COMMUNITY TRUST BANCORP INC /KY/
Form 10-Q
May 10, 2013

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the quarterly period ended March 31, 2013
	Or
[ ]	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from _____________ to _____________

Commission file number 0-11129

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

Kentucky	61-0979818
(State or other jurisdiction of incorporation or organization)	IRS Employer Identification No.
346 North Mayo Trail Pikeville, Kentucky (address of principal executive offices)	41501 (Zip Code)

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

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

Yes ü	No

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

Yes ü	No

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

Large accelerated filer	Accelerated filer ü	Non-accelerated filer	Smaller reporting company
		(Do not check if a smaller reporting company)	

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

Yes	No ü

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

Common stock – 15,661,375 shares outstanding at April 30, 2013

CAUTIONARY STATEMENT
REGARDING FORWARD LOOKING STATEMENTS

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

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

The accompanying information has not been audited by our 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, 2012 for further information in this regard.

Community Trust Bancorp, Inc.
Condensed Consolidated Balance Sheets

(dollars in thousands)	(unaudited) March 31 2013	December 31 2012
Assets:		
Cash and due from banks	$ 54,589	$ 73,451
Interest bearing deposits	111,128	127,438
Federal funds sold	2,227	6,671
Cash and cash equivalents	167,944	207,560
Certificates of deposit in other banks	9,320	5,336
Securities available-for-sale at fair value (amortized cost of $660,611 and $583,858, respectively)	677,510	603,343
Securities held-to-maturity at amortized cost (fair value of $1,656 and $1,659, respectively)	1,662	1,662
Loans held for sale	1,449	22,486
Loans	2,563,314	2,550,573
Allowance for loan losses	(33,393)	(33,245)
Net loans	2,529,921	2,517,328
Premises and equipment, net	53,491	54,321
Federal Home Loan Bank stock	25,673	25,673
Federal Reserve Bank stock	4,886	4,885
Goodwill	65,490	65,490
Core deposit intangible (net of accumulated amortization of $7,765 and $7,712, respectively)	850	904
Bank owned life insurance	53,166	44,893
Mortgage servicing rights	2,652	2,364
Other real estate owned	45,720	47,537
Other assets	32,361	31,882
Total assets	$ 3,672,095	$ 3,635,664
Liabilities and shareholders’ equity:		
Deposits:		
Noninterest bearing	$ 619,819	$ 606,448
Interest bearing	2,313,761	2,297,400
Total deposits	2,933,580	2,903,848
Repurchase agreements	213,573	210,120
Federal funds purchased and other short-term borrowings	15,272	12,314
Advances from Federal Home Loan Bank	1,387	1,429
Long-term debt	61,341	61,341
Other liabilities	40,308	46,268
Total liabilities	3,265,461	3,235,320
Shareholders’ equity:		

Preferred stock, 300,000 shares authorized and unissued		-		-
Common stock, $5 par value, shares authorized 25,000,000; shares outstanding 2013 – 15,653,090; 2012 – 15,612,935		78,266		78,065
Capital surplus		161,520		160,670
Retained earnings		155,864		148,944
Accumulated other comprehensive income, net of tax		10,984		12,665
Total shareholders’ equity		406,634		400,344
Total liabilities and shareholders’ equity	$	3,672,095	$	3,635,664

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)	2013	2012
Interest income:		
Interest and fees on loans, including loans held for sale	$32,848	$35,052
Interest and dividends on securities		
Taxable	2,895	2,771
Tax exempt	558	477
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock	348	364
Other, including interest on federal funds sold	127	162
Total interest income	36,776	38,826
Interest expense:		
Interest on deposits	3,019	4,471
Interest on repurchase agreements and other short-term borrowings	263	338
Interest on advances from Federal Home Loan Bank	7	11
Interest on long-term debt	290	1,000
Total interest expense	3,579	5,820
Net interest income	33,197	33,006
Provision for loan losses	1,559	1,160
Net interest income after provision for loan losses	31,638	31,846
Noninterest income:		
Service charges on deposit accounts	5,767	5,872
Gains on sales of loans, net	1,397	617
Trust income	2,000	1,613
Loan related fees	948	1,287
Bank owned life insurance	421	428
Other noninterest income	1,387	1,370
Total noninterest income	11,920	11,187
Noninterest expense:		
Officer salaries and employee benefits	2,551	2,356
Other salaries and employee benefits	10,431	10,457
Occupancy, net	1,927	1,853
Equipment	978	918
Data processing	1,813	1,579
Bank franchise tax	1,123	1,155
Legal fees	606	601
Professional fees	382	260
FDIC insurance	602	657
Other real estate owned provision and expense	1,839	790
Other noninterest expense	4,047	5,124
Total noninterest expense	26,299	25,750

