

COMMUNITY TRUST BANCORP INC /KY/
Form 10-Q
May 07, 2010

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

Or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-11129

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

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

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

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

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

Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes

No

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

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

(Do not check if a smaller reporting company)

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

Yes

No

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

Common stock – 15,227,946 shares outstanding at April 30, 2010

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, 2009 for further information in this regard.

Community Trust Bancorp, Inc.
Condensed Consolidated Balance Sheets

	(unaudited) March 31 2010	December 31 2009
(dollars in thousands)		
Assets:		
Cash and due from banks	\$69,534	\$62,720
Interest bearing deposits	27,616	31,814
Federal funds sold	95,450	47,595
Cash and cash equivalents	192,600	142,129
Certificates of deposits in other banks	5,277	100
Securities available-for-sale at fair value (amortized cost of \$304,069 and \$263,756, respectively)	311,038	270,237
Securities held-to-maturity at amortized cost (fair value of \$10,300 and \$14,435, respectively)	10,291	14,336
Loans held for sale	330	1,818
Loans	2,428,934	2,435,760
Allowance for loan losses	(34,874)	(32,643)
Net loans	2,394,060	2,403,117
Premises and equipment, net	49,159	49,242
Federal Reserve Bank and Federal Home Loan Bank stock	29,052	29,048
Goodwill	65,059	65,059
Core deposit intangible (net of accumulated amortization of \$7,015 and \$6,857, respectively)	489	648
Bank owned life insurance	38,464	38,117
Mortgage servicing rights	3,442	3,406
Other real estate owned	38,612	37,333
Other assets	31,183	32,069
Total assets	\$3,169,056	\$3,086,659
Liabilities and shareholders' equity:		
Deposits		
Noninterest bearing	\$508,702	\$490,809
Interest bearing	2,021,532	1,971,400
Total deposits	2,530,234	2,462,209
Repurchase agreements	186,894	180,471
Federal funds purchased and other short-term borrowings	17,475	12,205
Advances from Federal Home Loan Bank	20,242	20,671
Long-term debt	61,341	61,341
Other liabilities	27,991	28,305
Total liabilities	2,844,177	2,765,202
Shareholders' equity:		
Preferred stock, 300,000 shares authorized and unissued	-	-

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Common stock, \$5 par value, shares authorized 25,000,000; shares outstanding 2010 – 15,217,088 ; 2009 – 15,183,987	76,085	75,920
Capital surplus	153,192	152,484
Retained earnings	91,072	88,840
Accumulated other comprehensive income, net of tax	4,530	4,213
Total shareholders' equity	324,879	321,457
Total liabilities and shareholders' equity	\$3,169,056	\$3,086,659

See notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31	
(in thousands except per share data)	2010	2009
Interest income:		
Interest and fees on loans, including loans held for sale	\$35,151	\$34,188
Interest and dividends on securities		
Taxable	2,214	2,599
Tax exempt	424	430
Interest and dividends on Federal Reserve and Federal Home Loan Bank stock	619	344
Other, including interest on federal funds sold	89	115
Total interest income	38,497	37,676
Interest expense:		
Interest on deposits	7,596	11,054
Interest on repurchase agreements and other short-term borrowings	535	672
Interest on advances from Federal Home Loan Bank	21	476
Interest on long-term debt	1,000	1,000
Total interest expense	9,152	13,202
Net interest income	29,345	24,474
Provision for loan losses	5,722	1,981
Net interest income after provision for loan losses	23,623	22,493
Noninterest income:		
Service charges on deposit accounts	5,297	4,949
Gains on sales of loans, net	442	1,931
Trust income	1,424	1,162
Loan related fees	840	748
Bank owned life insurance	405	256
Securities gains	0	519
Other	1,333	1,188
Total noninterest income	9,741	10,753
Noninterest expense:		
Salaries and employee benefits	11,445	11,268
Occupancy, net	1,741	1,804
Equipment	983	1,119
Data processing	1,586	1,487
Bank franchise tax	978	910
Legal and professional fees	824	1,070
FDIC insurance	999	1,496
Other real estate owned provision and expense	872	513
Other	4,013	4,130
Total noninterest expense	23,441	23,797

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Income before income taxes	9,923	9,449
Income taxes	3,132	2,869
Net income	6,791	6,580
Other comprehensive income, net of tax:		
Unrealized holding gains on securities available-for-sale	317	1,086
Comprehensive income	\$7,108	\$7,666
Basic earnings per share		
	\$0.45	\$0.44
Diluted earnings per share		
	\$0.45	\$0.43
Weighted average shares outstanding-basic		
	15,202	15,076
Weighted average shares outstanding-diluted		
	15,235	15,193
Dividends per share		
	\$0.30	\$0.30

See notes to condensed consolidated financial statements.

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

(in thousands)	Three Months Ended March 31	
	2010	2009
Cash flows from operating activities:		
Net income	\$6,791	\$6,580
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,169	1,274
Deferred taxes	(193)	3,191
Stock based compensation	153	147
Excess tax benefits of stock-based compensation	40	149
Provision for loan and other real estate losses	6,051	2,308
Securities gains	0	(519)
Gains on sale of mortgage loans held for sale	(442)	(1,931)
Gains on sale of assets, net	(19)	(11)
Proceeds from sale of mortgage loans held for sale	20,963	96,211
Funding of mortgage loans held for sale	(19,033)	(96,742)
Amortization of securities premiums, net	451	168
Change in cash surrender value of bank owned life insurance	(347)	(209)
Fair value adjustments of mortgage servicing rights	127	274
Changes in:		
Other liabilities	(258)	1,624
Other assets	723	(1,250)
Net cash provided by operating activities	16,176	11,264
Cash flows from investing activities:		
Certificates of deposit in other banks		
Purchase of certificates of deposit	(5,177)	(23,520)
Securities available-for-sale:		
Proceeds from sales	0	37,209
Proceeds from prepayments and maturities	25,175	15,242
Purchase of securities	(65,939)	(49,745)
Securities held-to-maturity:		
Proceeds from prepayments and maturities	4,525	2,283
Purchase of securities	(480)	(480)
Change in loans, net	411	5,387
Purchase of premises and equipment	(927)	(806)
Proceeds from sale of premises and equipment	1	9
Additional investment in equity securities	(4)	(5)
Proceeds from sale of other real estate and other repossessed assets	1,387	460
Additional investment in other real estate owned	(52)	(29)
Additional investment in bank owned life insurance	0	(945)
Net cash used in investing activities	(41,080)	(14,940)
Cash flows from financing activities:		

