

COMMUNITY TRUST BANCORP INC /KY/
Form 10-Q
August 08, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from _____ to _____

Commission file number 0-11129

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

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

346 North Mayo Trail 41501
Pikeville, Kentucky (Zip code)
(Address of principal executive offices)

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

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

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "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 – 17,565,680 shares outstanding at July 31, 2016

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. Community Trust Bancorp, Inc.'s ("CTBI") 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," similar expressions or future 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; and the resolution of legal proceedings and related matters. In addition, the banking industry in general is subject to various monetary, operational, and fiscal policies and regulations, which include, but are not limited to, those determined by the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Consumer Financial Protection Bureau, and state regulators, whose policies, regulations, and enforcement actions 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, 2015 for further information in this regard.

Community Trust Bancorp, Inc.
Condensed Consolidated Balance Sheets

(dollars in thousands)	(unaudited) June 30 2016	December 31 2015
Assets:		
Cash and due from banks	\$59,700	\$51,974
Interest bearing deposits	67,425	134,846
Federal funds sold	11,525	791
Cash and cash equivalents	138,650	187,611
Certificates of deposit in other banks	1,100	3,832
Securities available-for-sale at fair value (amortized cost of \$569,500 and \$593,381, respectively)	579,115	594,936
Securities held-to-maturity at amortized cost (fair value of \$1,662 and \$1,651, respectively)	1,661	1,661
Loans held for sale	1,707	1,172
Loans	2,931,385	2,873,961
Allowance for loan and lease losses	(35,697)	(36,094)
Net loans	2,895,688	2,837,867
Premises and equipment, net	48,104	48,188
Federal Home Loan Bank stock	17,927	17,927
Federal Reserve Bank stock	4,887	4,887
Goodwill	65,490	65,490
Core deposit intangible (net of accumulated amortization of \$8,403 and \$8,324, respectively)	212	291
Bank owned life insurance	63,093	62,335
Mortgage servicing rights	2,797	3,236
Other real estate owned	37,740	40,674
Other assets	37,151	33,827
Total assets	\$3,895,322	\$3,903,934
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing	\$765,467	\$749,975
Interest bearing	2,276,516	2,230,807
Total deposits	3,041,983	2,980,782
Repurchase agreements	261,298	251,225
Federal funds purchased and other short-term borrowings	4,334	3,596
Advances from Federal Home Loan Bank	999	101,056
Long-term debt	61,341	61,341
Deferred taxes	12,256	8,920
Other liabilities	19,501	21,431
Total liabilities	3,401,712	3,428,351

Shareholders' equity:		
Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, \$5 par value, shares authorized 25,000,000; shares outstanding 2016 – 17,559,601; 2015 – 17,536,914	87,798	87,685
Capital surplus	217,406	217,032
Retained earnings	182,156	169,855
Accumulated other comprehensive income, net of tax	6,250	1,011
Total shareholders' equity	493,610	475,583
Total liabilities and shareholders' equity	\$3,895,322	\$3,903,934

See notes to condensed consolidated financial statements.

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

(in thousands except per share data)	Three Months		Six Months Ended	
	Ended June 30 2016	2015	June 30 2016	2015
Interest income:				
Interest and fees on loans, including loans held for sale	\$33,255	\$32,669	\$66,579	\$64,844
Interest and dividends on securities				
Taxable	2,065	2,408	4,158	4,963
Tax exempt	658	682	1,350	1,353
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock	252	250	506	504
Other, including interest on federal funds sold	144	74	308	144
Total interest income	36,374	36,083	72,901	71,808
Interest expense:				
Interest on deposits	2,677	2,359	5,248	4,665
Interest on repurchase agreements and other short-term borrowings	284	242	548	458
Interest on advances from Federal Home Loan Bank	4	10	48	24
Interest on long-term debt	350	290	674	574
Total interest expense	3,315	2,901	6,518	5,721
Net interest income	33,059	33,182	66,383	66,087
Provision for loan losses	1,873	2,319	3,638	4,220
Net interest income after provision for loan losses	31,186	30,863	62,745	61,867
Noninterest income:				
Service charges on deposit accounts	6,272	6,046	12,117	11,628
Gains on sales of loans, net	446	823	762	1,113
Trust and wealth management income	2,396	2,366	4,671	4,605
Loan related fees	739	1,242	1,350	2,106
Bank owned life insurance	538	521	1,068	1,042
Brokerage revenue	317	367	680	663
Securities gains (losses)	(4)	(14)	64	130
Other noninterest income	1,065	877	2,028	1,677
Total noninterest income	11,769	12,228	22,740	22,964
Noninterest expense:				
Officer salaries and employee benefits	2,964	2,919	6,057	5,891
Other salaries and employee benefits	11,358	10,703	22,398	21,376
Occupancy, net	1,966	1,908	4,023	3,995
Equipment	729	772	1,444	1,549
Data processing	1,559	1,695	3,128	3,627
Bank franchise tax	1,400	1,276	2,799	2,544
Legal fees	502	526	982	1,099
Professional fees	483	548	922	973
Advertising and marketing	580	645	1,209	1,212