Income before income taxes	17,259	17,283
Income taxes	5,439	5,414
Net income	11,820	11,869
Other comprehensive income:		
Unrealized holding gains on securities available-for-sale:		
Unrealized holding gains arising during the period	(2,586)	(2,202)
Tax benefit	(905)	(771)
Other comprehensive income, net of tax	(1,681)	(1,431)
Comprehensive income	$10,139	$10,438
Basic earnings per share	$0.76	$0.77
Diluted earnings per share	$0.76	$0.77
Weighted average shares outstanding-basic	15,539	15,407
Weighted average shares outstanding-diluted	15,592	15,456
Dividends declared per share	$0.315	$0.310

See notes to condensed consolidated financial statements.

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

	Three Months Ended March 31	
(in thousands)	2013	2012
Cash flows from operating activities:		
Net income	$11,820	$11,869
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,151	1,061
Deferred taxes	905	771
Stock-based compensation	164	146
Excess tax benefits of stock-based compensation	35	336
Provision for loan losses	1,559	1,160
Write-downs of other real estate owned and other repossessed assets	1,146	179
Gains on sale of mortgage loans held for sale	(1,397)	(617)
(Gains)/losses on sale of assets, net	65	(35)
Proceeds from sale of mortgage loans held for sale	59,723	26,731
Funding of mortgage loans held for sale	(37,289)	(27,220)
Amortization of securities premiums and discounts, net	1,086	1,287
Change in cash surrender value of bank owned life insurance	(324)	(344)
Mortgage servicing rights:		
Fair value adjustments	69	(207)
New servicing assets created	(357)	(151)
Changes in:		
Other assets	(486)	(392)
Other liabilities	(5,968)	10,090
Net cash provided by operating activities	31,902	24,664
Cash flows from investing activities:		
Certificates of deposit in other banks:		
Purchase of certificates of deposit	(3,984)	(1,117)
Securities available-for-sale (AFS):		
Purchase of AFS securities	(109,477)	(123,695)
Proceeds from prepayments and maturities of AFS securities	31,637	33,626
Change in loans, net	(15,881)	8,803
Purchase of premises and equipment	(267)	(1,436)
Proceeds from sale of premises and equipment	0	73
Additional investment in Federal Reserve Bank stock	(1)	(1)
Proceeds from sale of other real estate and other repossessed assets	2,347	2,089
Additional investment in other real estate and other repossessed assets	(5)	(90)
Additional investment in bank owned life insurance	(7,949)	0
Net cash used in investing activities	(103,580)	(81,748)
Cash flows from financing activities:		
Change in deposits, net	29,732	69,194
	6,411	15,773

Change in repurchase agreements, federal funds purchased, and other short-term borrowings, net		
Payments on advances from Federal Home Loan Bank	(42)	(20,047)
Issuance of common stock	883	1,993
Excess tax benefits of stock-based compensation	(35)	(336)
Dividends paid	(4,887)	(4,753)
Net cash provided by financing activities	32,062	61,824
Net increase (decrease) in cash and cash equivalents	(39,616)	4,740
Cash and cash equivalents at beginning of period	207,560	238,481
Cash and cash equivalents at end of period	$167,944	$243,221
Supplemental disclosures:		
Income taxes paid	$4,500	$3,800
Interest paid	3,411	5,290
Non-cash activities:		
Loans to facilitate the sale of other real estate and other repossessed assets	318	952
Common stock dividends accrued, paid in subsequent quarter	4,900	4,783
Real estate acquired in settlement of loans	2,047	5,370

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, 2013, the results of operations for the three months ended March 31, 2013 and 2012, and the cash flows for the three months ended March 31, 2013 and 2012. 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, 2013 and 2012, and the cash flows for the three months ended March 31, 2013 and 2012, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2012 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, 2012, included in our 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 Testing Goodwill for Impairment – In July 2012, the FASB issued ASU 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment. Under these amendments, an entity would not be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on qualitative assessment, that it is not more likely than not that the indefinite-lived intangible asset is impaired. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. ASU 2012-02 is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012. Adoption of this ASU did not have a material effect on our consolidated financial statements.