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Change in deposits, net	68,025	51,606
Change in repurchase agreements and other short-term borrowings, net	11,693	6,290
Payments on advances from Federal Home Loan Bank	(429)	(19)
Issuance of common stock	681	333
Excess tax benefits of stock-based compensation	(40)	(149)
Dividends paid	(4,555)	(4,518)
Net cash provided by financing activities	75,375	53,543
Net increase in cash and cash equivalents	50,471	49,867
Cash and cash equivalents at beginning of period	142,129	140,878
Cash and cash equivalents at end of period	\$ 192,600	\$ 190,745
Supplemental disclosures:		
Income taxes paid	\$6,695	\$52
Interest paid	7,823	15,261
Non-cash activities		
Loans to facilitate the sale of other real estate and other repossessed assets	30	81
Common stock dividends accrued, paid in subsequent quarter	4,560	4,523
Real estate acquired in settlement of loans	2,955	5,535

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 March 31, 2010, the results of operations for the three months ended March 31, 2010 and 2009, and the cash flows for the three months ended March 31, 2010 and 2009. 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 months ended March 31, 2010 and 2009, and the cash flows for the three months ended March 31, 2010 and 2009, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2009 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, 2009, 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 **Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities** – ASC 260, formerly FASB Staff Position (FSP) EITF 03-6-1, addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in ASC 260-10-45, formerly paragraphs 60 and 61 of FASB Statement No. 128, Earnings Per Share. This standard was effective January 1, 2009, and did not have a significant impact on our consolidated financial statements.

Ø **Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly** – ASC 820, formerly FSP FAS 157-4, affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. ASC 820 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. This standard is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. CTBI did not elect to early adopt. This standard did not have a significant impact on our consolidated financial statements.

Ø **Recognition and Presentation of Other Than Temporary Impairments** – ASC 320, formerly FSP FAS 115-2 and FSP FAS 124-2, (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent

to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under ASC 320, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. This standard is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. CTBI did not elect to early adopt. This standard did not have a significant impact on our consolidated financial statements.

Ø Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies – ASC 805, formerly FSP FAS 141(R)-1, requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with ASC 450, formerly FAS 5, Accounting for Contingencies and FASB Interpretation No. (FIN) 14, Reasonable Estimation of the Amount of a Loss. ASC 805 removes subsequent accounting guidance for assets and liabilities arising from contingencies and requires entities to develop a systematic and rational basis for subsequently measuring and accounting for assets and liabilities arising from contingencies. This standard also eliminates the requirement to disclose an estimate of the range of outcomes of recognized contingencies at the acquisition date. For unrecognized contingencies, entities are required to include only the disclosures required by ASC 450, formerly FAS 5. The standard also requires that contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination be treated as contingent consideration of the acquirer and should be initially and subsequently measured at fair value in accordance with the standard. This standard is effective for assets or liabilities arising from contingencies CTBI acquires in business combinations occurring after January 1, 2009.

Ø Accounting for Transfers of Financial Assets – In June 2009, the FASB issued ASC 860, formerly FAS 166, Accounting for Transfers of Financial Assets — An Amendment of FAS 140. ASC 860 removes the concept of a qualifying special-purpose entity and limits the circumstances in which a financial asset, or portion of a financial asset, should be derecognized when the transferor has not transferred the entire financial asset to an entity that is not consolidated with the transferor in the financial statements being presented and/or when the transferor has continuing involvement with the transferred financial asset. The new standard became effective for CTBI on January 1, 2010. The adoption of this standard did not have a material impact on CTBI's consolidated financial position or results of operations.

Ø Determining When to Consolidate Variable Purpose Entities – In June 2009, the FASB issued ASC 810, formerly FAS 167 — Amendments to FASB Interpretation No. 46(R). ASC 810 requires an entity to perform an analysis to determine whether an entity's variable interest or interests give it a controlling financial interest in a variable interest entity. This standard requires ongoing reassessments of whether an entity is the primary beneficiary of a variable interest entity and enhanced disclosures that provide more transparent information about an entity's involvement with a variable interest entity. The new standard became effective for CTBI on January 1, 2010. The adoption of this standard did not have a material impact on CTBI's consolidated financial position or results of operations.

Ø Codification of Authoritative Accounting Principles – In June 2009, the FASB issued ASC 105, formerly FAS 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. ASC 105 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles ("GAAP"). Rules and interpretative releases of the Securities and Exchange Commission under federal securities laws are also sources of authoritative GAAP for SEC registrants. The new standard became effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this standard did not have a material impact on CTBI's consolidated financial position or results of operations.

Ø Disclosures Regarding Postretirement Benefit Plan Assets – In December 2008, the FASB issued ASC 715, formerly FSP FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets. This standard requires disclosure of the fair value of each major category of plan assets for pension plans and other postretirement benefit plans. The new standard became effective for CTBI on January 1, 2010. The adoption of this standard did not have a material impact on CTBI's consolidated financial position or results of operations.

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 ASC Subtopic 820, Fair Value Measurements and Disclosures, and Subtopic 715-20, Compensation—Retirement Benefits—Defined Benefit Plans. The new standard expands 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 is 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 is 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 are effective for years beginning after December 15, 2009 or the December 15, 2010 provisions. ASU 2010-06 has not and is not expected to have a material impact on CTBI's consolidated financial statements.

Note 2 – Stock-Based Compensation

CTBI's compensation expense related to stock option grants was \$77 thousand and \$124 thousand, respectively, for the three months ended March 31, 2010 and 2009, respectively. Restricted stock expense for the first three months of 2010 and 2009 was \$76 thousand and \$23 thousand, respectively. As of March 31, 2010, there was a total of \$0.4 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.

