June 30 2011	December 31 2010
Monthly amortizing	$1,708	$1,238
Term	20,000	20,000
Total advances	$21,708	$21,238

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

	Principal Payments Due by Period at June 30, 2011						
(in thousands)	Total	Within 1 Year	2 Years	3 Years	4 Years	5 Years	After 5 Years
Outstanding advances, weighted average interest rate – 2.30%	$1,708	$206	$166	$117	$115	$113	$991

The term advances that require the total payment to be made at maturity follow:

(in thousands)	June 30 2011	December 31 2010
Advance #158, 0.37%, due 1/24/11	$0	$20,000
Advance #160, 0.33%, due 7/22/11	20,000	0
Total term advances	$20,000	$20,000

Advances totaling $21.7 million at June 30, 2011 were collateralized by FHLB stock of $25.7 million and a blanket lien on qualifying first mortgage loans. As of June 30, 2011, CTBI had a $387.5 million FHLB borrowing capacity with $21.7 million in advances and $100.4 million in letters of credit leaving $265.4 million available for additional advances. The advances had fixed interest rates ranging from 0.00% to 7.75% with a weighted average rate of 0.48%. The advances are subject to restriction or penalties in the event of prepayment.

Long-term debt consists of the following:

(in thousands)	June 30 2011	December 31

		2010
Junior subordinated debentures, 6.52%, due 6/1/37	$61,341	$61,341

On March 31, 2007, CTBI issued $61.3 million in junior subordinated debentures to a newly formed unconsolidated Delaware statutory trust subsidiary which in turn issued $59.5 million of capital securities in a private placement to institutional investors. The debentures, which mature in 30 years but are redeemable at par at CTBI's option after five years, were issued at a rate of 6.52% until June 1, 2012, and thereafter at a floating rate based on the three-month LIBOR plus 1.59%. The underlying capital securities were issued at the equivalent rates and terms. The proceeds of the debentures were used to fund the redemption on April 2, 2007 of all CTBI's outstanding 9.0% and 8.25% junior subordinated debentures in the total amount of $61.3 million.

On October 28, 2010, Community Trust Bancorp, Inc. entered into a revolving credit promissory note for a line of credit in the amount of $12 million at a floating interest rate of 2.25% in excess of the one-month LIBOR Rate. An unused commitment fee of 0.15% has been established. Currently, all $12 million remain available for general corporate purposes. The agreement, which was effective October 28, 2010, replaced the agreement dated October 29, 2009, and will mature on October 27, 2011.

Note 8 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended June 30		Six Months Ended June 30	
(in thousands except per share data)	2011	2010	2011	2010
Numerator:				
Net income	$8,970	$8,553	$18,274	$15,344
Denominator:				
Basic earnings per share:				
Weighted average shares	15,308	15,228	15,301	15,215
Diluted earnings per share:				
Effect of dilutive stock options	24	77	27	37
Adjusted weighted average shares	15,332	15,305	15,328	15,252
Earnings per share:				
Basic earnings per share	$0.59	$0.56	$1.19	$1.01
Diluted earnings per share	0.58	0.56	1.19	1.01

Options to purchase 385,022 common shares, respectively, were excluded from the diluted calculations above for the three and six months ended June 30, 2011 because the exercise prices on the options were greater than the average market price for the period. Options to purchase 385,022 and 422,972 common shares, respectively, were excluded from the diluted calculations above for the three and six months ended June 30, 2010.

Note 9 – Fair Value of Financial Assets and Liabilities

ASC 820, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. ASC 820 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value but does not expand the use of fair value in any new circumstances. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability. In support of this principle, ASC 820 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy is as follows:

Level 1 Inputs – Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 Inputs - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Assets Measured on a Recurring Basis

The following tables present information about CTBI's assets measured at fair value on a recurring basis as of June 30, 2011 and December 31, 2010, and indicates the fair value hierarchy of the valuation techniques and inputs utilized by CTBI to determine such fair value.

(in thousands)		Fair Value Measurements at June 30, 2011 Using		
	Fair Value June 30 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U.S. Treasury and government agencies	$32,332	$0	$32,332	$ 0
State and political subdivisions	63,485	0	63,485	0
U.S. government sponsored agency mortgage-backed securities	339,650	0	339,650	0
Marketable equity securities	21,323	0	21,112	211
Mortgage servicing rights	3,029	0	0	3,029
Total recurring assets measured at fair value	$459,819	$0	$456,579	$ 3,240

(in thousands)		Fair Value Measurements at December 31, 2010 Using		
	Fair Value December 31 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U.S. Treasury and government agencies	$29,254	$0	$29,254	$ 0
State and political subdivisions	51,865	0	51,865	0
	237,243	0	237,243	0

U.S. government sponsored agency mortgage-backed securities				
Marketable equity securities	20,313	0	20,102	211
Mortgage servicing rights	3,161	0	0	3,161
Total recurring assets measured at fair value	$341,836	$0	$338,464	$ 3,372

U.S. Treasury and government agencies, State and political subdivisions, U.S. government sponsored agency mortgage-backed securities, Marketable equity securities – Level 2 Inputs. For these securities, CTBI obtains fair value measurements from an independent pricing service, which utilizes pricing models to determine fair value measurements. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Marketable equity securities – Level 3 Inputs. The securities owned by CTBI that were measured using Level 3 criteria are auction rate securities issued by FNMA. These securities were valued using an independent third party. For these securities, the valuation methods used were (1) a discounted cash flow model valuation, where the expected cash flows of the securities are discounted to the present using a yield that incorporates compensation for illiquidity and (2) a market comparables method, where the securities are valued based on indications, from the secondary market, of what discounts buyers demand when purchasing similar securities. Using these methods, the auction rate securities are classified as Level 3.

Mortgage Servicing Rights – Level 3 Inputs. CTBI records MSRs at fair value on a recurring basis with subsequent remeasurement of MSRs based on change in fair value. In determining fair value, CTBI utilizes the expertise of an independent third party. An estimate of the fair value of CTBI's MSRs is determined by the independent third party utilizing discounted cash flow models and assumptions about mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. All of CTBI's MSRs are classified as Level 3.