Ø Amounts Reclassified Out of Other Comprehensive Income – In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in the ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same

reporting period; and
- Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). The amendments are effective for reporting periods beginning after December 15, 2012, for public companies. The adoption of ASU No. 2013-02 did not have a material impact on CTBI's consolidated financial statements.

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 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.

Our accounting policies are described above. We have identified the following critical accounting policies:

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

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

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

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

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

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

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

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

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

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

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

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

When any secured commercial loan is considered uncollectable, whether past due or not, a current assessment of the value of the underlying collateral is made. If the balance of the loan exceeds the fair value of the collateral, the loan is placed on non-accrual and the loan is charged down to the value of the collateral less estimated cost to sell or a specific reserve equal to the difference between book value of the loan and the fair value assigned to the collateral is created until such time as the loan is foreclosed. When the foreclosed collateral has been legally assigned to CTBI, a charge off is taken, if necessary, in order that the remaining balance reflects the fair value estimated less costs to sell of the collateral then transferred to other real estate owned or other repossessed assets. When any unsecured commercial loan is considered uncollectable the loan is charged off no later than at 90 days past due.

All closed-end consumer loans (excluding conventional 1-4 family residential loans and installment and revolving loans secured by real estate) are charged off no later than 120 days (5 monthly payments) delinquent. If a loan is considered uncollectable, it is charged off earlier than 120 days delinquent. For conventional 1-4 family residential loans and installment and revolving loans secured by real estate, when a loan is 90 days past due, a current assessment of the value of the real estate is made. If the balance of the loan exceeds the fair value of the property, the loan is placed on nonaccrual and foreclosure proceedings are initiated. When the foreclosed property has been legally assigned to CTBI, a charge-off is taken with the remaining balance, reflecting the fair value less estimated costs to sell, transferred to other real estate owned.

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

Other Real Estate Owned – When foreclosed properties are acquired, appraisals are obtained and the properties are booked at the current market value less expected sales costs. Additionally, periodic updated appraisals are obtained on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected sales costs. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market and is typically between 12 and 18 months but generally not more than 24 months. All revenues and expenses related to the carrying of other real estate owned are recognized by a charge to income.

Note 2 – Stock-Based Compensation

CTBI's compensation expense related to stock option grants was $3 thousand and $19 thousand for the three months ended March 31, 2013 and 2012, respectively. Restricted stock expense for the first three months of 2013 and 2012 was $161 thousand and $157 thousand, respectively, including $31 thousand and $30 thousand, respectively, in dividends paid for each period. As of March 31, 2013, there was a total of $17 thousand 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 1.6 years and a total of $1.3 million of unrecognized compensation expense related to restricted stock grants that will be recognized as expense as the awards vest over a weighted average period of 1.5 years.

There were 10,822 shares and 331 shares of restricted stock granted during the three months ended March 31, 2013 and 2012. The restrictions on the restricted stock granted in 2013 and 2012 will lapse over four 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. 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 1,500 options granted to purchase shares of CTBI common stock during the three months ended March 31, 2013. There were no options granted to purchase shares of CTBI common stock during the three months ended March 31, 2012.