There were options to purchase 4,525 shares of CTBI common stock and 44,996 shares of restricted stock granted during the three months ended March 31, 2010. The options were granted pursuant to the terms of the 2006 Stock Ownership Incentive Plan, with an exercise price per share of \$25.09 (equal to fair market value on date of grant), a term of 10 years, and vesting in five years. The restrictions on the restricted stock will lapse at the end of five years. However, in the event of a change in control of CTBI or the death of the participant, the restrictions will lapse. In the event of the disability of the participant, the restrictions will lapse on a pro rata basis (with respect to 20% of the participant's restricted stock for each year since the date of award). The Compensation Committee of the Board of Directors will have discretion to review and revise restrictions applicable to a participant's restricted stock in the event of the participant's retirement. There were options to purchase 9,000 shares of CTBI common stock and 5,710 shares of restricted stock granted during the three months ended March 31, 2009.

The fair values of options granted during the three months ended March 31, 2010 and 2009, were established at the date of grant using a Black-Scholes option pricing model with the weighted average assumptions as follows:

	Three Months Ended			
	March 31			
	2010		2009	
Expected dividend yield	4.78	%	4.02	%
Risk-free interest rate	3.14	%	2.23	%
Expected volatility	39.12	%	37.12	%
Expected term (in years)	7.5		7.5	
Weighted average fair value of options	\$6.53		\$7.69	

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 March 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	\$16,992	\$31	\$(46)	\$16,977
State and political subdivisions	41,697	1,233	(52)	42,878
U.S. government sponsored agencies	224,840	5,883	(66)	230,657
Total debt securities	283,529	7,147	(164)	290,512
Marketable equity securities	20,540	134	(148)	20,526
Total available-for-sale securities	\$304,069	\$7,281	\$(312)	\$311,038

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government sponsored agencies	\$1,181	\$3	\$0	\$1,184
Collateralized mortgage obligations	8,630	6	0	8,636
Other debt securities	480	0	0	480
Total held-to-maturity securities	\$10,291	\$9	\$0	\$10,300

The amortized cost and fair value of securities as of December 31, 2009 are summarized as follows:

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$16,994	\$20	\$(283)	\$16,731
State and political subdivisions	44,529	1,222	(94)	45,657

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U.S. government sponsored agencies	181,693	5,787	(83)	187,397
Total debt securities	243,216	7,029	(460)	249,785
Marketable equity securities	20,540	97	(185	)	20,452
Total available-for-sale securities	\$263,756	\$7,126	\$(645	)	\$270,237

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	\$1,576	\$6	\$0	\$1,582
U.S. government sponsored agencies	12,280	93	0	12,373
Other debt securities	480	0	0	480
Total held-to-maturity securities	\$14,336	\$99	\$0	\$14,435

The amortized cost and fair value of securities at March 31, 2010 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(in thousands)	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$6,996	\$7,086	\$0	\$0
Due after one through five years	29,686	30,256	0	0
Due after five through ten years	7,981	8,117	0	0
Due after ten years	14,026	14,394	1,181	1,184
U.S. government sponsored agencies	224,840	230,659	8,630	8,636
Other securities	0	0	480	480
Total debt securities	283,529	290,512	10,291	10,300
Marketable equity securities	20,540	20,526	0	0
Total securities	\$304,069	\$311,038	\$10,291	\$10,300

There were no pre-tax gains or losses as of March 31, 2010. There was a combined gain of \$519 thousand realized in the first three months of 2009 due to sales of five securities; no losses were realized.

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$95.5 million at March 31, 2010 and \$89.2 million at December 31, 2009.

The book value of securities sold under agreements to repurchase amounted to \$191.1 million at March 31, 2010 and \$179.9 million at December 31, 2009.

CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of March 31, 2010 indicates that all impairment is considered temporary, market driven, and not credit-related. The percentage of total investments with unrealized losses as of March 31, 2010 was 17.9% compared to 8.5% as of December 31, 2009. 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 March 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	\$14,991	\$(46)	\$14,945

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State and political subdivisions	3,997	(52)	3,945
U.S. government sponsored agencies	38,229	(66)	38,163
Total debt securities	57,217	(164	)	57,053
Marketable equity securities	540	(148	)	392
Total securities	\$57,757	\$(312	)	\$57,445

As of March 31, 2010, there were no available-for-sale securities in an unrealized loss position for 12 months or more and no held-to-maturity securities with unrealized losses.

The analysis performed as of December 31, 2009 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, 2009 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	\$ 14,992	\$(283	) \$ 14,709
States and political subdivision	2,567	(55	) 2,512
U.S. government sponsored agencies	5,013	(83	) 4,930
Total debt securities	22,572	(421	) 22,151
Marketable equity securities	540	(185	) 355
Total securities	23,112	(606	) 22,506
12 Months or More			
U.S. Treasury and government agencies	0	0	0
States and political subdivision	1,601	(39	) 1,562
U.S. government sponsored agencies	0	0	0
Total debt securities	1,601	(39	) 1,562
Marketable equity securities	0	0	0
Total securities	1,601	(39	) 1,562
Total			
U.S. Treasury and government agencies	14,992	(283	) 14,709
States and political subdivision	4,168	(94	) 4,074
U.S. government sponsored agencies	5,013	(83	) 4,930
Total debt securities	24,173	(460	) 23,713
Marketable equity securities	540	(185	) 355
Total securities	\$24,713	\$(645	) \$24,068

As of December 31, 2009, 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)	March 31 2010	December 31 2009
Commercial construction	\$144,800	\$141,440
Commercial secured by real estate	750,855	707,500
Commercial other	337,783	373,829
Real estate construction	46,333	51,311
Real estate mortgage	611,354	610,727
Consumer	519,195	530,905
Equipment lease financing	18,614	20,048
Total loans	\$2,428,934	\$2,435,760

Not included in the loan balances above were loans held for sale in the amount of \$0.3 million and \$1.8 million at March 31, 2010 and December 31, 2009, respectively. The amount of capitalized fees and costs under ASC 310, formerly SFAS 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases, included in the above loan totals were \$0.6 million at March 31, 2010 and December 31, 2009.