Following is a reconciliation of the beginning and ending balances of recurring fair value measurements using significant unobservable (Level 3) inputs:

	Three Months Ended June 30		Six Months Ended June 30	
Marketable Equity Securities (in thousands)	2011	2010	2011	2010
Beginning balance	$211	$211	$211	$211
Total realized and unrealized gains and losses				
Included in net income	0	0	0	0
Transfer of Securities from Level 3 to Level 2	0	0	0	0
Purchases	0	0	0	0
Issuances	0	0	0	0
Settlements	0	0	0	0
Ending balance	$211	$211	$211	$211

	Three Months Ended June 30		Six Months Ended June 30	
Mortgage Servicing Rights (in thousands)	2011	2010	2011	2010
Beginning balance	$3,251	$3,442	$3,161	$3,406
Total realized and unrealized gains and losses				
Included in net income	(338)	(834)	(194)	(849)
Transfer of Securities from Level 3 to Level 2	0	0	0	0
Purchases	0	0	0	0
Issuances	115	105	251	267

Settlements	1	(21)	(189)	(132)
Ending balance	$3,029	$2,692	$3,029	$2,692

Assets Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis as of June 30, 2011 and December 31, 2010 are summarized below:

(in thousands)		Fair Value Measurements at June 30, 2011 Using		
	Fair Value June 30 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$9,276	$0	$0	$ 9,276
Other real estate/assets owned	10,583	0	0	10,583

(in thousands)		Fair Value Measurements at December 31, 2010 Using		
	Fair Value December 31 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	$16,589	$0	$0	$ 16,589
Other real estate/assets owned	4,579	0	0	4,579

Impaired Loans – Level 3 Inputs. Loans considered impaired under ASC 310-35, Impairment of a Loan, are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect subsequent (1) partial write-downs that are based on the observable market price or current appraised value of the collateral or (2) the full charge-off of the loan carrying value. Quarter-to-date fair value adjustments on impaired loans were $1.0 million for June 30, 2011 compared to $1.1 million for December 31, 2010 and $2.1 million for June 30, 2010. Year-to-date fair value adjustments on impaired loans were $0.3 million for June 30, 2011 compared to $5.5 million for December 31, 2010 and $5.6 million for June 30, 2010.

Other real estate/assets owned – Level 3 Inputs. In accordance with the provisions of ASC 360, Property, Plant, and Equipment, long-lived assets held for sale with a carrying amount of $3.9 million were written down to their fair value during the year. Long-lived assets are subject to nonrecurring fair value adjustments to reflect partial write-downs that are based on the observable market price or current appraised value of the collateral. Quarter-to-date fair value adjustments on other real estate/assets owned were $1.7 million as of June 30, 2011 compared to $0.4 million as of March 31, 2011 and $0.1 as of June 30, 2010. Year-to-date fair value adjustments on other real estate/assets owned were $2.1 million as of June 30, 2011 compared to $0.4 million as of June 30, 2010.

The following table presents the carrying amounts and estimated fair values of financial instruments at June 30, 2011 and December 31, 2010:

(in thousands)	June 30, 2011		December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and cash equivalents	$183,323	$183,323	$158,983	$158,983
Certificates of deposits in other banks	13,043	13,042	14,762	14,775
Securities available-for-sale	456,790	456,790	338,675	338,675
Securities held-to-maturity	1,662	1,662	1,662	1,662
Loans, net (including impaired loans)	2,545,335	2,552,037	2,570,375	2,582,596
Loans held for sale	621	636	455	462
Federal Home Loan Bank stock	25,673	25,673	25,673	25,673
Federal Reserve Bank stock	4,882	4,882	4,434	4,434
Accrued interest receivable	12,095	12,095	12,574	12,574
Capitalized mortgage servicing rights	3,029	3,029	3,161	3,161
Financial liabilities:				
Deposits	$2,781,121	$2,782,475	$2,706,117	$2,690,960
Repurchase agreements	212,266	212,315	188,275	186,989
Federal funds purchased	13,386	13,386	9,680	9,680
Advances from Federal Home Loan Bank	21,708	21,724	21,238	21,213
Long-term debt	61,341	30,959	61,341	30,894
Accrued interest payable	4,172	4,172	2,848	2,848
Unrecognized financial instruments:				
Letters of credit	$0	$0	$0	$0
Commitments to extend credit	0	0	0	0

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents – The carrying amount approximates fair value.

Certificates of deposit in other banks – Fair values are based on quoted market prices or dealer quotes.

Securities – Fair values are based on quoted market prices, if available. If a quoted price is not available, fair value is estimated using quoted prices for similar securities.

Loans (net of the allowance for loan and lease losses and including impaired loans) – The fair value of fixed rate loans and variable rate mortgage loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. For other variable rate loans, the carrying amount approximates fair value.

Loans held for sale – The fair value is predetermined at origination based on sale price.

Federal Home Loan Bank stock – The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Federal Reserve Bank stock – The carrying value of Federal Reserve Bank stock approximates fair value based on the redemption provisions of the Federal Reserve Bank.

Accrued interest receivable – The carrying amount approximates fair value.

Capitalized mortgage servicing rights – The fair value is determined quarterly based on an independent third-party valuation using a discounted cash flow analysis and calculated using a computer pricing model. The computer valuation is based on key economic assumptions including the prepayment speeds of the underlying loans, the weighted-average life of the loan, the discount rate, the weighted-average coupon, and the weighted-average default rate, as applicable.

Deposits – The fair value of fixed maturity time deposits is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. For deposits including demand deposits, savings accounts, NOW accounts, and certain money market accounts, the carrying value approximates fair value.

Repurchase agreements – The fair value is estimated by discounting future cash flows using current rates.

Federal funds purchased – The carrying amount approximates fair value.

Advances from Federal Home Loan Bank – The fair value of these fixed-maturity advances is estimated by discounting future cash flows using rates currently offered for advances of similar remaining maturities.

Long-term debt – The fair value is estimated by discounting future cash flows using current rates.

Accrued interest payable – The carrying amount approximates fair value.

Other financial instruments – The estimated fair value for other financial instruments and off-balance sheet loan commitments approximates cost at June 30, 2011 and December 31, 2010. Off-balance sheet loan commitments at June 30, 2011 and December 31, 2010 were $454.0 million and $431.5 million, respectively.

Letters of credit – The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair value of such letters of credit is not material.