The fair values of options granted during the three months ended March 31, 2013, 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 2013	
Expected dividend yield	3.74	%
Risk-free interest rate	1.33	%
Expected volatility	39.11	%
Expected term (in years)	7.5	
Weighted average fair value of options	$9.05	

Note 3 – Securities

Securities are classified into held-to-maturity and available-for-sale categories. Held-to-maturity (HTM) securities are those that CTBI has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale (AFS) 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, 2013 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	$61,100	$435	$(272)	$61,263
State and political subdivisions	115,724	4,949	(225)	120,448
U.S. government sponsored agency mortgage-backed securities	428,787	11,992	(309)	440,470

Total debt securities	605,611	17,376	(806)	622,181
Marketable equity securities	55,000	606	(277)	55,329
Total available-for-sale securities	$660,611	$17,982	$(1,083)	$677,510

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	$480	$0	$(7)	$473
State and political subdivisions	1,182	1	0	1,183
Total held-to-maturity securities	$1,662	$1	$(7)	$1,656

The amortized cost and fair value of securities as of December 31, 2012 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	$60,625	$463	$(173)	$60,915
State and political subdivisions	107,987	5,369	(135)	113,221
U.S. government sponsored agency mortgage-backed securities	370,246	13,347	(12)	383,581
Total debt securities	538,858	19,179	(320)	557,717
Marketable equity securities	45,000	791	(165)	45,626
Total available-for-sale securities	$583,858	$19,970	$(485)	$603,343

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	$480	$0	$(4)	$476
State and political subdivisions	1,182	1	0	1,183
Total held-to-maturity securities	$1,662	$1	$(4)	$1,659

The amortized cost and fair value of securities at March 31, 2013 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-Sale		Held-to-Maturity	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$7,602	$7,653	$0	$0
Due after one through five years	23,004	24,051	0	0
Due after five through ten years	107,594	109,952	1,182	1,183
Due after ten years	38,624	40,055	480	473
U.S. government sponsored agency mortgage-backed securities	428,787	440,470	0	0
Total debt securities	605,611	622,181	1,662	1,656

Marketable equity securities	55,000	55,329	0	0
Total securities	$660,611	$677,510	$1,662	$1,656

There were no sales of securities and no gains or losses realized as of March 31, 2013 or 2012.

The amortized cost of securities pledged as collateral, to secure public deposits and for other purposes, was $258.6 million at March 31, 2013 and $262.4 million at December 31, 2012.

The amortized cost of securities sold under agreements to repurchase amounted to $237.0 million at March 31, 2013 and $237.3 million at December 31, 2012.

Certain investments in debt and marketable equity securities are reported in the financial statements at amounts less than their historical costs. CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of March 31, 2013 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, 2013 was 22.2% compared to 14.8% as of December 31, 2012. 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, 2013 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	$48,078	$(272)	$47,806
State and political subdivisions	17,012	(212)	16,800
U.S. government sponsored agency mortgage-backed securities	55,489	(309)	55,180
Total debt securities	120,579	(793)	119,786
Marketable equity securities	30,000	(277)	29,723
Total <12 months temporarily impaired AFS securities	150,579	(1,070)	149,509
12 Months or More			
State and political subdivisions	1,106	(13)	1,093
Total ≥12 months temporarily impaired AFS securities	1,106	(13)	1,093
Total			
U.S. Treasury and government agencies	48,078	(272)	47,806
State and political subdivisions	18,118	(225)	17,893
U.S. government sponsored agency mortgage-backed securities	55,489	(309)	55,180
Total debt securities	121,685	(806)	120,879
Marketable equity securities	30,000	(277)	29,723
Total temporarily impaired AFS securities	$151,685	$(1,083)	$150,602

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	$480	$(7)	$473

Total temporarily impaired HTM securities	$480	$(7)	$473

The analysis performed as of December 31, 2012 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, 2012 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	$47,576	$(173)	$47,403
State and political subdivisions	11,126	(135)	10,991
U.S. government sponsored agency mortgage-backed securities	10,563	(12)	10,551
Total debt securities	69,265	(320)	68,945
Marketable equity securities	20,000	(165)	19,835
Total <12 months temporarily impaired AFS securities	89,265	(485)	88,780
Total			
U.S. Treasury and government agencies	47,576	(173)	47,403
State and political subdivisions	11,126	(135)	10,991
U.S. government sponsored agency mortgage-backed securities	10,563	(12)	10,551
Total debt securities	69,265	(320)	68,945
Marketable equity securities	20,000	(165)	19,835
Total temporarily impaired AFS securities	$89,265	$(485)	$88,780