Total nonperforming loans were as follows:

(in thousands)	March 31 2010	December 31 2009
Homogeneous pools of nonaccrual loans	\$6,689	\$5,643
Restructured loans not in compliance with modified terms	424	6
Nonaccrual loans individually evaluated for impairment	30,214	26,598
Total nonaccrual loans	37,327	32,247
Loans greater than 90 days past due	17,589	9,067
Restructured loans in compliance with modified terms	528	0
Total nonperforming loans	\$55,444	\$41,314

Additional interest which would have been recorded during the first quarter ended March 31, 2010 was \$0.9 million compared to \$0.4 million and \$0.9 million for quarters ended December 31, 2009 and March 31, 2009, respectively. Any loan greater than 90 days past due must be well secured and in the process of collection to continue accruing interest.

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 CTBI 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 recorded investments in impaired loans are summarized below:

	March 31	December
(in thousands)	2010	31 2009
Impaired loans without specific reserves	\$25,203	\$12,775
Impaired loans with specific reserves	24,407	19,231
Restructured loans	952	6
Total impaired loans	\$50,562	\$32,012

Specific reserves for impaired loans totaled \$9.1 million at March 31, 2010 compared to \$6.6 million at December 31, 2009. The average investment in impaired loans was \$37.2 million and \$30.2 million at March 31, 2010 and December 31, 2009, respectively.

Cash payments on impaired loans were as follows:

	March 31	December
(in thousands)	2010	31 2009
Interest payments on impaired loans	\$106	\$125
Principal payments on impaired loans	630	757
Total payments	\$736	\$882

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

	Three Months Ended	
(in thousands)	March 31	
	2010	2009
Allowance balance at January 1	\$32,643	\$30,821
Additions to allowance charged against operations	5,722	1,981
Recoveries credited to allowance	825	856
Losses charged against allowance	(4,316)	(3,059)
Allowance balance at March 31	\$34,874	\$30,599

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:

(in thousands)	Three Months Ended	
	March 31	
	2010	2009
Net gain on sale of loans held for sale	\$442	\$1,931
Net loan servicing income		
Servicing fees	272	238
Late fees	17	18
Ancillary fees	66	226
Fair value adjustments	(127)	(274)
Net loan servicing income	228	208
Mortgage banking income	\$670	\$2,139

Mortgage loans serviced for others are not included in the accompanying balance sheets. Mortgage loans serviced for the benefit of others (primarily FHLMC) at March 31, 2010, December 31, 2009, and March 31, 2009, were \$437 million, \$431 million, and \$392 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 \$815 thousand at March 31, 2010, \$556 thousand at December 31, 2009, and \$800 thousand at March 31, 2009.

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

(in thousands)	Three Months Ended	
	March 31	
	2010	2009
Fair value, beginning of period	\$3,406	\$2,168
New servicing assets created	163	581
Change in fair value during the period due to:		
Time decay (1)	(50)	(33)
Payoffs (2)	(62)	(202)
Changes in valuation inputs or assumptions (3)	(15)	(39)
Fair value, end of period	\$3,442	\$2,475

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

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

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

The fair value of capitalized mortgage servicing rights was \$3.4 million at March 31, 2010 compared to \$3.4 million at December 31, 2009 and \$2.5 million at March 31, 2009. Fair values were determined by third-party valuations using a discount rate of 10.0% for the quarters ended March 31, 2010, December 31, 2009 and March 31, 2009, and weighted average default rates of 2.0%, 1.9% and 1.6% respectively. Prepayment speeds generated using the Andrew Davidson Prepayment Model averaged 13.0%, 13.6%, and 20.4% at March 31, 2010, December 31, 2009, and March 31, 2009, 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 was as follows:

(in thousands)	March 31 2010	March 31 2009
Beginning balance	\$37,333	\$10,425
New assets acquired	2,955	5,535
Capitalized costs	65	60
Fair value adjustments	(329)	(317)
Sale of assets	(1,412)	(527)
Ending balance	\$38,612	\$15,176

Carrying costs and fair value adjustments associated with foreclosed properties at March 31, 2010, 2009, and 2008, respectively, were \$0.87 million, \$0.51 million, and \$0.09 million.

Note 7 – Borrowings

Short-term debt consists of the following:

(in thousands)	March 31 2010	December 31 2009
Subsidiaries:		
Repurchase agreements	\$186,894	\$180,471
Federal funds purchased	17,475	12,205
Total short-term debt	\$204,369	\$192,676

On October 28, 2009, 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 29, 2009, replaced the agreement dated July 29, 2008, and will mature on October 28, 2010.

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 March 31, 2010 were 0.15% and 1.10%, respectively.

The maximum balance for repurchase agreements at any month-end during the first quarter 2010 occurred at March 31, 2010, with a month-end balance of \$186.9 million. The average balance of repurchase agreements for the quarter was \$179.4 million.

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

(in thousands)	March 31 2010	December 31 2009
Monthly amortizing	\$242	\$671
Term	20,000	20,000
Total advances	\$20,242	\$20,671

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

(in thousands)	Principal Payments Due by Period at March 31, 2010						After 5 Years
	Total	Within 1 Year	2 Years	3 Years	4 Years	5 Years	
Outstanding advances, weighted average interest rate – 3.35%	\$242	\$190	\$8	\$8	\$8	\$8	\$20

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

(in thousands)	March 31 2010	December 31 2009
Advance #156, 0.43%, due 1/29/10	\$0	\$20,000
Advance #157, 0.32%, due 7/28/10	20,000	0
Total term advances	\$20,000	\$20,000

Advances totaling \$20.2 million at March 31, 2010 were collateralized by FHLB stock of \$24.7 million and a blanket lien on qualifying first mortgage loans. As of March 31, 2010, CTBI had a \$413.1 million FHLB borrowing capacity with \$20.2 million in advances and \$98.3 million in letters of credit leaving \$294.6 million available for additional advances. The advances had fixed interest rates ranging from 0.32% to 4.00% with a weighted average rate of 0.36%. The advances are subject to restriction or penalties in the event of prepayment.