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FDIC insurance	576	586	1,159	1,192
Other real estate owned provision and expense	468	752	1,019	1,236
Repossession expense	424	256	639	600
Amortization of limited partnership investments	997	718	1,532	971
Other noninterest expense	3,186	3,009	6,123	5,866
Total noninterest expense	27,192	26,313	53,434	52,131
Income before income taxes	15,763	16,778	32,051	32,700
Income taxes	4,197	4,376	8,883	9,360
Net income	11,566	12,402	23,168	23,340
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available-for-sale:				
Unrealized holding gains (losses) arising during the period	2,321	(5,385)	8,124	62
Less: Reclassification adjustments for realized gains (losses) included in net income	(4)	(14)	64	130
Tax expense (benefit)	814	(1,880)	2,821	(24)
Other comprehensive income (loss), net of tax	1,511	(3,491)	5,239	(44)
Comprehensive income	\$13,077	\$8,911	\$28,407	\$23,296
Basic earnings per share	\$0.66	\$0.71	\$1.32	\$1.34
Diluted earnings per share	\$0.66	\$0.71	\$1.32	\$1.34
Weighted average shares outstanding-basic	17,530	17,421	17,521	17,411
Weighted average shares outstanding-diluted	17,542	17,465	17,538	17,458
Dividends declared per share	\$0.31	\$0.30	\$0.62	\$0.60

See notes to condensed consolidated financial statements.

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

(in thousands)	Six Months Ended	
	June 30 2016	2015
Cash flows from operating activities:		
Net income	\$23,168	\$23,340
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,909	2,027
Deferred taxes	515	396
Stock-based compensation	235	387
Excess tax benefits of stock-based compensation	93	148
Provision for loan losses	3,638	4,220
Write-downs of other real estate owned and other repossessed assets	224	363
Gains on sale of mortgage loans held for sale	(762)	(1,113)
Securities gains	(64)	(130)
Losses on sale of assets, net	75	15
Proceeds from sale of mortgage loans held for sale	34,372	42,455
Funding of mortgage loans held for sale	(34,145)	(41,071)
Amortization of securities premiums and discounts, net	1,016	1,372
Change in cash surrender value of bank owned life insurance	(758)	(793)
Mortgage servicing rights:		
Fair value adjustments	660	30
New servicing assets created	(221)	(297)
Changes in:		
Other assets	(3,371)	(9,372)
Other liabilities	(1,813)	(4,204)
Net cash provided by operating activities	24,771	17,773
Cash flows from investing activities:		
Certificates of deposit in other banks:		
Maturity of certificates of deposit	2,732	1,532
Securities available-for-sale (AFS):		
Purchase of AFS securities	(30,274)	(13,816)
Proceeds from the sales of AFS securities	3,509	40,944
Proceeds from prepayments and maturities of AFS securities	49,693	30,512
Securities held-to-maturity (HTM):		
Proceeds from maturities of HTM securities	0	1
Change in loans, net	(62,493)	(66,589)
Purchase of premises and equipment	(1,746)	(1,067)
Proceeds from sale and retirement of premises and equipment	10	23
Additional investment in Federal Reserve Bank stock	0	(18)
Proceeds from sale of other real estate and other repossessed assets	3,713	4,015
Additional investment in other real estate and other repossessed assets	0	(85)
Net cash used in investing activities	(34,856)	(4,548)
Cash flows from financing activities:		
Change in deposits, net	61,201	38,814

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Change in repurchase agreements, federal funds purchased, and other short-term borrowings, net	10,811	7,769
Advances from Federal Home Loan Bank	0	70,000
Payments on advances from Federal Home Loan Bank	(100,057)	(80,058)
Issuance of common stock	560	593
Repurchase of common stock	(382)	(189)
Excess tax benefits of stock-based compensation	(93)	(148)
Dividends paid	(10,916)	(10,492)
Net cash provided by (used in) financing activities	(38,876)	26,289
Net increase (decrease) in cash and cash equivalents	(48,961)	39,514
Cash and cash equivalents at beginning of period	187,611	105,517
Cash and cash equivalents at end of period	\$ 138,650	\$ 145,031
Supplemental disclosures:		
Income taxes paid	\$ 11,279	\$ 12,475
Interest paid	5,763	5,337
Non-cash activities:		
Loans to facilitate the sale of other real estate owned and repossessed assets	2,257	2,165
Common stock dividends accrued, paid in subsequent quarter	208	214
Real estate acquired in settlement of loans	3,292	5,969

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 adjustments) necessary, to present fairly the condensed consolidated financial position as of June 30, 2016, the results of operations for the three and six months ended June 30, 2016 and 2015, and the cash flows for the six months ended June 30, 2016 and 2015. In accordance with accounting principles generally accepted in the United States of America for interim financial information, these statements do not include certain information and footnote disclosures required by accounting principles generally accepted in the United States of America for complete annual financial statements. The results of operations for the three and six months ended June 30, 2016 and 2015, and the cash flows for the six months ended June 30, 2016 and 2015, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2015 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, 2015, 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 Elimination of Extraordinary Reporting – In January 2015, the FASB issued ASU No. 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU No. 2015-01 eliminated from U.S. GAAP the concept of an extraordinary item. The FASB issued this ASU as part of its initiative to reduce complexity in accounting standards. The objective of the simplification initiative was to identify, evaluate, and improve areas of U.S. GAAP for which cost and complexity could be reduced while maintaining or improving the usefulness of the information provided to the users of financial statements. The amendments in this ASU were effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this ASU did not have an impact on CTBI's consolidated financial statements as no extraordinary items have been presented.