Commitments to extend credit – The fair value of commitments to extend credit is based upon the difference between the interest rate at which we are committed to make the loans and the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, adjusted for the estimated volume of loan commitments actually expected to close. The fair value of such commitments is not material.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Community Trust Bancorp, Inc. (“CTBI”) is a bank holding company headquartered in Pikeville, Kentucky. At June 30, 2011, CTBI owned one commercial bank and one trust company. Through its subsidiaries, CTBI has eighty banking locations in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee, and four trust offices across Kentucky. At June 30, 2011, CTBI had total consolidated assets of $3.5 billion and total consolidated deposits, including repurchase agreements, of $3.0 billion, making it the largest bank holding company headquartered in the Commonwealth of Kentucky. Total shareholders’ equity at June 30, 2011 was $352.3 million.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our consolidated financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the consolidated financial statements.

We believe the application of our accounting policies and the estimates required therein are reasonable. These accounting policies and estimates are constantly reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

See note 1 to the condensed consolidated financial statements for further information regarding our accounting policies. We have identified the following critical accounting policies:

Use of Estimates – In preparing the consolidated financial statements, management must make certain estimates and assumptions. These estimates and assumptions affect the amounts reported for assets, liabilities, revenues, and expenses, as well as affecting the disclosures provided. Future results could differ from the current estimates. Such estimates include, but are not limited to, the allowance for loan and lease losses, valuation of other real estate owned, fair value of securities and mortgage servicing rights, and goodwill (the excess of cost over net assets acquired).

The current protracted economic decline continues to present financial institutions with circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair values of investments and other assets, constraints on liquidity and capital, and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans.

The accompanying financial statements have been prepared using values and information currently available to CTBI.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses, and capital.

Cash and Cash Equivalents – CTBI considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits in other financial institutions, and federal funds sold. Generally, federal funds are sold for one-day periods.

Certificates of Deposit in Other Banks – Certificates of deposit in other banks generally mature within 18 months and are carried at cost.

Investments – Management determines the classification of securities at purchase. We classify securities into held-to-maturity, trading, or available-for-sale categories. Held-to-maturity securities are those which we have the positive intent and ability to hold to maturity and are reported at amortized cost. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 320, Investment Securities, investments in debt securities that are not classified as held-to-maturity and equity securities that have readily determinable fair values shall be classified in one of the following categories and measured at fair value in the statement of financial position:

a. Trading securities. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) shall be classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price.

b. Available-for-sale securities. Investments not classified as trading securities (nor as held-to-maturity securities) shall be classified as available-for-sale securities.

We do not have any securities that are classified as trading securities. Available-for-sale securities are reported at fair value, with unrealized gains and losses included as a separate component of shareholders' equity, net of tax. If declines in fair value are other than temporary, the carrying value of the securities is written down to fair value as a realized loss with a charge to income for the portion attributable to credit losses and a charge to other comprehensive income for the portion that is not credit related.

Gains or losses on disposition of securities are computed by specific identification for all securities except for shares in mutual funds, which are computed by average cost. Interest and dividend income, adjusted by amortization of purchase premium or discount, is included in earnings.

When the fair value of a security is below its amortized cost, and depending on the length of time the condition exists and the extent the fair market value is below amortized cost, additional analysis is performed to determine whether an other than temporary impairment condition exists. Available-for-sale and held-to-maturity securities are analyzed quarterly for possible other than temporary impairment. The analysis considers (i) whether we have the intent to sell our securities prior to recovery and/or maturity and (ii) whether it is more likely than not that we will not have to sell our securities prior to recovery and/or maturity. Often, the information available to conduct these assessments is limited and rapidly changing, making estimates of fair value subject to judgment. If actual information or conditions are different than estimated, the extent of the impairment of the security may be different than previously estimated, which could have a material effect on the CTBI's results of operations and financial condition.

Available-for-Sale Securities – Available-for-sale securities are valued using the following valuation techniques:

U.S. Treasury and government agencies, State and political subdivision, U.S. government sponsored agency mortgage-backed securities, Marketable equity securities – Level 2 Inputs. For these securities, CTBI obtains fair value measurements from an independent pricing service, which utilizes pricing models to determine fair value measurements. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the bond's terms and conditions, among other things.

Marketable equity securities – Level 3 Inputs. The securities owned by CTBI that were measured using Level 3 criteria are auction rate securities issued by FNMA. These securities were valued using an independent third party. For these securities, the valuation methods used were (1) a discounted cash flow model valuation, where the expected cash flows of the securities are discounted to the present using a yield that incorporates compensation for illiquidity and (2) a market comparables method, where the securities are valued based on indications, from the secondary market, of what discounts buyers demand when purchasing similar securities. Using these methods, the auction rate securities are classified as Level 3.

Loans – Loans with the ability and the intent to be held until maturity and/or payoff are reported at the carrying value of unpaid principal reduced by unearned interest, an allowance for loan and lease losses, and unamortized deferred fees or costs. Income is recorded on the level yield basis. Interest accrual is discontinued when management believes, after considering economic and business conditions, collateral value, and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful. Any loan greater than 90 days past due must be well secured and in the process of collection to continue accruing interest. Cash payments received on nonaccrual loans generally are applied against principal, and interest income is only recorded once principal recovery is reasonably assured. Loans are not reclassified as accruing until principal and interest payments remain current for a period of time, generally six months, and future payments appear reasonably certain. Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider.

Loan origination and commitment fees and certain direct loan origination costs are deferred and the net amount amortized over the estimated life of the related loans, leases, or commitments as a yield adjustment.

Allowance for Loan and Lease Losses – We maintain an allowance for loan and lease losses ("ALLL") at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. Since arriving at an appropriate ALLL involves a high degree of management judgment, we use an ongoing quarterly analysis to develop a range of estimated losses. In accordance with accounting principles generally accepted in the United States, we use our best estimate within the range of potential credit loss to determine the appropriate ALLL. Credit losses are charged and recoveries are credited to the ALLL.

We utilize an internal risk grading system for commercial credits. Those larger commercial credits that exhibit probable or observed credit weaknesses are subject to individual review. The borrower's cash flow, adequacy of collateral coverage, and other options available to CTBI, including legal remedies, are evaluated. The review of individual loans includes those loans that are impaired as defined by ASC 310-35, Impairment of a Loan. We evaluate the collectability of both principal and interest when assessing the need for loss provision. Historical loss rates are analyzed and applied to other commercial loans not subject to specific allocations. The ALLL allocation for this pool of commercial loans is established based on the historical average, maximum, minimum, and median loss ratios.