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	$480	$(4)	$476
Total temporarily impaired HTM securities	$480	$(4)	$476

Note 4 – Loans

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

(in thousands)	March 31 2013	December 31 2012
Commercial construction	$102,303	$119,447
Commercial secured by real estate	847,807	807,213
Equipment lease financing	9,944	9,246
Commercial other	375,409	376,348
Real estate construction	51,978	55,041
Real estate mortgage	696,321	696,928

Home equity	79,899	82,292
Consumer direct	119,191	122,581
Consumer indirect	280,462	281,477
Total loans	$2,563,314	$2,550,573

CTBI has segregated and evaluates its loan portfolio through nine portfolio segments. The nine segments are commercial construction, commercial secured by real estate, equipment lease financing, commercial other, real estate construction, real estate mortgage, home equity, consumer direct, and consumer indirect. CTBI serves customers in small and mid-sized communities in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee. Therefore, CTBI's exposure to credit risk is significantly affected by changes in these communities.

Commercial construction loans are for the purpose of erecting or rehabilitating buildings or other structures for commercial purposes, including any infrastructure necessary for development. Included in this category are improved property, land development, and tract development loans. The terms of these loans are generally short-term with permanent financing upon completion.

Commercial real estate loans include loans secured by nonfarm, nonresidential properties, 1-4 family/ multi-family properties, farmland, and other commercial real estate. These loans are originated based on the borrower's ability to service the debt and secondarily based on the fair value of the underlying collateral.

Equipment lease financing loans are fixed, variable, and tax exempt leases for commercial purposes.

Commercial other loans consist of commercial check loans, agricultural loans, receivable financing, floorplans, loans to financial institutions, loans for purchasing or carrying securities, and other commercial purpose loans. Commercial loans are underwritten based on the borrower's ability to service debt from the business's underlying cash flows. As a general practice, we obtain collateral such as real estate, equipment, or other assets, although such loans may be uncollateralized but guaranteed.

Real estate construction loans are typically for owner-occupied properties. The terms of these loans are generally short-term with permanent financing upon completion.

Residential real estate loans are a mixture of fixed rate and adjustable rate first and second lien residential mortgage loans. As a policy, CTBI holds adjustable rate loans and sells the majority of its fixed rate first lien mortgage loans into the secondary market. Changes in interest rates or market conditions may impact a borrower's ability to meet contractual principal and interest payments. Residential real estate loans are secured by real property.

Home equity lines are revolving adjustable rate credit lines secured by real property.

Consumer direct loans are fixed rate products comprised of unsecured loans, consumer revolving credit lines, deposit secured loans, and all other consumer purpose loans.

Consumer indirect loans are fixed rate loans secured by automobiles, trucks, vans, and recreational vehicles originated at the selling dealership underwritten and purchased by CTBI's indirect lending department. Both new and used products are financed. Only dealers who have executed dealer agreements with CTBI participate in the indirect lending program.

Not included in the loan balances above were loans held for sale in the amount of $1.4 million at March 31, 2013 and $22.5 million at December 31, 2012. The amount of capitalized fees and costs under ASC 310-20, included in the above loan totals were $0.2 million and $0.4 million at March 31, 2013 and December 31, 2012, respectively.

Refer to note 1 to the condensed consolidated financial statements for further information regarding our nonaccrual policy. Nonaccrual loans segregated by class of loans were as follows:

(in thousands)	March 31 2013	December 31 2012
Commercial:		
Commercial construction	$6,196	$5,955
Commercial secured by real estate	6,256	5,572
Commercial other	1,344	1,655
Residential:		
Real estate construction	635	315
Real estate mortgage	3,763	3,153
Home equity	143	141
Total nonaccrual loans	$18,337	$16,791

The following tables present CTBI's loan portfolio aging analysis, segregated by class, as of March 31, 2013 and December 31, 2012:

	March 31, 2013						
(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*
Commercial:							
Commercial construction	$617	$16	$8,599	$9,232	$93,071	$102,303	$2,532
Commercial secured by real estate	6,619	7,111	9,129	22,859	824,948	847,807	4,475
Equipment lease financing	0	0	0	0	9,944	9,944	0
Commercial other	1,776	1,398	5,101	8,275	367,134	375,409	3,827
Residential:							
Real estate construction	195	272	866	1,333	50,645	51,978	232
Real estate mortgage	1,822	2,394	6,698	10,914	685,407	696,321	3,635
Home equity	1,118	119	497	1,734	78,165	79,899	374
Consumer:							
Consumer direct	851	247	79	1,177	118,014	119,191	79
Consumer indirect	1,860	546	379	2,785	277,677	280,462	379
Total	$14,858	$12,103	$31,348	$58,309	$2,505,005	$2,563,314	$15,533

	December 31, 2012						
(in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*
Commercial:							
Commercial construction	$1,413	$312	$9,598	$11,323	$108,124	$119,447	$3,778
Commercial secured by real estate	9,733	1,633	10,456	21,822	785,391	807,213	5,943

Equipment lease financing	0	0	0	0	9,246	9,246	0
Commercial other	259	1,142	5,164	6,565	369,783	376,348	3,867
Residential:							
Real estate construction	248	572	511	1,331	53,710	55,041	196
Real estate mortgage	2,765	4,029	7,138	13,932	682,996	696,928	4,511
Home equity	921	102	565	1,588	80,704	82,292	441
Consumer:							
Consumer direct	1,360	336	98	1,794	120,787	122,581	98
Consumer indirect	2,772	907	381	4,060	277,417	281,477	381
Total	$19,471	$9,033	$33,911	$62,415	$2,488,158	$2,550,573	$19,215

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

The risk characteristics of CTBI's material portfolio segments are as follows:

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral and risk grade criteria.

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, CTBI generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income and credit rating of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Credit Quality Indicators:

CTBI categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. CTBI also considers the fair value of the underlying collateral and the strength and willingness of the guarantor(s). CTBI analyzes commercial loans individually by classifying the loans as to credit risk. Loans classified as loss, doubtful, substandard, or special mention are reviewed quarterly by CTBI for further deterioration or improvement to determine if appropriately classified and valued if deemed impaired. All other commercial loan reviews are completed every 12 to 18 months. In addition, during the renewal process of any loan, as well as if a loan becomes past due or if other information becomes available, CTBI will evaluate the loan grade. CTBI uses the following definitions for risk ratings:

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

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

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

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

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

The following tables present the credit risk profile of CTBI's commercial loan portfolio based on rating category and payment activity, segregated by class of loans, as of March 31, 2013 and December 31, 2012:

(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Equipment Leases	Commercial Other	Total
March 31, 2013					
Pass	$ 74,898	$ 704,073	$ 9,944	$ 327,158	$ 1,116,073
Watch	14,142	85,439	0	29,830	129,411
OAEM	56	13,769	0	974	14,799
Substandard	7,011	39,387	0	16,336	62,734
Doubtful	6,196	5,139	0	1,111	12,446
Total	$ 102,303	$ 847,807	$ 9,944	$ 375,409	$ 1,335,463
December 31, 2012					
Pass	$ 92,140	$ 665,764	$ 9,246	$ 328,646	$ 1,095,796
Watch	12,915	79,517	0	28,760	121,192
OAEM	1,054	16,532	0	2,816	20,402

Substandard	7,383	40,021	0	14,878	62,282
Doubtful	5,955	5,379	0	1,248	12,582
Total	$ 119,447	$ 807,213	$ 9,246	$ 376,348	$ 1,312,254

The following tables present the credit risk profile of the CTBI's residential real estate and consumer loan portfolios based on performing or nonperforming status, segregated by class, as of March 31, 2013 and December 31, 2012:

(in thousands)	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
March 31, 2013						
Performing	$ 51,111	$ 688,923	$ 79,382	$ 119,112	$ 280,083	$ 1,218,611
Nonperforming (1)	867	7,398	517	79	379	9,240
Total	$ 51,978	$ 696,321	$ 79,899	$ 119,191	$ 280,462	$ 1,227,851
December 31, 2012						
Performing	$ 54,530	$ 689,264	$ 81,710	$ 122,483	$ 281,096	$ 1,229,083
Nonperforming (1)	511	7,664	582	98	381	9,236
Total	$ 55,041	$ 696,928	$ 82,292	$ 122,581	$ 281,477	$ 1,238,319

(1) A loan is considered nonperforming if it is 90 days or more past due and/or on nonaccrual.