Ø Intangibles – Goodwill and Other – Internal-Use Software – In April 2015, the FASB issued ASU No. 2015-05, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40). The amendments in this update provided guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance did not change GAAP for a customer's accounting for service contracts. In addition, the guidance in this update supersedes paragraph 350-40-25-16. Consequently, all software licenses within the scope of Subtopic 350-40 are accounted for consistent with other licenses of intangible assets. For public business entities, the amendments were effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. The adoption of this ASU did not have a material effect on CTBI's consolidated financial statements.

Ø Business Combinations: Simplifying the Accounting Measurement-Period Adjustments – In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustment. Topic 805 requires that an acquirer retrospectively adjust provisional amounts recognized in a business combination, during the measurement period. To simplify the accounting for adjustments made to provisional amounts, the amendments in the Update require that the acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amount is determined. The acquirer is required to also record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present separately on the face of the income statement or disclose in the notes to the financial statements the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. For public business entities, the amendments in this Update were effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The adoption of this ASU did not have an impact on CTBI's consolidated financial statements.

Ø Income Taxes – In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740). Topic 740 requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting. Deferred tax liabilities and assets that are not related to an asset or liability for financial reporting are classified according to the expected reversal date of the temporary difference. To simplify the presentation of deferred income taxes, the amendments in this Update require that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this Update apply to all entities that present a classified statement of financial position. The previous requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount was not affected by the amendments in this Update. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. This ASU has no material impact on CTBI's consolidated financial statements.

Ø Financial Instruments – Overall – In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments – Overall (Subtopic 825-10). The amendments in this Update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this Update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this Update eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. This Update is the final version of Proposed ASU 2013-220—Financial Instruments—Overall (Subtopic 825-10) and Proposed ASU 2013-221—Financial Instruments—Overall (Subtopic 825-10). For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Management does not expect this ASU to have a material impact on CTBI's consolidated financial statements.

Ø Leases – In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and

A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing.

Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years (i.e., January 1, 2019, for a calendar year entity). Early application is permitted upon issuance.

Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. We are currently evaluating the impact of ASU 2016-02 on our consolidated financial statements.

Ø Investments—Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting – In March 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-07, Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence.

The amendments eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required.

The amendments require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method.

The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Earlier application is permitted. Management does not expect this ASU to have a material impact on CTBI's consolidated financial statements.

Ø Compensation—Stock Compensation: Improvements to Employee Share-Based Payment Accounting – In April 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments are intended to improve the accounting for employee share-based payments and affect all organizations that issue share-based payment awards to

their employees.

Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows.

For public companies, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any organization in any interim or annual period. Management does not expect this ASU to have a material impact on CTBI's consolidated financial statements.

Ø Revenue from Contracts with Customers – In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments clarify the following two aspects of Topic 606: (a) identifying performance obligations; and (b) the licensing implementation guidance. The amendments do not change the core principle of the guidance in Topic 606.

The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in Topic 606. Public entities should apply the amendments for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The effective date for nonpublic entities is deferred by one year. Management does not expect this ASU to have a material impact on CTBI's consolidated financial statements.

Ø Revenue Recognition Narrow-Scope Amendments and Practical Expedients – In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The amendments do not change the core revenue recognition principle in Topic 606. The amendments provide clarifying guidance in certain narrow areas and add some practical expedients. These amendments are effective at the same date that Topic 606 is effective. Topic 606 is effective for public entities for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Management does not expect this ASU to have a material impact on CTBI's consolidated financial statements.

Ø Accounting for Credit Losses – In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations.

The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates.

Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances.

The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements.

In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

The ASU is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities). Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. We are currently evaluating the impact of ASU 2016-13 on our 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.

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. 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 310-10-35, 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 nonaccrual 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. Foreclosure proceedings are normally initiated after 120 days. When the foreclosed property has been legally assigned to CTBI, the fair value less estimated costs to sell is transferred to other real estate owned and the remaining balance is taken as a charge-off.

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 use twelve rolling quarters for our historical loss rate analysis. 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, trends in loan losses, industry concentrations and their relative strengths, amount of unsecured loans, and underwriting exceptions. 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 through the income statement.

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. Any interest and penalties incurred in connection with income taxes are recorded as a component of income tax expense in the consolidated financial statements. During the six months ended June 30, 2016 and 2015, CTBI has not recognized a significant amount of interest expense or penalties in connection with income taxes.

Note 2 – Stock-Based Compensation

CTBI's compensation expense related to stock option grants was \$15 thousand and \$10 thousand, respectively, for the three months ended June 30, 2016 and 2015, and \$28 thousand and \$18 thousand, respectively for the six months ended June 30, 2016 and 2015. Restricted stock expense for the three months ended June 30, 2016 and 2015 was \$97 thousand and \$180 thousand, respectively, including \$9 thousand and \$20 thousand in dividends paid for each period. Restricted stock expense for the six months ended June 30, 2016 and 2015 was \$207 thousand and \$369 thousand, respectively, including \$18 thousand and \$39 thousand in dividends. As of June 30, 2016, there was a total of \$0.2 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 3.8 years and a total of \$0.8 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 3.0 years.