A loan is considered impaired when, based on current information and events, it is probable that CTBI will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Homogenous loans, such as consumer installment, residential mortgages, and home equity lines are not individually risk graded. The associated ALLL for these loans is measured under ASC 450, Contingencies.

Historical loss rates for commercial and retail loans are adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. We generally review the historical loss rates over eight quarters and four quarters on a rolling average basis. Factors that we consider include delinquency trends, current economic conditions and trends, strength of supervision and administration of the loan portfolio, levels of underperforming loans, level of recoveries to prior year's charge offs, trend in loan losses, industry concentrations and their relative strengths, amount of unsecured loans and underwriting exceptions. Based upon management's judgment, "best case," "worst case," and "most likely" scenarios are determined. The total of each of these weighted factors is then applied against the applicable portion of the portfolio and the ALLL is adjusted accordingly.

Loans Held for Sale – Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income.

Premises and Equipment – Premises and equipment are stated at cost less accumulated depreciation and amortization. Capital leases are included in premises and equipment at the capitalized amount less accumulated amortization. Premises and equipment are evaluated for impairment on a quarterly basis.

Depreciation and amortization are computed primarily using the straight-line method. Estimated useful lives range up to 40 years for buildings, 2 to 10 years for furniture, fixtures, and equipment, and up to the lease term for leasehold improvements. Capitalized leased assets are amortized on a straight-line basis over the lives of the respective leases.

Other Real Estate – Real estate acquired by foreclosure is carried at the lower of the investment in the property or its fair value less estimated cost to sell. Periodically, but not less frequently than bi-annually, an updated appraisal is obtained for each property owned and any decline in the fair value is recognized by a charge to income. All revenues and expenses related to the carrying of other real estate owned are recognized by a charge to income.

Goodwill and Core Deposit Intangible – We evaluate total goodwill and core deposit intangible for impairment, based upon ASC 350, Intangibles-Goodwill and Other, using fair value techniques including multiples of price/equity. Goodwill and core deposit intangible are evaluated for impairment on an annual basis or as other events may warrant.

The activity to goodwill and core deposit intangible for the six months ended June 30, 2011 is shown below.

(in thousands)	Goodwill	Core Deposit Intangible
Beginning balance, January 1	$65,499	$1,342
Amortization	0	(119)
Acquisition adjustments	(9)	0
Ending balance, June 30	$65,490	$1,223

Amortization of core deposit intangible is estimated at approximately $0.2 million annually for years one through seven.

Transfers of Financial Assets -- Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from CTBI—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) CTBI does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes – Income tax expense is based on the taxes due on the consolidated tax return plus deferred taxes based on the expected future tax benefits and consequences of temporary differences between carrying amounts and tax bases of assets and liabilities, using enacted tax rates.

Earnings Per Share (“EPS”) – Basic EPS is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding, excluding restricted shares.

Diluted EPS adjusts the number of weighted average shares of common stock outstanding by the dilutive effect of stock options, including restricted shares, as prescribed in ASC 718, Share-Based Payment.

Segments – Management analyzes the operation of CTBI assuming one operating segment, community banking services. CTBI, through its operating subsidiaries, offers a wide range of consumer and commercial community banking services. These services include: (i) residential and commercial real estate loans; (ii) checking accounts; (iii) regular and term savings accounts and savings certificates; (iv) full service securities brokerage services; (v) consumer loans; (vi) debit cards; (vii) annuity and life insurance products; (viii) Individual Retirement Accounts and Keogh plans; (ix) commercial loans; (x) trust services; and (xi) commercial demand deposit accounts.

Bank Owned Life Insurance – CTBI's bank owned life insurance policies are carried at their cash surrender value. We recognize tax-free income from the periodic increases in cash surrender value of these policies and from death benefits.

Mortgage Servicing Rights – Mortgage servicing rights ("MSRs") are carried at fair market value with the implementation of ASC 860-50, Servicing Assets and Liabilities, in January 2007. MSRs are valued using Level 3 inputs as defined in ASC 820, Fair Value Measurements. The fair value is determined quarterly based on an independent third-party valuation using a discounted cash flow analysis and calculated using a computer pricing model. The computer valuation is based on key economic assumptions including the prepayment speeds of the underlying loans, the weighted-average life of the loan, the discount rate, the weighted-average coupon, and the weighted-average default rate, as applicable. Along with the gains received from the sale of loans, fees are received for servicing loans. These fees include late fees, which are recorded in interest income, and ancillary fees and monthly servicing fees, which are recorded in noninterest income. Costs of servicing loans are charged to expense as incurred. Changes in fair market value of the MSRs are reported in mortgage banking income.

Share-Based Compensation – At June 30, 2011 and December 31, 2010, CTBI had a share-based employee compensation plan, which is described more fully in note 15 to the consolidated financial statements for the year ended December 31, 2010 included in CTBI's Annual Report on Form 10-K. CTBI accounts for this plan under the recognition and measurement principles of ASC 718, Share-Based Payment.

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities and unrealized appreciation (depreciation) on available-for-sale securities for which a portion of an other than temporary impairment has been recognized in income.

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

Dividends

The following schedule shows the quarterly cash dividends paid for the past six quarters:

Pay Date	Record Date	Amount Per Share
July 1, 2011	June 15, 2011	$0.305
April 1, 2011	March 15, 2011	$0.305
January 1, 2011	December 15, 2010	$0.305
October 1, 2010	September 15, 2010	$0.305
July 1, 2010	June 15, 2010	$0.300
April 1, 2010	March 15, 2010	$0.300

On July 27, 2011, CTBI announced an increase in the quarterly cash dividend to $0.31 per share to be paid on October 1, 2011, to shareholders of record on September 15, 2011.

Statement of Income Review

CTBI reported earnings of $9.0 million, or $0.59 per basic share, compared to $8.6 million, or $0.56 per basic share, earned during the second quarter of 2010 and $9.3 million, or $0.61 per basic share, earned during the first quarter 2011. Earnings for the six months ended June 30, 2011 increased 19.1% to $18.3 million, or $1.19 per basic share, from the $15.3 million, or $1.01 per basic share, earned during the six months ended June 30, 2010.