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable 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 following table presents impaired loans, the average investment in impaired loans, and interest income recognized on impaired loans for the periods ended March 31, 2013, December 31, 2012, and March 31, 2012:

	March 31, 2013				
(in thousands)	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial construction	$ 5,155	$ 5,609	$ 0	$ 5,225	$ 74
Commercial secured by real estate	33,765	34,586	0	33,908	297
Commercial other	15,779	17,920	0	15,435	154
Real estate mortgage	657	657	0	658	7
Loans with a specific valuation allowance:					
Commercial construction	6,073	7,303	1,911	6,075	0
Commercial secured by real estate	4,158	4,276	1,192	4,166	0
Commercial other	867	2,188	322	868	0
Totals:					
Commercial construction	11,228	12,912	1,911	11,300	74
Commercial secured by real estate	37,923	38,862	1,192	38,074	297
Commercial other	16,646	20,108	322	16,303	154

Real estate mortgage	657	657	0	658	7
Total	$66,454	$72,539	$3,425	$66,335	$532

	December 31, 2012				
(in thousands)	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial construction	$3,692	$4,146	$0	$4,249	$97
Commercial secured by real estate	35,046	35,818	0	35,542	1,337
Commercial other	13,285	15,484	0	11,083	416
Real estate mortgage	695	695	0	481	30
Loans with a specific valuation allowance:					
Commercial construction	5,703	6,933	1,820	6,585	0
Commercial secured by real estate	3,067	3,189	1,090	3,243	0
Commercial other	1,010	2,331	338	1,441	0
Totals:					
Commercial construction	9,395	11,079	1,820	10,834	97
Commercial secured by real estate	38,113	39,007	1,090	38,785	1,337
Commercial other	14,295	17,815	338	12,524	416
Real estate mortgage	695	695	0	481	30
Total	$62,498	$68,596	$3,248	$62,624	$1,880

	March 31, 2012				
(in thousands)	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial construction	$4,594	$4,595	$0	$4,683	$18
Commercial secured by real estate	36,312	37,778	0	36,506	332
Commercial other	6,696	7,406	0	6,785	16
Real estate mortgage	279	279	0	280	3
Loans with a specific valuation allowance:					
Commercial construction	5,912	6,764	2,180	5,809	0
Commercial secured by real estate	3,382	3,508	1,246	3,385	0
Commercial other	2,791	5,391	1,104	2,829	0
Totals:					
Commercial construction	10,506	11,359	2,180	10,492	18
Commercial secured by real estate	39,694	41,286	1,246	39,891	332
Commercial other	9,487	12,797	1,104	9,614	16
Real estate mortgage	279	279	0	280	3
Total	$59,966	$65,721	$4,530	$60,277	$369

*Cash basis interest is substantially the same as interest income recognized.

Included in certain loan categories of impaired loans are certain loans and leases that have been modified in a troubled debt restructuring, where economic concessions have been granted to borrowers who have experienced financial difficulties. These concessions typically result from our loss mitigation activities and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Modifications of terms for our loans and their inclusion as troubled debt restructurings are based on individual facts and circumstances. Loan modifications that are included as troubled debt restructurings may involve either an increase or reduction of the interest rate, extension of the term of the loan, or deferral of principal and/or interest payments, regardless of the period of the modification. All of the loans identified as troubled debt restructuring were modified due to financial stress of the borrower. In order to determine if a borrower is experiencing financial difficulty, an evaluation is performed to determine the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under CTBI's internal underwriting policy.

When we modify loans and leases in a troubled debt restructuring, we evaluate any possible impairment similar to other impaired loans based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan or lease agreement, or use the current fair value of the collateral, less selling costs for collateral dependent loans. If we determined that the value of the modified loan is less than the recorded investment in the loan (net of previous charge-offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, we evaluate all troubled debt restructuring, including those that have payment defaults, for possible impairment and recognize impairment through the allowance.