There were 18,069 and 10,582 shares of restricted stock granted during the six months ended June 30, 2016 and 2015, respectively. No shares of restricted stock were granted during the three months ended June 30, 2016 and 2015. The restricted stock granted in 2016 was issued pursuant to the terms of CTBI's 2015 Stock Ownership Incentive Plan. The restrictions on the restricted stock granted in 2016 will lapse ratably over four years. However, in the event of certain participant employee termination events occurring within 24 months of a change in control of CTBI or the death of the participant, the restrictions will lapse, and in the event of the participant's disability, the restrictions will lapse on a pro rata basis. The Compensation Committee will have discretion to review and revise restrictions applicable to a participant's restricted stock in the event of the participant's retirement. The restricted stock granted in 2015 was issued pursuant to the terms of the 2006 Stock Ownership Incentive Plan. The restrictions on the restricted stock granted in 2015 lapse ratably over four years or in the event of a change in control of CTBI or the death of the participant. 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 10,000 and 20,000 stock options granted during the six months ended June 30, 2016 and 2015. No stock options were granted during the three months ended June 30, 2016 and 2015. The fair value of stock options granted during the six months ended June 30, 2016 and 2015 were established at the date of grant using a Black-Scholes option pricing model with the weighted average assumptions as follows:

	Six Months Ended June 30	
	2016	2015
Expected dividend yield	3.72 %	3.72 %
Risk-free interest rate	1.45 %	1.54 %
Expected volatility	30.77 %	30.77 %
Expected term (in years)	7.0	7.0
Weighted average fair value of options	\$6.80	\$6.60

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 June 30, 2016 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	\$ 219,193	\$ 1,694	\$ (26)	\$ 220,861
State and political subdivisions	117,611	5,377	(41)	122,947
U.S. government sponsored agency mortgage-backed securities	207,696	2,823	(471)	210,048

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Total debt securities	544,500	9,894	(538)	553,856
CRA investment funds	25,000	358	(99)	25,259
Total available-for-sale securities	\$ 569,500	\$ 10,252	\$ (637)	\$ 579,115

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$ 480	\$ 0	\$ 0	\$480
State and political subdivisions	1,181	1	0	1,182
Total held-to-maturity securities	\$ 1,661	\$ 1	\$ 0	\$1,662

The amortized cost and fair value of securities at December 31, 2015 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	\$ 240,434	\$ 311	\$ (1,351) \$239,394
State and political subdivisions	125,665	3,707	(157) 129,215
U.S. government sponsored agency mortgage-backed securities	202,282	1,564	(2,270) 201,576
Total debt securities	568,381	5,582	(3,778) 570,185
CRA investment funds	25,000	132	(381) 24,751
Total available-for-sale securities	\$ 593,381	\$ 5,714	\$ (4,159) \$594,936

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$ 480	\$ 0	\$ (12) \$468
State and political subdivisions	1,181	2	0	1,183
Total held-to-maturity securities	\$ 1,661	\$ 2	\$ (12) \$1,651

The amortized cost and fair value of securities at June 30, 2016 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.

(in thousands)	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$74,264	\$74,387	\$0	\$0
Due after one through five years	152,755	154,945	1,181	1,182
Due after five through ten years	67,396	70,228	480	480
Due after ten years	42,389	44,248	0	0
U.S. government sponsored agency mortgage-backed securities	207,696	210,048	0	0
Total debt securities	544,500	553,856	1,661	1,662
CRA investment funds	25,000	25,259	0	0
Total securities	\$569,500	\$579,115	\$1,661	\$1,662

During the three months ended June 30, 2016, there was a net loss of \$4 thousand on calls of AFS securities, consisting of a pre-tax gain of \$1 thousand and a pre-tax loss of \$5 thousand. During the three months ended June 30, 2015, there was a net loss of \$14 thousand on sales and calls of AFS securities, consisting of a pre-tax gain of \$605 thousand and a pre-tax loss of \$619 thousand.

During the six months ended June 30, 2016, there was a combined gain of \$64 thousand on sales and calls of AFS securities, consisting of a pre-tax gain of \$69 thousand and a pre-tax loss of \$5 thousand. During the six months ended June 30, 2015, there was a combined gain of \$130 thousand on sales and calls of AFS securities, consisting of a pre-tax gain of \$828 thousand and a pre-tax loss of \$698 thousand.

The amortized cost of securities pledged as collateral, to secure public deposits and for other purposes, was \$183.4 million at June 30, 2016 and \$228.2 million at December 31, 2015.

The amortized cost of securities sold under agreements to repurchase amounted to \$289.6 million at June 30, 2016 and \$285.5 million at December 31, 2015.

CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of June 30, 2016 indicates that all impairment is considered temporary, market and interest rate driven, and not credit-related. The percentage of total investments with unrealized losses as of June 30, 2016 was 11.9% compared to 61.1% as of December 31, 2015. The following tables provide the amortized cost, gross unrealized losses, and fair market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of June 30, 2016 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	\$ 0	\$ 0	\$0
State and political subdivisions	3,090	(34)	3,056
U.S. government sponsored agency mortgage-backed securities	5,831	(18)	5,813
Total debt securities	8,921	(52)	8,869
CRA investment funds	0	0	0
Total <12 months temporarily impaired AFS securities	8,921	(52)	8,869
12 Months or More			
U.S. Treasury and government agencies	21,999	(26)	21,973
State and political subdivisions	754	(7)	747
U.S. government sponsored agency mortgage-backed securities	33,333	(453)	32,880
Total debt securities	56,086	(486)	55,600
CRA investment funds	5,000	(99)	4,901
Total ≥12 months temporarily impaired AFS securities	61,086	(585)	60,501
Total			
U.S. Treasury and government agencies	21,999	(26)	21,973
State and political subdivisions	3,844	(41)	3,803
U.S. government sponsored agency mortgage-backed securities	39,164	(471)	38,693
Total debt securities	65,007	(538)	64,469
CRA investment funds	5,000	(99)	4,901