Long-term debt consists of the following:

(in thousands)	March 31 2010	December 31 2009
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.

Note 8 – Earnings Per Share

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

(in thousands)	Three Months Ended March 31	
	2010	2009
Numerator:		
Net income	\$6,791	\$6,580
Denominator:		
Basic earnings per share:		
Weighted average shares	15,202	15,076
Diluted earnings per share:		
Effect of dilutive stock options	33	117
Adjusted weighted average shares	15,235	15,193
Earnings per share:		
Basic earnings per share	\$0.45	\$0.44
Diluted earnings per share	0.45	0.43

Options to purchase 425,974 common shares were excluded from the diluted calculations above for the three months ended March 31, 2010 because the exercise prices on the options were greater than the average market price for the period. Options to purchase 328,324 common shares were excluded from the diluted calculations above for the three months ended March 31, 2009.

Note 9 – Fair Value of Financial Assets and Liabilities

ASC 820, formerly FAS 157, 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.

The application of ASC 820 in situations where the market for a financial asset is not active was clarified in October 2008 by the issuance of ASC 820-10-35, formerly FSP FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. This clarification was effective for financial statements issued as of September 30, 2008 and thereafter and did not have a material impact on the methods by which CTBI determines the

fair values of its financial assets. ASC 820 was also clarified in April 2009 effective for the second quarter 2009 by ASC 820-10-65, formerly FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This section clarifies factors that determine whether transactions are orderly or not in evaluating the reliability of market transactions for fair value estimates. ASC 820-10-15, formerly FSP FAS 157-2, deferred the application of ASC 820 for nonfinancial assets and nonfinancial liabilities that are measured at fair value on a nonrecurring basis to fiscal years beginning after November 15, 2008. CTBI adopted the provisions of this standard with respect to nonfinancial assets and nonfinancial liabilities beginning on January 1, 2009.

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 March 31, 2010 and December 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized by CTBI to determine such fair value.

(in thousands)	Fair Value Measurements at March 31, 2010 Using			
	Fair Value March 31 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U.S. Treasury and government agencies	\$16,977	\$0	\$16,977	\$ 0
State and political subdivisions	42,878	0	42,878	0
U.S. government sponsored agencies and mortgage-backed pass through certificates	230,657	0	230,657	0
Marketable equity securities	20,526	0	20,315	211
Mortgage servicing rights	3,442	0	0	3,442
Total recurring assets measured at fair value	\$314,480	\$0	\$310,827	\$ 3,653

(in thousands)	Fair Value Measurements at December 31, 2009 Using			
	Fair Value December 31 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-sale securities:				
U.S. Treasury and government agencies	\$16,731	\$0	\$16,731	\$ 0
State and political subdivisions	45,657	0	45,657	0
U.S. government sponsored agencies and mortgage-backed pass through certificates	187,397	0	187,397	0
Marketable equity securities	20,452	0	20,241	211
Mortgage servicing rights	3,406	0	0	3,406
Total recurring assets measured at fair value	\$273,643	\$0	\$270,026	\$ 3,617

U.S. Treasury and government agencies, State and political subdivision, U.S. government sponsored agencies and mortgage-backed pass through certificates, 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 MSR's at fair value on a recurring basis with subsequent remeasurement of MSR's 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 MSR's is determined by the independent third party utilizing discounted cash flow models and assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. All of CTBI's MSR's 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	
	March 31	
Marketable Equity Securities (in thousands)	2010	2009
Beginning balance	\$211	\$540
Total realized and unrealized gains and losses		
Included in net income	0	0
Transfer of Securities from Level 3 to Level 2	0	0
Purchases	0	0
Issuances	0	0
Settlements	0	(329)
Ending balance	\$211	\$211

	Three Months Ended	
	March 31	
Mortgage Servicing Rights (in thousands)	2010	2009
Beginning balance	\$3,406	\$2,168
Total realized and unrealized gains and losses		
Included in net income	(15)	(39)
Transfer of Securities from Level 3 to Level 2	0	0
Purchases	0	0
Issuances	163	581
Settlements	(112)	(235)
Ending balance	\$3,442	\$2,475

Assets Measured on a Non-Recurring Basis

Assets measured at fair value on a non-recurring basis as of March 31, 2010 and December 31, 2009 are summarized below:

(in thousands)	Fair Value Measurements at March 31, 2010 Using			
	Fair Value March 31 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$7,909	\$0	\$0	\$ 7,909
Other real estate/assets owned	\$3,586	\$0	\$0	\$ 3,586

(in thousands)	Fair Value Measurements at December 31, 2009 Using			
	Fair Value December 31 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$8,387	\$0	\$0	\$ 8,387
Other real estate/assets owned	\$8,331	\$0	\$0	\$ 8,331

Impaired Loans – Level 3 Inputs. Loans considered impaired under ASC 310, formerly FAS 114, Accounting, Accounting by Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan — Income Recognition and Disclosure, 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 (1) partial write-downs that are based on the market price or current appraised value of the collateral less discounts for costs to sell and other estimated discounts or (2) the full charge-off of the loan carrying value. Quarter-to-date fair value adjustments on impaired loans were \$3.4 million, \$1.1 million, and \$0.7 million at March 31, 2010, December 31, 2009, and March 31, 2009, respectively.

Other real estate/assets owned – Level 3 Inputs. In accordance with the provisions of FASB Codification Topic 360, formerly FAS 144, long-lived assets held for sale with a carrying amount of \$3.6 million were written down to their fair value less costs to sale during the quarter. Long-lived assets are subject to nonrecurring fair value adjustments to reflect partial write-downs that are based on the market price or current appraised value of the collateral. Fair value adjustments on other real estate/assets owned were \$0.3 million, \$0.7 million, and \$0.3 million as of March 31, 2010, December 31, 2009, and March 31, 2009, respectively.