Earnings Summary					
(in thousands except per share data)	2Q 2011	1Q 2011	2Q 2010	6 Months 2011	6 Months 2010
Net income	$8,970	$9,304	$8,553	$ 18,274	$15,344
Earnings per share	$0.59	$0.61	$0.56	$ 1.19	$1.01
Earnings per share—diluted	$0.58	$0.61	$0.56	$ 1.19	$1.01
Return on average assets	1.03 %	1.11 %	1.06 %	1.07 %	0.98 %
Return on average equity	10.23 %	10.96 %	10.40 %	10.59 %	9.44 %
Efficiency ratio	61.91 %	60.78 %	60.41 %	61.34 %	59.93 %
Tangible common equity	8.35 %	8.19 %	8.43 %	8.35 %	8.43 %
Dividends declared per share	$0.305	$ 0.305	$ 0.30	$ 0.61	$ 0.60
Book value per share	$22.87	$ 22.38	$ 21.60	$ 22.87	$ 21.60
Weighted average shares	15,308	15,294	15,228	15,301	15,215
Weighted average shares—diluted	15,332	15,324	15,305	15,328	15,252

Second Quarter 2011 Highlights

- CTBI's basic earnings per share for the quarter increased $0.03 per share from second quarter 2010 and decreased $0.02 per share from first quarter 2011. Year-to-date basic earnings per share increased $0.18 per share from prior year. Earnings for the first six months of 2011 were impacted by increased net interest income and noninterest income and decreased provision for loan loss partially offset by increased noninterest expense.

- CTBI’s quarterly net interest margin of 4.17% was an increase from 4.00% for the quarter ended June 30, 2010 but a decrease from 4.27% for prior quarter. Year-to-date net interest margin of 4.22% was a 12 basis point increase from prior year.

- Nonperforming loans at $59.6 million decreased from the $62.0 million at December 31, 2010 but increased from the $57.4 million at March 31, 2011. The increase from prior quarter was in the 90+ days past due classification and is primarily attributable to one $7.4 million credit which management has evaluated for impairment and believes is adequately collateralized. Nonperforming assets at $106.4 million increased $1.3 million from prior year-end and $1.3 million from prior quarter.

- The loan loss provision for the quarter increased $0.2 million from prior year second quarter but decreased $1.1 million from prior quarter. Year-to-date loan loss provision decreased $1.1 million from the six months ended June 30, 2010.

- Net loan charge-offs for the quarter ended June 30, 2011 of $3.3 million, or 0.52% of average loans annualized, was an increase from the $1.8 million, or 0.30%, experienced for the second quarter 2010 but a decrease from prior quarter’s $4.0 million, or 0.63%.

- v Our loan loss reserve as a percentage of total loans outstanding at June 30, 2011 was 1.36% compared to 1.34% at December 31, 2010 and 1.36% at March 31, 2011. The allowance-to-legacy loan ratio, which excludes acquired loans, was 1.42%, 1.40%, and 1.42%, respectively, at June 30, 2011, December 31, 2010, and March 31, 2011.

- v Noninterest income increased for the quarter ended June 30, 2011 compared to same period 2010 but decreased from prior quarter. Noninterest income for the six months ended June 30, 2011 increased $2.0 million from prior year. The increase from prior year was primarily attributable to increased deposit service charges and trust revenue, as well as the variance in the fair value adjustments of our mortgage servicing rights.

- v Our loan portfolio decreased $24.7 million from prior year-end and $5.6 million from prior quarter.

- v Our investment portfolio increased $118.1 million from prior year-end and $46.5 million during the quarter.

- v Deposits, including repurchase agreements, increased $99.0 million from prior year-end and $6.7 million from prior quarter.

- v Our tangible common equity/tangible assets ratio remains strong at 8.35%.

CTBI had basic weighted average shares outstanding of 15.3 million for both the three and six months ended June 30, 2011 compared to 15.2 million for both the three and six months ended June 30, 2010. The following table sets forth on an annualized basis the return on average assets and return on average shareholders' equity for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30				Six Months Ended June 30			
	2011		2010		2011		2010	
Return on average shareholders' equity	10.23	%	10.40	%	10.59	%	9.44	%
Return on average assets	1.03	%	1.06	%	1.07	%	0.98	%

Net Interest Income

CTBI saw a 12 basis point improvement in its net interest margin for the first six months of 2011 compared to prior year. Net interest income for the first six months of 2011 increased 11.6% from prior year. Our quarterly net interest margin increased 17 basis points from prior year but decreased 10 basis points from prior quarter. Net interest income for the second quarter 2011 increased 12.3% from prior year second quarter and 0.09% from prior quarter with average earning assets increasing 7.8% and 2.3%, respectively, for the same periods. The yield on average earning assets decreased 20 basis points from prior year second quarter and 17 basis points from prior quarter. The decline in yield on earning assets is the result of a change in our earning asset mix. Loans represented 80.7% of our average earning assets for the quarter ended June 30, 2011, compared to 82.1% and 82.9% for the quarters ended June 30, 2010 and March 31, 2011, respectively. As deposits, including repurchase agreements, have increased and loan growth has slowed, management has chosen to invest the excess liquidity in our investment portfolio resulting in increased net interest income while decreasing our net interest margin. The cost of interest bearing funds decreased 46 basis points and 9 basis points, respectively, for the same periods, primarily the result of the repricing of our CD products.

The following table summarizes the annualized net interest spread and net interest margin for the three and six months ended June 30, 2011 and 2010.

	Three Months Ended	Six Months Ended

	June 30		June 30	
	2011	2010	2011	2010
Yield on interest earning assets	5.04 %	5.24 %	5.12 %	5.36 %
Cost of interest bearing funds	1.10 %	1.56 %	1.14 %	1.60 %
Net interest spread	3.94 %	3.68 %	3.98 %	3.76 %
Net interest margin	4.17 %	4.00 %	4.22 %	4.10 %

Provision for Loan Losses

The analysis of the changes in the allowance for loan losses and selected ratios is set forth below:

	Six Months Ended June 30	
(in thousands)	2011	2010
Allowance balance at January 1	$34,805	$32,643
Additions to allowance charged against operations	7,707	8,828
Recoveries credited to allowance	1,368	1,618
Losses charged against allowance	(8,728)	(6,933)
Allowance balance at June 30	$35,152	$36,156
Allowance for loan losses to period-end loans	1.36 %	1.48 %
Average loans, net of unearned income	$2,589,028	$2,438,738
Provision for loan losses to average loans, annualized	0.60 %	0.73 %
Loan charge-offs net of recoveries, to average loans, annualized	0.57 %	0.44 %