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Total temporarily impaired AFS securities \$ 70,007 \$ (637) \$ 69,370

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, 2015 that are not deemed to be other-than-temporarily impaired. The analysis performed as of December 31, 2015 indicated that all impairment was considered temporary, market and interest rate driven, and not credit-related.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	\$ 142,147	\$ (487)	\$ 141,660
State and political subdivisions	11,190	(106)	11,084
U.S. government sponsored agency mortgage-backed securities	92,009	(899)	91,110
Total debt securities	245,346	(1,492)	243,854
CRA investment funds	10,000	(183)	9,817
Total <12 months temporarily impaired AFS securities	255,346	(1,675)	253,671
12 Months or More			
U.S. Treasury and government agencies	54,773	(864)	53,909
State and political subdivisions	3,187	(51)	3,136
U.S. government sponsored agency mortgage-backed securities	49,908	(1,371)	48,537
Total debt securities	107,868	(2,286)	105,582
CRA investment funds	5,000	(198)	4,802
Total ≥12 months temporarily impaired AFS securities	112,868	(2,484)	110,384
Total			
U.S. Treasury and government agencies	196,920	(1,351)	195,569
State and political subdivisions	14,377	(157)	14,220
U.S. government sponsored agency mortgage-backed securities	141,917	(2,270)	139,647
Total debt securities	353,214	(3,778)	349,436
CRA investment funds	15,000	(381)	14,619
Total temporarily impaired AFS securities	\$ 368,214	\$ (4,159)	\$ 364,055

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
12 Months or More			
U.S. Treasury and government agencies	\$ 480	\$ (12)	\$ 468
Total temporarily impaired HTM securities	\$ 480	\$ (12)	\$ 468

U.S. Treasury and Government Agencies

The unrealized losses in U.S. Treasury and government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than amortized cost. CTBI does not consider those investments to be other-than-temporarily impaired at June 30, 2016, because

CTBI does not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost, which may be at maturity.

State and Political Subdivisions

The unrealized losses in securities of state and political subdivisions were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than amortized cost. CTBI does not consider those investments to be other-than-temporarily impaired at June 30, 2016, because CTBI does not intend to sell the investments before recovery of their amortized cost, which may be at maturity.

U.S. Government Sponsored Agency Mortgage-Backed Securities

The unrealized losses in U.S. government sponsored agency mortgage-backed securities were caused by interest rate increases. CTBI expects to recover the amortized cost basis over the term of the securities. CTBI does not consider those investments to be other-than-temporarily impaired at June 30, 2016, because (i) the decline in market value is attributable to changes in interest rates and not credit quality, (ii) CTBI does not intend to sell the investments, and (iii) it is not more likely than not we will be required to sell the investments before recovery of their amortized cost, which may be at maturity.

CRA Investment Funds

CTBI's CRA investment funds consist of investments in fixed income mutual funds (\$25.3 million of the total fair value and \$0.1 million of the total unrealized losses in common stock investments). The severity of the impairment (fair value is approximately 0.4% less than cost) and the duration of the impairment correlates with the decline in long-term interest rates in 2016. CTBI evaluated the near-term prospects of these funds in relation to the severity and duration of the impairment. Based on that evaluation, CTBI does not consider those investments to be other-than-temporarily impaired at June 30, 2016.

Note 4 – Loans

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

	December	
(in thousands)	June 30 2016	31 2015
Commercial construction	\$69,013	\$78,020
Commercial secured by real estate	1,079,329	1,052,919
Equipment lease financing	7,353	8,514
Commercial other	366,973	358,898
Real estate construction	58,973	61,750
Real estate mortgage	708,460	707,874
Home equity	89,185	89,450
Consumer direct	129,291	126,406
Consumer indirect	422,808	390,130
Total loans	\$2,931,385	\$2,873,961

CTBI has segregated and evaluates its loan portfolio through nine portfolio segments. 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 a mixture of fixed rate and adjustable 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 \$1.7 million at June 30, 2016 and \$1.2 million at December 31, 2015.

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:

	June 30	December
(in thousands)	2016	31 2015
Commercial:		
Commercial construction	\$2,902	\$ 3,402
Commercial secured by real estate	5,391	5,928
Commercial other	1,708	1,485

Residential:

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Real estate construction	123	249
Real estate mortgage	6,070	5,206
Home equity	253	183

Consumer:

Consumer direct	0	110
Total nonaccrual loans	\$16,447	\$ 16,563

The following tables present CTBI's loan portfolio aging analysis, segregated by class, as of June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016				Current	Total Loans	90+ and Accruing*
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due			
Commercial:							
Commercial construction	\$19	\$146	\$2,748	\$2,913	\$66,100	\$69,013	\$ 30
Commercial secured by real estate	3,712	4,465	5,035	13,212	1,066,117	1,079,329	2,258
Equipment lease financing	0	0	0	0	7,353	7,353	0
Commercial other	441	516	1,233	2,190	364,783	366,973	27
Residential:							
Real estate construction	816	294	852	1,962	57,011	58,973	741
Real estate mortgage	1,505	4,470	9,024	14,999	693,461	708,460	4,643
Home equity	873	280	456	1,609	87,576	89,185	273
Consumer:							
Consumer direct	891	121	68	1,080	128,211	129,291	68
Consumer indirect	3,016	685	197	3,898	418,910	422,808	197
Total	\$11,273	\$10,977	\$19,613	\$41,863	\$2,889,522	\$2,931,385	\$ 8,237