The following table presents the carrying amounts and estimated fair values of financial instruments at March 31, 2010 and December 31, 2009:

(in thousands)	March 31, 2010		December 31, 2009	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Cash and cash equivalents	\$ 192,600	\$ 192,600	\$ 142,129	\$ 142,129
Certificates of deposits in other banks	5,277	5,277	100	100
Securities available-for-sale	311,038	311,038	270,237	270,237
Securities held-to-maturity	10,291	10,300	14,336	14,435
Loans, net (including impaired loans)	2,394,060	2,402,046	2,403,117	2,407,703
Loans held for sale	330	337	1,818	1,845
Federal Reserve Bank stock	4,352	4,352	4,348	4,348
Federal Home Loan Bank stock	24,700	24,700	24,700	24,700
Accrued interest receivable	12,081	12,081	11,936	11,936
Capitalized mortgage servicing rights	3,442	3,442	3,406	3,406
Total financial assets	\$ 2,958,171	\$ 2,966,173	\$ 2,876,127	\$ 2,880,839
Financial liabilities				
Deposits	\$ 2,530,234	\$ 2,531,384	\$ 2,462,209	\$ 2,462,676
Repurchase agreements	186,894	187,039	180,471	180,776
Federal funds purchased	17,475	17,475	12,205	12,205
Advances from Federal Home Loan Bank	20,242	20,219	20,671	20,670
Long-term debt	61,341	30,802	61,341	29,522
Accrued interest payable	5,015	5,015	3,686	3,686
Total financial liabilities	\$ 2,821,201	\$ 2,791,934	\$ 2,740,583	\$ 2,709,535
Unrecognized financial instruments				
Letters of credit	\$ 0	\$ 0	\$ 0	\$ 0
Commitments to extend credit	0	0	0	0
	\$ 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 deposits 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 Reserve Bank Stock – The carrying value of Federal Reserve Bank stock approximates fair value based on the redemption provisions of the Federal Reserve Bank.

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.

Accrued Interest Receivable – The carrying amount approximates fair value.

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 March 31, 2010 and December 31, 2009. Off-balance sheet loan commitments at March 31, 2010 and December 31, 2009 were \$425.6 million and \$425.1 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 March 31, 2010, CTBI owned one commercial bank and one trust company. Through its subsidiaries, CTBI has seventy-six banking locations in eastern, northeastern, central, and south central Kentucky and southern West Virginia, and five trust offices across Kentucky. At March 31, 2010, CTBI had total consolidated assets of \$3.2 billion and total consolidated deposits, including repurchase agreements, of \$2.7 billion, making it the second largest depository of Kentucky based deposits of any bank holding company headquartered in the Commonwealth of Kentucky. Total shareholders' equity at March 31, 2010 was \$324.9 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:

Cash and 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.

At December 31, 2009, all of the financial institutions holding CTBI's or its subsidiary's cash accounts were participating in the FDIC's Transaction Account Guarantee Program. Under the program, through December 31, 2010, all noninterest-bearing transaction accounts at these institutions are fully guaranteed by the FDIC for the entire amount in the account. Effective January 1, 2010 one correspondent bank opted out of the program leaving CTBI with exposure of \$1.0 million at March 31, 2010.

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, formerly Financial Accounting Standard (FAS) 115, Accounting for Certain Investments in Debt and Equity 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.

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 agencies, 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 and 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 are brought current and future payments appear reasonably certain.

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, formerly FAS 114, Accounting by Creditors for Impairment of a Loan. We evaluate the collectibility 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, formerly FAS 5, Accounting for 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. 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. These factors are reviewed quarterly and a weighted range developed with a “most likely” scenario 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, formerly FAS 142, Goodwill and Other Intangible Assets and FAS 147, Acquisitions of Certain Financial Institutions, 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.

Amortization of core deposit intangible is estimated at approximately \$0.4 million for year one, approximately \$0.05 million annually in years two through five, and approximately \$0.03 million in year six.

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, formerly FAS 123R.

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, formerly FAS 156, in January 2007. MSRs are valued using Level 3 inputs as defined in ASC 820, formerly FAS 157. 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.

Stock Options – At March 31, 2010 and December 31, 2009, CTBI had a share-based employee compensation plan, which is described more fully in note 14 to the consolidated financial statements for the year ended December 31, 2009, included in CTBI’s Annual Report on Form 10-K. CTBI accounts for this plan under the recognition and measurement principles of ASC 718, formerly FAS 123R, 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
April 1, 2010	March 15, 2010	\$0.30
January 1, 2010	December 15, 2009	\$0.30
October 1, 2009	September 15, 2009	\$0.30
July 1, 2009	June 15, 2009	\$0.30
April 1, 2009	March 15, 2009	\$0.30
January 1, 2009	December 15, 2008	\$0.30

Statement of Income Review

CTBI reported earnings for the first quarter 2010 of \$6.8 million or \$0.45 per basic share compared to \$6.6 million or \$0.44 per basic share earned during the first quarter of 2009 and \$7.0 million or \$0.46 per basic share earned during the quarter ended December 31, 2009.

Earnings Summary						
(in thousands except per share data)						
	1Q 2010		4Q 2009		1Q 2009	
Net income	\$6,791		\$6,958		\$6,580	
Earnings per share	\$0.45		\$0.46		\$0.44	
Earnings per share (diluted)	\$0.45		\$0.46		\$0.43	
Return on average assets	0.88	%	0.90	%	0.89	%
Return on average equity	8.47	%	8.58	%	8.51	%
Efficiency ratio	59.45	%	60.74	%	67.99	%
Tangible common equity	8.36	%	8.47	%	8.31	%
Dividends declared per share	\$0.30		\$0.30		\$0.30	
Book value per share	\$21.35		\$21.17		\$20.68	
Weighted average shares	15,202		15,168		15,076	
Weighted average shares (diluted)	15,235		15,200		15,193	