Net loan charge-offs for the quarter were $3.3 million, or 0.52% of average loans annualized, an increase from prior year second quarter's $1.8 million, or 0.30%, but a decrease from prior quarter’s $4.0 million, or 0.63%. Of the total net charge-offs for the quarter, $2.2 million was in commercial loans, $0.5 million was in indirect auto loans, and $0.4 million was in residential real estate mortgage loans. Specific reserves had been previously established for 90.5% of the commercial loan charge-offs. Allocations to loan loss reserves were $3.3 million for the quarter ended June 30, 2011 compared to $3.1 million for the quarter ended June 30, 2010 and $4.4 million for the quarter ended March 31, 2011. Our loan loss reserve as a percentage of total loans outstanding at June 30, 2011 was 1.36% compared to 1.48% at June 30, 2010 and 1.36% at March 31, 2011. Generally accepted accounting principles require that expected credit losses associated with loans obtained in an acquisition be reflected in the estimation of loan fair value as of the acquisition date and prohibits any carryover of an allowance for credit losses. Excluding amounts related to loans obtained in the fourth quarter 2010 acquisition of LaFollette, the allowance-to-legacy loan ratio was 1.42%, 1.48%, and 1.42%, respectively, at June 30, 2011, June 30, 2010, and March 31, 2011.

Noninterest Income

Noninterest income for the quarter ended June 30, 2011 increased 11.0% from prior year second quarter but decreased 1.3% from prior quarter. Noninterest income for the six months ended June 30, 2011 increased 10.6% from prior year. The increase from prior year was primarily attributable to increased deposit service charges and trust revenue, as well as the variance in the fair value adjustments of our mortgage servicing rights. Fair value adjustments to our mortgage servicing rights for the first six months of 2011 have totaled ($0.4 million) compared to ($1.0 million) for the first six months of 2010.

Noninterest Expense

Noninterest expense for the quarter increased 14.8% from prior year second quarter and 2.3% from prior quarter. Noninterest expense for the six months ended June 30, 2011 increased 14.0% from prior year primarily as a result of increased personnel expense, including health insurance; repossession expense; and other real estate owned expense, including adjustments to reflect declines in the values of foreclosed properties, as well as expected losses in investments in limited partnerships that were offset by tax credits.

Balance Sheet Review

CTBI’s total assets at $3.5 billion increased $128.8 million from December 31, 2010 and $25.4 million during the quarter. Loans outstanding at June 30, 2011 were $2.6 billion, decreasing $24.7 million from December 31, 2010 and $5.6 million during the quarter. CTBI's investment portfolio increased $118.1 million from December 31, 2010 and $46.5 million during the quarter. Deposits, including repurchase agreements, at $3.0 billion increased $99.0 million from December 31, 2010 and $6.7 million from prior quarter.

Shareholders’ equity at June 30, 2011 was $352.3 million compared to $338.6 million at December 31, 2010 and $344.5 million at March 31, 2011. CTBI's annualized dividend yield to shareholders as of June 30, 2011 was 4.40%.

Loans

Loan growth during the quarter of $1.4 million and $1.5 million, respectively, in the residential and consumer loan portfolios was offset by an $8.5 million decline in the commercial loan portfolio.

The following tables summarize CTBI’s nonperforming loans as of June 30, 2011 and December 31, 2010.

(in thousands)	Nonaccrual Loans	As a % of Loan Balances by Category		Accruing Loans Past Due 90 Days or More	As a % of Loan Balances by Category		Total Loan Balances
June 30, 2011							
Commercial construction	$7,008	5.53	%	$10,110	7.98	%	$126,628
Commercial secured by real estate	14,308	1.78	%	12,526	1.55	%	805,638
Equipment lease financing	0	0.00	%	0	0.00	%	10,365
Commercial other	3,681	0.96	%	511	0.13	%	382,210
Real estate construction	872	1.81	%	685	1.42	%	48,195
Real estate mortgage	6,792	1.06	%	2,319	0.36	%	641,165
Home equity	184	0.22	%	303	0.36	%	83,727
Consumer direct	0	0.00	%	70	0.06	%	123,080
Consumer indirect	0	0.00	%	234	0.07	%	359,479
Total	$32,845	1.27	%	$26,758	1.04	%	$2,580,487

(in thousands)	Nonaccrual Loans	As a % of Loan Balances by Category		Accruing Loans Past Due 90 Days or More	As a % of Loan Balances by Category		Total Loan Balances
December 31, 2010							
Commercial construction	$13,138	9.73	%	$1,178	0.87	%	$135,091
Commercial secured by real estate	15,608	1.93	%	9,641	1.19	%	807,049
Equipment lease financing	0	0.00	%	0	0.00	%	14,151
Commercial other	9,338	2.40	%	1,692	0.44	%	388,746

Real estate construction	636	1.12	%	372	0.65	%	56,910
Real estate mortgage	6,137	0.98	%	3,337	0.53	%	623,851
Home equity	164	0.19	%	226	0.27	%	85,103
Consumer direct	0	0.00	%	70	0.06	%	126,046
Consumer indirect	0	0.00	%	498	0.14	%	368,233
Total	$45,021	1.73	%	$17,014	0.65	%	$2,605,180

CTBI's total nonperforming loans were $59.6 million at June 30, 2011, a $2.4 million decrease from the $62.0 million at December 31, 2010 but a $2.2 million increase from the $57.4 million at March 31, 2011. The increase for the quarter included an $8.4 million increase in the 90+ days past due category partially offset by a $6.2 million decline in nonaccrual loans. The increase in 90+ days past due loans is primarily attributable to one $7.4 million credit which management has evaluated for impairment and believes is adequately collateralized. Loans 30-89 days past due at $22.2 million is a decline of $6.3 million from prior year-end and $8.4 million from prior quarter. Our loan portfolio management processes focus on the immediate identification, management, and resolution of problem loans to maximize recovery and minimize loss.

Impaired loans, loans not expected to meet contractual principal and interest payments, at June 30, 2011 totaled $65.1 million, compared to $64.3 million at March 31, 2011. Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. At June 30, 2011, CTBI had $12.1 million in commercial loans secured by real estate, $5.4 million in commercial real estate construction loans, $2.5 million in commercial other loans, and $0.3 million in consumer loans that were modified in troubled debt restructurings and impaired. Included in these amounts are troubled debt restructurings that were performing in accordance with their modified terms of $10.2 million in commercial loans secured by real estate, $1.0 million in commercial real estate construction loans, $1.6 million in commercial other loans, and $0.3 million in consumer loans. Management evaluates all impaired loans for impairment and provides specific reserves when necessary.