(in thousands)	December 31, 2015				Current	Total Loans	90+ and Accruing*
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due			
Commercial:							
Commercial construction	\$36	\$6	\$3,431	\$3,473	\$74,547	\$78,020	\$ 30
Commercial secured by real estate	2,947	622	7,923	11,492	1,041,427	1,052,919	3,757
Equipment lease financing	199	0	0	199	8,315	8,514	0
Commercial other	762	121	1,476	2,359	356,539	358,898	310
Residential:							
Real estate construction	443	62	291	796	60,954	61,750	55
Real estate mortgage	1,128	3,888	10,907	15,923	691,951	707,874	6,925
Home equity	527	148	580	1,255	88,195	89,450	448
Consumer:							
Consumer direct	835	479	126	1,440	124,966	126,406	126
Consumer indirect	2,133	814	395	3,342	386,788	390,130	395
Total	\$9,010	\$6,140	\$25,129	\$40,279	\$2,833,682	\$2,873,961	\$ 12,046

*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 construction loans generally are made to customers for the purpose of building income-producing properties. Personal guarantees of the principals are generally required. Such loans are made on a projected cash flow basis and are secured by the project being constructed. Construction loan draw procedures are included in each specific loan agreement, including required documentation items and inspection requirements. Construction loans may convert to term loans at the end of the construction period, or may be repaid by the take-out commitment from another financing source. If the loan is to convert to a term loan, the repayment ability is based on the borrower's projected cash flow. Risk is mitigated during the construction phase by requiring proper documentation and inspections whenever a draw is requested. Loans in amounts greater than \$500,000 generally require a performance bond to be posted by the general contractor to assure completion of the project.

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.

Equipment lease financing is underwritten by our commercial lenders using the same underwriting standards as would be applied to a secured commercial loan requesting 100% financing. The pricing for equipment lease financing is comparable to that of borrowers with similar quality commercial credits with similar collateral. Maximum terms of equipment leasing are determined by the type and expected life of the equipment to be leased. Residual values are determined by appraisals or opinion letters from industry experts. Leases must be in conformity with our consolidated annual tax plan. As we underwrite our equipment lease financing in a manner similar to our commercial loan portfolio described below, the risk characteristics for this portfolio mirror that of the commercial loan portfolio.

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. Residential construction loans are handled through the home mortgage area of the bank. The repayment ability of the borrower and the maximum loan-to-value ratio are calculated using the normal mortgage lending criteria. Draws are processed based on percentage of completion stages including normal inspection procedures. Such loans generally convert to term loans after the completion of construction.

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. Our determination of a borrower's ability to repay 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.

The indirect lending area of the bank generally deals with purchasing/funding consumer contracts with new and used automobile dealers. The dealers generate consumer loan applications which are forwarded to the indirect loan processing area for approval or denial. Loan approvals or denials are based on the creditworthiness and repayment ability of the borrower, and on the collateral value. The dealers may have recourse agreements with the Bank.

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:

Pass grades include investment grade, low risk, moderate risk, and acceptable risk loans. The loans range from Øloans 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.

Watch graded loans are loans that warrant extra management attention but are not currently criticized. Loans on the Ø 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.

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 Ø 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.

Substandard grading indicates that the loan is inadequately protected by the current sound worth and paying Ø 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.

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 Ø 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 June 30, 2016 and December 31, 2015:

(in thousands)	Commercial				
	Commercial Construction	Commercial Secured by Real Estate	Commercial Secured by Equipment Leases	Commercial Other	Total

June 30, 2016

Pass	\$ 56,071	\$970,732	\$ 6,332	\$ 315,491	\$1,348,626
Watch	3,979	66,592	0	33,511	104,082
OAEM	2,150	15,499	1,021	6,849	25,519
Substandard	6,120	25,789	0	10,017	41,926
Doubtful	693	717	0	1,105	2,515
Total	\$ 69,013	\$1,079,329	\$ 7,353	\$ 366,973	\$1,522,668

December 31, 2015

Pass	\$ 62,978	\$937,196	\$ 8,514	\$ 312,100	\$1,320,788
Watch	4,931	71,830	0	37,670	114,431
OAEM	2,206	13,765	0	963	16,934
Substandard	6,780	29,232	0	7,072	43,084
Doubtful	1,125	896	0	1,093	3,114
Total	\$ 78,020	\$1,052,919	\$ 8,514	\$ 358,898	\$1,498,351

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 June 30, 2016 and December 31, 2015:

(in thousands)	Real					Total
	Real Estate Construction	Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	
June 30, 2016						
Performing	\$ 58,109	\$697,747	\$88,659	\$129,223	\$422,611	\$1,396,349
Nonperforming (1)	864	10,713	526	68	197	12,368
Total	\$ 58,973	\$708,460	\$89,185	\$129,291	\$422,808	\$1,408,717
December 31, 2015						
Performing	\$ 61,446	\$695,743	\$88,819	\$126,170	\$389,735	\$1,361,913
Nonperforming (1)	304	12,131	631	236	395	13,697
Total	\$ 61,750	\$707,874	\$89,450	\$126,406	\$390,130	\$1,375,610

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

The total of consumer mortgage loans secured by real estate properties in formal foreclosure proceedings was \$4.2 million at June 30, 2016 compared to \$4.4 million at December 31, 2015.