First Quarter 2010 Highlights

- v CTBI's basic earnings per share increased \$0.01 per share from prior year first quarter and decreased \$0.01 per share from prior quarter. Earnings were positively impacted by increased net interest income; however, this was partially offset by an increased provision for loan losses.
- v CTBI experienced significant improvement in our net interest margin. Our net interest margin for the quarter increased 59 basis points from first quarter 2009 and 14 basis points from fourth quarter 2009.
- v Nonperforming loans increased \$14.1 million during the first quarter 2010 to \$55.4 million compared to \$41.3 million at prior quarter end. The linked quarter increase in nonperforming loans was in both the 90 day and accruing and the nonaccrual classifications. Nonperforming assets increased \$26.9 million from prior year first quarter and \$15.5 million from prior quarter-end.
- v The loan loss provision increased \$3.7 million from prior year first quarter and \$0.5 million from prior quarter to support the increase in nonperforming loans during the quarter and year over year per CTBI's robust loan portfolio management process and loan loss reserve analysis. This increase resulted in an increase in the loan loss reserve ratio to 1.44% from 1.31% and 1.34% for the quarters ended March 31, 2009 and December 31, 2009, respectively.
- v Net loan charge-offs for the quarter ended March 31, 2010 of \$3.5 million, or 0.58% of average loans annualized, was an increase from prior year first quarter's 0.38% and a reduction from the 0.73% experienced on a linked quarter basis.
- v Noninterest income decreased for the period ended March 31, 2010 compared to same period 2009 as a result of decreased securities gains as well as gains on sales of loans as the first quarter 2009 was a period of significant refinancing in residential real estate loans. However, the decline in these noninterest income sources was partially offset by increases in trust revenue, deposit service charges, and loan related fees. On a linked quarter basis, the

decreased noninterest income in service charge revenue and loan related fees is primarily attributable to the normal quarterly seasonal business cycle.

- v Our loan portfolio decreased \$6.8 million, an annualized rate of 1.1%, during the quarter with an increase in the commercial loan portfolio offset by declines in the consumer and residential loan portfolios.
- v Our investment portfolio increased \$30.5 million from prior year first quarter and \$36.8 million for the quarter as deposit growth was stronger than loan demand.
- v Our tangible common equity/tangible assets ratio remains strong at 8.36%.

CTBI had basic weighted average shares outstanding of 15.2 million for the three months ended March 31, 2010 compared to 15.1 million for the three months ended March 31, 2009. The following table sets forth on an annualized basis the return on average assets and return on average shareholders' equity for the three months ended March 31, 2010 and 2009:

	Three Months Ended March 31			
	2010		2009	
Return on average shareholders' equity	8.47	%	8.51	%
Return on average assets	0.88	%	0.89	%

Net Interest Income

CTBI saw improvement in its net interest margin of 59 basis points from prior year first quarter and 14 basis points from prior quarter. Net interest income for the quarter increased 19.9% from prior year first quarter and 2.7% from prior quarter with average earning assets increasing 2.9% and 1.4%, respectively, for the same periods. The yield on average earning assets decreased 4 basis points from prior year first quarter but increased 2 basis points from prior quarter while the cost of interest bearing funds decreased 81 basis points and 16 basis points, respectively, for the same periods.

The following table summarizes the annualized net interest spread and net interest margin for the three months ended March 31, 2010 and 2009.

	Three Months Ended March 31			
	2010		2009	
Yield on interest earning assets	5.49	%	5.53	%
Cost of interest bearing funds	1.63	%	2.44	%
Net interest spread	3.86	%	3.09	%
Net interest margin	4.20	%	3.61	%

Provision for Loan Losses

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

(in thousands)	Three Months Ended			
	March 31			
	2010		2009	
Allowance balance at January 1	\$32,643		\$30,821	
Additions to allowance charged against operations	5,722		1,981	
Recoveries credited to allowance	825		856	
Losses charged against allowance	(4,316)	)	(3,059))
Allowance balance at March 31	\$34,874		\$30,599	
Allowance for loan losses to period-end loans	1.44	%	1.31	%
Average loans, net of unearned income	\$2,437,105		\$2,352,178	
Provision for loan losses to average loans, annualized	0.95	%	0.34	%
Loan charge-offs net of recoveries, to average loans, annualized	0.58	%	0.38	%

Net loan charge-offs for the quarter were \$3.5 million, or 0.58% of average loans annualized, an increase from prior year first quarter's \$2.2 million or 0.38% and a decline from prior quarter's \$4.5 million or 0.73%. Of the total net charge-offs for the quarter of \$3.5 million, \$2.1 million was in commercial loans, \$1.2 million was in indirect auto loans, and \$167 thousand was in residential real estate mortgage loans. Allocations to loan loss reserves were \$5.7 million for the quarter ended March 31, 2010 compared to \$2.0 million for the quarter ended March 31, 2009 and \$5.2 million for the quarter ended December 31, 2009. Our loan loss reserves as a percentage of total loans outstanding at March 31, 2010 increased to 1.44% from 1.31% at March 31, 2009 and 1.34% at December 31, 2009. The adequacy of our loan loss reserves is analyzed quarterly and adjusted as necessary with a focus on maintaining appropriate reserves for potential losses.

Noninterest Income

Noninterest income for the quarter ended March 31, 2010 decreased 9.4% and 7.1% over prior year first quarter and prior quarter, respectively. The decrease in noninterest income compared to prior year same quarter was significantly impacted by decreased gains on sales of loans as 2009 was a period of significant refinancing of residential real estate loans. Securities gains also decreased from prior year first quarter; however, the decline in these noninterest income sources was partially offset by increases in trust revenue, deposit service charges, and loan related fees. The linked quarter decrease was impacted primarily by decreases in service charge revenue and loan related fees resulting from the normal quarterly seasonal business cycle.

Noninterest Expense

Noninterest expense for the quarter remained relatively flat decreasing 1.5% from prior year first quarter and 1.7% from prior quarter.

Balance Sheet Review

CTBI's total assets at \$3.2 billion increased 4.9% from prior year first quarter and an annualized 10.8% during the first quarter 2010. Loans outstanding at March 31, 2010 were \$2.4 billion with a 4.0% growth from March 31, 2009 and an annualized 1.1% decline from year-end. Loan growth of \$9.2 million in the commercial loan portfolio during the quarter was offset by declines in the consumer and residential loan portfolios of \$11.7 million and \$4.3 million, respectively. CTBI's investment portfolio increased \$30.5 million over prior year first quarter and \$36.8 million from

year-end. Deposits, including repurchase agreements, at \$2.7 billion increased 7.3% from prior year and an annualized 11.4% from December 31, 2009.