During 2013, certain loans were modified in troubled debt restructurings, where economic concessions were granted to borrowers consisting of reductions in the interest rates, payment extensions, forgiveness of principal, and forbearances. Presented below, segregated by class of loans, are troubled debt restructurings that occurred during the three months ended March 31, 2013 and 2012 and the year ended December 31, 2012:

	Three Months Ended March 31, 2013		
(in thousands)	Number of Loans	Post-Modification Outstanding Balance	Net Charge-offs Resulting from Modification
Commercial:			
Commercial construction	3	$ 2,110	$ 0
Commercial secured by real estate	5	605	0
Commercial other	9	5,585	0
Total troubled debt restructurings	17	$ 8,300	$ 0

	Year Ended December 31, 2012		
(in thousands)	Number of Loans	Post-Modification Outstanding Balance	Net Charge-offs Resulting from Modification
Commercial:			
Commercial construction	5	$ 557	$ 0
Commercial secured by real estate	11	4,506	0
Commercial other	23	3,233	0
Residential:			
Real estate mortgage	1	391	0
Total troubled debt restructurings	40	$ 8,687	$ 0

	Three Months Ended March 31, 2012		
(in thousands)	Number of Loans	Post-Modification Outstanding Balance	Net Charge-offs Resulting from Modification
Commercial:			
Commercial construction	0	$ 0	$ 0
Commercial secured by real estate	3	1,665	0
Commercial other	1	48	0
Total troubled debt restructurings	4	$ 1,713	$ 0

Loans retain their accrual status at the time of their modification. As a result, if a loan is on nonaccrual at the time it is modified, it stays as nonaccrual, and if a loan is on accrual at the time of the modification, it generally stays on accrual. Commercial and consumer loans modified in a troubled debt restructuring are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a troubled debt restructuring subsequently default, CTBI evaluates the loan for possible further impairment. The allowance for loan losses may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan. Presented below, segregated by class of loans, are loans that were modified as troubled debt restructurings which have subsequently defaulted. CTBI considers a loan in default when it is 90 days or more past due or transferred to nonaccrual.

(in thousands)	Three Months Ended March 31, 2013	
	Number of Loans	Recorded Balance
Commercial:		
Commercial construction	2	$328
Commercial secured by real estate	2	662
Commercial other	1	12
Total defaulted restructured loans	5	$1,002

(in thousands)	Three Months Ended March 31, 2012	
	Number of Loans	Recorded Balance
Commercial:		
Commercial construction	0	$0
Commercial secured by real estate	3	370
Commercial other	2	32
Total defaulted restructured loans	5	$402

Note 5 – Allowance for Loan and Lease Losses

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of March 31, 2013, December 31, 2012 and March 31, 2012:

	March 31, 2013								
(in thousands)	Commercial Construction	Commercial Secured	Equipment Lease	Commercial Other	Real Estate	Real Estate	Home Equity	Consumer Direct	Consumer Indirect	Total

		by Real Estate	Financing		Construction	Mortgage				
Allowance for loan losses										
Beginning balance	$4,033	$13,541	$126	$5,469	$376	$4,767	$563	$1,102	$3,268	$33,245
Provision charged to expense	(212)	484	2	(155)	(4)	334	50	165	895	1,559
Losses charged off	0	365	0	332	0	131	47	314	999	2,188
Recoveries	6	22	0	169	0	10	5	145	420	777
Ending balance	$3,827	$13,682	$128	$5,151	$372	$4,980	$571	$1,098	$3,584	$33,393
Ending balance:										
Individually evaluated for impairment	$1,911	$1,192	$0	$322	$0	$0	$0	$0	$0	$3,425
Collectively evaluated for impairment	$1,916	$12,490	$128	$4,829	$372	$4,980	$571	$1,098	$3,584	$29,968
Loans										
Ending balance:										
Individually evaluated for impairment	$11,228	$37,923	$0	$16,646	$0	$657	$0	$0	$0	$66,454
Collectively evaluated for impairment	$91,075	$809,884	$9,944	$358,763	$51,978	$695,664	$79,899	$119,191	$280,462	$2,496,860

	December 31, 2012									
(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										