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 June 30, 2016, December 31, 2015, and June 30, 2015:

(in thousands)	June 30, 2016		
	Unpaid		Specific
	Recorded	Contractual	
	Balance	Balance	Allowance

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Loans without a specific valuation allowance:

Commercial construction	\$4,455	\$ 4,741	\$ 0
Commercial secured by real estate	30,181	30,816	0
Commercial other	11,328	13,113	0
Real estate mortgage	1,761	1,761	0

Loans with a specific valuation allowance:

Commercial construction	2,207	2,209	287
Commercial secured by real estate	2,667	3,721	720
Commercial other	670	683	330

Totals:

Commercial construction	6,662	6,950	287
Commercial secured by real estate	32,848	34,537	720
Commercial other	11,998	13,796	330
Real estate mortgage	1,761	1,761	0
Total	\$53,269	\$ 57,044	\$ 1,337

	Three Months Ended		Six Months Ended	
	June 30, 2016		June 30, 2016	
	Average	*Interest	Average	*Interest
	Investment	Income	Investment	Income
	in	Recognized	in	Recognized
(in thousands)	Impaired	Loans	Impaired	Loans

Loans without a specific valuation allowance:

Commercial construction	\$4,730	\$ 56	\$4,526	\$ 105
Commercial secured by real estate	30,339	387	31,426	774
Commercial other	11,446	169	11,597	317
Real estate mortgage	1,764	14	1,893	30

Loans with a specific valuation allowance:

Commercial construction	2,372	0	2,887	0
Commercial secured by real estate	3,598	0	4,163	18
Commercial other	667	0	693	0

Totals:

Commercial construction	7,102	56	7,413	105
Commercial secured by real estate	33,937	387	35,589	792
Commercial other	12,113	169	12,290	317
Real estate mortgage	1,764	14	1,893	30
Total	\$54,916	\$ 626	\$57,185	\$ 1,244

	December 31, 2015		Specific	Average	*Interest
	Recorded	Unpaid			
	Balance	Principal	Allowance	Investment	Income
(in thousands)	Balance	Balance		in Impaired	Recognized
				Loans	

Loans without a specific valuation allowance:

Commercial construction	\$2,861	\$ 2,862	\$ 0	\$ 4,574	\$ 200
Commercial secured by real estate	30,761	32,166	0	30,605	1,378

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Commercial other	7,500	9,148	0	8,802	316
Real estate mortgage	1,744	1,744	0	1,179	50
Loans with a specific valuation allowance:					
Commercial construction	3,402	3,402	831	3,631	0
Commercial secured by real estate	2,660	2,768	1,227	2,349	7
Commercial other	960	1,153	403	836	1
Totals:					
Commercial construction	6,263	6,264	831	8,205	200
Commercial secured by real estate	33,421	34,934	1,227	32,954	1,385
Commercial other	8,460	10,301	403	9,638	317
Real estate mortgage	1,744	1,744	0	1,179	50
Total	\$49,888	\$ 53,243	\$ 2,461	\$ 51,976	\$ 1,952

June 30, 2015

(in thousands)	Unpaid Contractual		Specific Allowance
	Recorded Balance	Principal Balance	
Loans without a specific valuation allowance:			
Commercial construction	\$5,211	\$ 5,211	\$ 0
Commercial secured by real estate	29,951	31,340	0
Commercial other	7,262	8,898	0
Real estate mortgage	1,185	1,185	0
Loans with a specific valuation allowance:			
Commercial construction	3,500	3,500	719
Commercial secured by real estate	2,377	2,560	529
Commercial other	687	809	215
Totals:			
Commercial construction	8,711	8,711	719
Commercial secured by real estate	32,328	33,900	529
Commercial other	7,949	9,707	215
Real estate mortgage	1,185	1,185	0
Total	\$50,173	\$ 53,503	\$ 1,463

Three Months Ended	Six Months Ended
June 30, 2015	June 30, 2015

(in thousands)	Average Investment in Impaired Loans		Average Investment in Impaired Loans	
	*Interest Recognized		*Interest Recognized	
Loans without a specific valuation allowance:				
Commercial construction	\$ 68	\$ 5,266	\$ 119	\$ 5,282
Commercial secured by real estate	359	30,366	669	30,179
Commercial other	67	7,367	128	10,118
Real estate mortgage	12	1,186	24	1,044

Loans with a specific valuation allowance:

Commercial construction	3,796	0	3,846	0
Commercial secured by real estate	2,452	0	2,946	1
Commercial other	729	0	794	0

Totals:

Commercial construction	9,062	68	9,128	119
Commercial secured by real estate	32,818	359	33,125	670
Commercial other	8,096	67	10,912	128
Real estate mortgage	1,186	12	1,044	24
Total	\$51,162	\$ 506	\$54,209	\$ 941

*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 2016, 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 and six months ended June 30, 2016 and 2015 and the year ended December 31, 2015:

(in thousands)	Three Months Ended			Post-Modification Outstanding Balance
	Number of Loans	Term Modification	Rate Modification	
Commercial:				
Commercial construction	4	\$ 120	\$ 0	\$ 120
Commercial secured by real estate	8	1,611	0	2,147
Commercial other	6	440	0	440
Total troubled debt restructurings	18	\$ 2,171	\$ 0	\$ 2,707

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(in thousands)	Six Months Ended June 30, 2016				
	Number of Term Loans	Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial construction	5	\$ 1,408	\$ 0	\$ 0	\$ 1,408
Commercial secured by real estate	21	5,609	0	580	6,189
Commercial other	16	5,041	0	0	5,041
Residential:					
Real estate mortgage	1	0	0	280	280
Total troubled debt restructurings	43	\$ 12,058	\$ 0	\$ 860	\$ 12,918

(in thousands)	Three Months Ended June 30, 2015				
	Number of Term Loans	Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial secured by real estate	4	\$ 317	\$ 0	\$ 0	\$ 317
Commercial other	1	18	0	0	18
Residential:					
Real estate mortgage	1	0	0	290	290
Total troubled debt restructurings	6	\$ 335	\$ 0	\$ 290	\$ 625

(in thousands)	Six Months Ended June 30, 2015				
	Number of Term Loans	Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial secured by real estate	8	\$ 607	\$ 0	\$ 0	\$ 607
Commercial other	3	54	0	0	54
Residential:					
Real estate mortgage	1	0	0	290	290
Total troubled debt restructurings	12	\$ 661	\$ 0	\$ 290	\$ 951

(in thousands)	Year Ended December 31, 2015				
	Number of Term Loans	Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial construction	3	\$ 428	\$ 0	\$ 0	\$ 428
Commercial secured by real estate	21	4,244	0	1,760	6,004
Commercial other	7	3,847	0	0	3,847
Residential:					
Real estate mortgage	3	0	0	848	848
Total troubled debt restructurings	34	\$ 8,519	\$ 0	\$ 2,608	\$ 11,127

No charge-offs have resulted from modifications for any of the presented periods.

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 within the past twelve months 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 June 30, 2016		Six Months Ended June 30, 2016	
	Number of Recorded Loans	Balance	Number of Recorded Loans	Balance
Commercial:				
Commercial secured by real estate	0	\$ 0	1	\$ 510
Commercial other	0	0	1	358
Total defaulted restructured loans	0	\$ 0	2	\$ 868

(in thousands)	Three Months Ended June 30, 2015		Six Months Ended June 30, 2015	
	Number of Recorded Loans	Balance	Number of Recorded Loans	Balance
Commercial:				
Commercial secured by real estate	1	\$ 98	2	\$ 359
Residential:				
Real estate mortgage	1	290	1	290
Total defaulted restructured loans	2	\$ 388	3	\$ 649

Note 5 – Allowance for Loan and Lease Losses

The following tables present the balance in the allowance for loan and lease losses (“ALLL”) and the recorded investment in loans based on portfolio segment and impairment method as of June 30, 2016, December 31, 2015 and June 30, 2015:

(in thousands)	Three Months Ended June 30, 2016									
	Commercial Secured by Real Estate	Commercial Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										

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Beginning balance	\$1,983	\$14,798	\$70	\$4,247	\$548	\$6,497	\$824	\$1,603	\$5,759	\$36,329
Provision charged to expense	(534)	664	24	643	132	16	4	316	608	1,873
Losses charged off	(16)	(1,029)	0	(621)	(123)	(171)	(11)	(393)	(938)	(3,302)
Recoveries	4	5	0	161	1	30	2	108	486	797
Ending balance	\$1,437	\$14,438	\$94	\$4,430	\$558	\$6,372	\$819	\$1,634	\$5,915	\$35,697
Ending balance: Individually evaluated for impairment	\$287	\$720	\$0	\$330	\$0	\$0	\$0	\$0	\$0	\$1,337
Collectively evaluated for impairment	\$1,150	\$13,718	\$94	\$4,100	\$558	\$6,372	\$819	\$1,634	\$5,915	\$34,360
Loans Ending balance: Individually evaluated for impairment	\$6,662	\$32,848	\$0	\$11,998	\$0	\$1,761	\$0	\$0	\$0	\$53,269
Collectively evaluated for impairment	\$62,351	\$1,046,481	\$7,353	\$354,975	\$58,973	\$706,699	\$89,185	\$129,291	\$422,808	\$2,878,116

Six Months Ended
June 30, 2016

(in thousands)	Commercial		Equipment	Real Estate	Real Estate	Home Equity	Consumer Direct	Consumer Indirect	Total	
	Commercial Construction	Real Estate								
Beginning balance	\$2,199	\$14,434	\$79	\$4,225	\$550	\$6,678	\$839	\$1,594	\$5,496	\$36,094
Provision charged to expense	(754)	1,140	15	972	136	110	(4)	498	1,525	3,638
Losses charged off	(16)	(1,186)	0	(1,045)	(131)	(483)	(21)	(689)	(2,196)	(5,767)
Recoveries	8	50	0	278	3	67	5	231	1,090	1,732
Ending balance	\$1,437	\$14,438	\$94	\$4,430	\$558	\$6,372	\$819	\$1,634	\$5,915	\$35,697

Ending balance:

Individually
evaluated for
impairment

\$287	\$720	\$0	\$330	\$0	\$0	\$0	\$0	\$0	\$0	\$1,337
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Collectively
evaluated for
impairment

\$1,150