Shareholders' equity at March 31, 2010 was \$324.9 million compared to \$311.8 million at March 31, 2009 and \$321.5 million at December 31, 2009. CTBI's annualized dividend yield to shareholders as of March 31, 2010 was 4.43%.

Loans

Loan growth of \$9.2 million in the commercial loan portfolio during the quarter was offset by declines in the consumer and residential loan portfolios of \$11.7 million and \$4.3 million, respectively.

The following tables summarize CTBI's nonperforming loans as of March 31, 2010 and December 31, 2009.

(in thousands)	Nonaccrual Loans	As a % of Loan Balances by Category	Restructured 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
March 31, 2010							
Commercial construction	\$15,380	10.62	% \$ 0	0.00	% \$3,453	2.38	% \$144,800
Commercial secured by real estate	9,938	1.32	482	0.06	8,920	1.19	750,855
Commercial other	6,182	1.83	46	0.01	1,796	0.53	337,783
Consumer real estate construction	674	1.45	0	0.00	20	0.04	46,333
Consumer real estate secured	5,153	0.84	0	0.00	2,932	0.48	611,354
Consumer other	0	0.00	0	0.00	468	0.09	519,195
Equipment lease financing	0	0.00	0	0.00	0	0.00	18,614
Total	\$37,327	1.54	% \$ 528	0.02	% \$17,589	0.72	% \$2,428,934

(in thousands)	Nonaccrual Loans	As a % of Loan Balances by Category	Restructured 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, 2009							
Commercial construction	\$12,312	8.70	% \$ 0	0.00	% \$865	0.61	% \$141,440
Commercial secured by real estate	9,803	1.39	0	0.00	5,640	0.80	707,500
Commercial other	4,489	1.20	0	0.00	286	0.08	373,829
Consumer real estate construction	1,244	2.42	0	0.00	0	0.00	51,311
Consumer real estate secured	4,399	0.72	0	0.00	1,698	0.28	610,727
Consumer other	0	0.00	0	0.00	578	0.11	530,905
Equipment lease financing	0	0.00	0	0.00	0	0.00	20,048

Total	\$32,247	1.32	% \$ 0	0.00	% \$9,067	0.37	% \$2,435,760
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*Excluding nonaccrual and 90 days past due

CTBI's total nonperforming loans were \$55.4 million at March 31, 2010, an increase from the \$52.2 million at March 31, 2009 and \$41.3 million at December 31, 2009. The increase in nonperforming loans from year-end is primarily attributable to six commercial credit relationships. Coal industry related loans which were referenced in our year-end earnings release represented \$6.7 million of the increase. Also included in the increase are a \$5.1 million loan for income producing properties that is currently making reduced payments under Chapter 11 bankruptcy and a \$1.1 million USDA guaranteed loan. Loans past-due 30-89 days at March 31, 2010 were \$36.2 million, an increase of \$8.0 million from the \$28.2 million at March 31, 2009 and an increase of \$11.4 million from the \$24.8 million at December 31, 2009. The increase in 30-89 days past due loans during the first quarter was primarily due to three commercial credits in the hotel/motel industry. In keeping with our community banking philosophy, we are working diligently with these customers to return them to "current" status. Our loan portfolio management processes focus on the immediate identification, management, and resolution of problem loans to maximize recovery and minimize loss.

Our level of foreclosed properties increased to \$38.6 million for the first quarter 2010 compared to the \$15.2 million at March 31, 2009, as problem real estate loans worked their way through the legal system during 2009. Foreclosed properties increased slightly from the \$37.3 million at December 31, 2009. Sales of foreclosed properties for the quarter ended March 31, 2010 totaled \$1.4 million while new foreclosed properties totaled \$3.0 million. Our nonperforming loans and foreclosed properties remain primarily concentrated in our Central Kentucky Region.

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 \$270.2 million as of December 31, 2009 to \$311.0 million at March 31, 2010. The excess of market over cost increased from \$6.5 million at December 31, 2009 to \$7.0 million at March 31, 2010. Securities held-to-maturity decreased from \$14.3 million to \$10.3 million during the same period. Total securities as a percentage of total assets were 9.2% as of December 31, 2009 and 10.1% as of March 31, 2010.

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 and federal funds sold and purchased 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 \$311.0 million that are designated as available-for-sale and available to meet liquidity needs on a continuing basis. In addition, CTBI has \$5.3 million in other investments consisting of certificates of deposits in other banks. All investments 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 decreased slightly from \$20.7 million at December 31, 2009 to \$20.2 million at March 31, 2010. FHLB borrowing capacity at March 31, 2010 was \$294.6 million. Long-term debt remained at \$61.3 million from December 31, 2009 to March 31, 2010. The parent company has a \$12 million line of credit, all of which is currently available for general corporate purposes. At March 31, 2010, federal funds sold were \$95.5 million compared to \$47.6 million at December 31, 2009. 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 3.8 years. At the end of the first quarter 2010, available-for-sale ("AFS") securities comprised approximately 96.8% of the total investment portfolio. The AFS portfolio was approximately 95.7% of equity capital, and 92% 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 three months of 2010. There are currently 288,519 shares remaining under CTBI's current repurchase authorization. As of March 31, 2010, 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 2010, approximately \$14.3 million plus any remaining 2010 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 \$0.30 per share during the first three months of 2010. Basic earnings per share for the same period were \$0.45. CTBI retained 33% of earnings for the first three months of 2010.

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 10.30%, 13.02%, and 14.27%, respectively, as of March 31, 2010, all exceeding the threshold for meeting the definition of well-capitalized.

As of March 31, 2010, 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.

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 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 increase by 0.97 percent over one year and by 0.85 percent over two years. A 25 basis point decrease in the yield curve would decrease net interest income by an estimated 0.06 percent over one year and by 0.20 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, 2009.

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 March 31, 2010 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 March 31, 2010 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: May 7, 2010

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)