Our level of foreclosed properties at $46.8 million for the second quarter 2011 was an increase from the $42.9 million at December 31, 2010, but a decrease from the $47.7 million at March 31, 2011. Sales of foreclosed properties for the six months ended June 30, 2011 totaled $5.0 million while new foreclosed properties totaled $10.9 million. When foreclosed properties are acquired, appraisals are obtained and the properties are booked at the current market value less expected sales expense. Additionally, periodic updated appraisals are obtained on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected sales expense. During the second quarter of 2011, 59 properties totaling $18.5 million were reappraised. Charges to earnings to reflect the decrease in current market values of 29 of these foreclosed properties totaled $1.7 million, representing a 9.1% decline in the value of the properties reappraised. Charges during the quarters ended June 30, 2010 and March 31, 2011 were $0.1 million and $0.4 million, respectively. The year-to-date charges for the six months ended June 30, 2011 and 2010 were $2.1 million and $0.4 million, respectively. At June 30, 2011, 19 properties with a book value of $2.3 million were under contracts to sell; however, the closings had not occurred at quarter-end. The proceeds of these sales per the contracts would be $2.5 million, representing 107% of the book value of those properties. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market and is typically between 12 and 18 months. Seventy percent of our OREO properties have been reappraised within the past 12 months. Our nonperforming loans and foreclosed properties remain primarily concentrated in our Central Kentucky Region. Management anticipates that our foreclosed properties will remain elevated as we work through current market conditions.

(in thousands)	June 30 2011	December 31 2010
1-4 family	$18,387	$18,792
Agricultural/farmland	652	58

Construction/land development/other	13,605	10,207
Multifamily	4,648	4,594
Non-farm/non-residential	9,499	9,284
Total other real estate owned	$46,791	$42,935

Allowance for Loan Losses

The allowance for loan and lease losses balance is maintained by management at a level considered adequate to cover anticipated probable losses based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time. This analysis is completed quarterly and forms the basis for allocation of the loan loss reserve and what charges to the provision may be required. For further discussion of the allowance for loan losses, see the Critical Accounting Policies and Estimates section presented earlier in Item 2.

Securities

CTBI uses its securities held-to-maturity for production of income and to manage cash flow needs through expected maturities. CTBI uses its securities available-for-sale for income and balance sheet liquidity management. Securities available-for-sale reported at fair value increased from $338.7 million as of December 31, 2010 to $456.8 million at June 30, 2011. The excess of market over cost increased from $6.0 million at December 31, 2010 to $11.6 million at June 30, 2011. Securities held-to-maturity remained at $1.7 million from December 31, 2010 to June 30, 2011. Total securities as a percentage of total assets were 10.1% as of December 31, 2010 and 13.2% as of June 30, 2011.

Liquidity and Capital Resources

CTBI's liquidity objectives are to ensure that funds are available for the subsidiary bank to meet deposit withdrawals and credit demands without unduly penalizing profitability. Additionally, CTBI's objectives ensure that funding is available for CTBI to meet ongoing cash needs while maximizing profitability. CTBI continues to identify ways to provide for liquidity on both a current and long-term basis. The subsidiary bank relies mainly on core deposits, certificates of deposits of $100,000 or more, repayment of principal and interest on loans and securities to create long-term liquidity. The subsidiary bank also has available the sale of securities under repurchase agreements, securities available-for-sale, and Federal Home Loan Bank ("FHLB") borrowings as secondary sources of liquidity.

Due to the nature of the markets served by the subsidiary bank, management believes that the majority of its certificates of deposit of $100,000 or more and its repurchase agreements are no more volatile than its core deposits. During periods of interest rate volatility, these deposit balances have remained stable as a percentage of total deposits. In addition, arrangements have been made with correspondent banks for the purchase of federal funds on an unsecured basis, up to $20 million, if necessary, to meet CTBI's liquidity needs.

CTBI owns securities with an estimated fair value of $456.8 million that are designated as available-for-sale and available to meet liquidity needs on a continuing basis. In addition, CTBI has $13.0 million in other investments consisting of certificates of deposits in other banks. All certificates of deposit in other banks are made at or below the FDIC insured maximum of $250 thousand. CTBI also has available Federal Home Loan Bank advances for both liquidity and management of its asset/liability position. FHLB advances increased slightly from $21.2 million at December 31, 2010 to $21.7 million at June 30, 2011. FHLB additional borrowing capacity at June 30, 2011 was $265.4 million. Long-term debt remained at $61.3 million from December 31, 2010 to June 30, 2011. The parent company has a $12 million line of credit, all of which is currently available for general corporate purposes. At June 30, 2011, federal funds sold were $1.4 million compared to $26.3 million at December 31, 2010, and deposits with the Federal Reserve were $90.7 million compared to $48.9 million at year-end. Additionally, management projects cash flows from CTBI's investment portfolio to generate additional liquidity over the next 90 days.

CTBI generally relies upon net inflows of cash from financing activities, supplemented by net inflows of cash from operating activities, to provide cash for its investing activities. As is typical of many financial institutions, significant financing activities include deposit gathering, use of short-term borrowing facilities such as federal funds purchased and securities sold under repurchase agreements, and issuance of long-term debt. CTBI's primary investing activities include purchases of securities and loan originations.

The investment portfolio consists of investment grade short-term issues suitable for bank investments. The majority of the investment portfolio is in U.S. government and government sponsored agency issuances. The average life of the portfolio is 3.79 years. At the end of the second quarter 2011, available-for-sale ("AFS") securities comprised approximately 99.6% of the total investment portfolio, and the AFS portfolio was approximately 129.7% of equity capital. Eighty-three percent of the pledge eligible portfolio was pledged.

CTBI's stock repurchase program began in December 1998 with the authorization to acquire up to 500,000 shares and was increased by an additional 1,000,000 shares in July 2000 and in May 2005. CTBI did not repurchase any shares of its common stock during the first six months of 2011. There are currently 288,519 shares remaining under CTBI's current repurchase authorization. As of June 30, 2011, a total of 2,211,481 shares have been repurchased through this program.

In conjunction with maintaining a satisfactory level of liquidity, management monitors the degree of interest rate risk assumed on the consolidated balance sheet. CTBI monitors its interest rate risk by use of the static gap model and dynamic gap model at the one-year interval. CTBI uses the Sendero system to monitor its interest rate risk. The static gap model monitors the difference in interest rate sensitive assets and interest rate sensitive liabilities as a percentage of total assets that mature within the specified time frame. The dynamic gap model goes further in that it assumes that interest rate sensitive assets and liabilities will be reinvested. CTBI desires an interest sensitivity gap of not more than fifteen percent of total assets at the one-year interval.

CTBI's principal source of funds used to pay dividends to shareholders and service long-term debt is the dividends it receives from the subsidiary bank. Various federal statutory provisions, in addition to regulatory policies and directives, limit the amount of dividends that subsidiary banks can pay without prior regulatory approval. These restrictions have had no major impact on CTBI's dividend policy or its ability to service long-term debt, nor is it anticipated that they would have any major impact in the foreseeable future. During the remainder of 2011, approximately $16.0 million plus any remaining 2011 net profits can be paid by CTBI's banking subsidiary without prior regulatory approval.

The primary source of capital for CTBI is the retention of earnings. CTBI paid cash dividends of $0.61 per share during the first six months of 2011. Basic earnings per share for the same period was $1.19 per share. CTBI retained 48.7% of earnings for the first six months of 2011.

Under guidelines issued by banking regulators, CTBI and its subsidiary bank are required to maintain a minimum Tier 1 risk-based capital ratio of 4% and a minimum total risk-based ratio of 8%. In order to be considered "well-capitalized" CTBI must maintain ratios of 6% and 10%, respectively. Risk-based capital ratios weight the relative risk factors of all assets and consider the risk associated with off-balance sheet items. CTBI must also maintain a minimum Tier 1 leverage ratio of 4%. The well-capitalized ratio for Tier 1 leverage is 5%. CTBI's Tier 1 leverage, Tier 1 risk-based, and total risk-based ratios were 9.89%, 13.36%, and 14.62%, respectively, as of June 30, 2011, all exceeding the threshold for meeting the definition of well-capitalized.

As of June 30, 2011, management is not aware of any conditions or current recommendations by banking regulatory authorities which, if they were to be implemented, would have, or would be reasonably likely to have, a material adverse impact on CTBI's liquidity, capital resources, or operations, except as provided for in the Dodd-Frank Act which is discussed in the Supervision and Regulation section of Item 1. Business included in CTBI's Annual Report on Form 10-K for the year ended December 31, 2010.

Impact of Inflation and Changing Prices

The majority of CTBI's assets and liabilities are monetary in nature. Therefore, CTBI differs greatly from most commercial and industrial companies that have significant investment in nonmonetary assets, such as fixed assets and inventories. However, inflation does have an important impact on the growth of assets in the banking industry and on the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio. Inflation also affects other expenses, which tend to rise during periods of general inflation.

Management believes one of the most significant impacts on financial and operating results is CTBI's ability to react to changes in interest rates. Management seeks to maintain an essentially balanced position between interest rate sensitive assets and liabilities in order to protect against the effects of wide interest rate fluctuations.

FORWARD-LOOKING STATEMENTS

Certain of the statements contained herein that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. CTBI's actual results may differ materially from those included in the forward-looking statements. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intend," "estimate," "may increase," "may fluctuate," and similar expressions or fu conditional verbs such as "will," "should," "would," and "could." These forward-looking statements involve risks and uncertainties including, but not limited to, economic conditions, portfolio growth, the credit performance of the portfolios, including bankruptcies, and seasonal factors; changes in general economic conditions including the performance of financial markets, prevailing inflation and interest rates, realized gains from sales of investments, gains from asset sales, and losses on commercial lending activities; results of various investment activities; the effects of competitors' pricing policies, changes in laws and regulations, competition, and demographic changes on target market populations' savings and financial planning needs; industry changes in information technology systems on which we are highly dependent; failure of acquisitions to produce revenue enhancements or cost savings at levels or within the time frames originally anticipated or unforeseen integration difficulties; the adoption by CTBI of a Federal Financial Institutions Examination Council (FFIEC) policy that provides guidance on the reporting of delinquent consumer loans and the timing of associated credit charge-offs for financial institution subsidiaries; and the resolution of legal proceedings and related matters. In addition, the banking industry in general is subject to various monetary and fiscal policies and regulations, which include those determined by the Federal Reserve Board, the Federal Deposit Insurance Corporation, and state regulators, whose policies and regulations could affect CTBI's results. These statements are representative only on the date hereof, and CTBI undertakes no obligation to update any forward-looking statements made.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk management focuses on maintaining consistent growth in net interest income within Board-approved policy limits. CTBI uses an earnings simulation model to analyze net interest income sensitivity to movements in interest rates. Given a 200 basis point increase to the yield curve used in the simulation model, it is estimated net interest income for CTBI would decrease by 0.13 percent over one year and by 2.25 percent over two years. A 25 basis point decrease in the yield curve would decrease net interest income by an estimated 0.04 percent over one year and increase by 0.30 percent over two years. For further discussion of CTBI's market risk, see the Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Market Risk included in the Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

CTBI's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. As of the end of the period covered by this report, an evaluation was carried out by CTBI's management, with the participation of our Chief Executive Officer and the Executive Vice President/Treasurer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, management concluded that disclosure controls and procedures as of June 30, 2011 were effective in ensuring material information required to be disclosed in this quarterly report on Form 10-Q was recorded, processed, summarized, and reported on a timely basis.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in CTBI's internal control over financial reporting that occurred during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, CTBI's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1.	Legal Proceedings	None
Item 1A.	Risk Factors	None
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	None
Item 3.	Defaults Upon Senior Securities	None
Item 4.	Reserved	None
Item 5.	Other Information: CTBI's Principal Executive Officer and Principal Financial Officer have furnished to the SEC the certifications with respect to this Form 10-Q that are required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002	
Item 6.	a. Exhibits:	
	(1) Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Exhibit 31.1 Exhibit 31.2
	(2) Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Exhibit 32.1 Exhibit 32.2

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, CTBI has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	COMMUNITY TRUST BANCORP, INC.	
Date: August 5, 2011	By:	/s/ Jean R. Hale Jean R. Hale

Chairman, President and Chief
Executive Officer

By: /s/ Kevin J. Stumbo
Kevin J. Stumbo
Executive Vice President and Treasurer
(Principal Financial Officer)