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

UNITED STATES
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 September 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 (State or other jurisdiction of incorporation or organization)	61-0979818 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 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 (Do not check if a smaller reporting company)	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 – 17,619,010 shares outstanding at October 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) September 30 2016	December 31 2015
Assets:		
Cash and due from banks	$49,584	$51,974
Interest bearing deposits	66,425	134,846
Federal funds sold	5,169	791
Cash and cash equivalents	121,178	187,611
Certificates of deposit in other banks	980	3,832
Securities available-for-sale at fair value (amortized cost of $624,418 and $593,381, respectively)	631,201	594,936
Securities held-to-maturity at amortized cost (fair value of $1,182 and $1,651, respectively)	1,181	1,661
Loans held for sale	2,075	1,172
Loans	2,931,299	2,873,961
Allowance for loan and lease losses	(35,801)	(36,094)
Net loans	2,895,498	2,837,867
Premises and equipment, net	47,840	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 $8,443 and $8,324, respectively)	172	291
Bank owned life insurance	63,486	62,335
Mortgage servicing rights	2,964	3,236
Other real estate owned	37,665	40,674
Other assets	37,682	33,827
Total assets	$3,930,226	$3,903,934
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing	$763,187	$749,975
Interest bearing	2,290,798	2,230,807
Total deposits	3,053,985	2,980,782
Repurchase agreements	262,295	251,225
Federal funds purchased and other short-term borrowings	6,798	3,596
Advances from Federal Home Loan Bank	971	101,056
Long-term debt	61,341	61,341
Deferred taxes	11,269	8,920
Other liabilities	33,457	21,431
Total liabilities	3,430,116	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 – 17,607,903; 2015 – 17,536,914	88,039	87,685
Capital surplus	218,819	217,032
Retained earnings	188,843	169,855
Accumulated other comprehensive income, net of tax	4,409	1,011
Total shareholders' equity	500,110	475,583
Total liabilities and shareholders' equity	$3,930,226	$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 Ended September 30 2016	2015	Nine Months Ended September 30 2016	2015
Interest income:				
Interest and fees on loans, including loans held for sale	$33,593	$32,847	$100,172	$97,691
Interest and dividends on securities				
Taxable	2,030	2,044	6,188	7,007
Tax exempt	653	679	2,003	2,032
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock	251	252	757	756
Other, including interest on federal funds sold	152	90	460	234
Total interest income	36,679	35,912	109,580	107,720
Interest expense:				
Interest on deposits	2,799	2,412	8,047	7,077
Interest on repurchase agreements and other short-term borrowings	288	231	836	689
Interest on advances from Federal Home Loan Bank	3	9	51	33
Interest on long-term debt	362	295	1,036	869
Total interest expense	3,452	2,947	9,970	8,668
Net interest income	33,227	32,965	99,610	99,052
Provision for loan losses	2,191	2,520	5,829	6,740
Net interest income after provision for loan losses	31,036	30,445	93,781	92,312
Noninterest income:				
Service charges on deposit accounts	6,563	6,348	18,680	17,976
Gains on sales of loans, net	595	462	1,357	1,575
Trust and wealth management income	2,440	2,297	7,111	6,902
Loan related fees	1,260	641	2,610	2,747
Bank owned life insurance	560	581	1,628	1,623
Brokerage revenue	387	395	1,067	1,058
Securities gains	458	12	522	142
Other noninterest income	923	1,299	2,951	2,976
Total noninterest income	13,186	12,035	35,926	34,999
Noninterest expense:				
Officer salaries and employee benefits	3,090	3,288	9,147	9,179
Other salaries and employee benefits	11,126	10,687	33,524	32,063
Occupancy, net	2,012	1,942	6,035	5,937
Equipment	733	746	2,177	2,295
Data processing	1,601	1,577	4,729	5,204
Bank franchise tax	1,492	1,272	4,291	3,816
Legal fees	455	505	1,437	1,604
Professional fees	473	524	1,395	1,497
Advertising and marketing	674	649	1,883	1,861
FDIC insurance	469	606	1,628	1,798

Other real estate owned provision and expense	873	1,289	1,892	2,525
Repossession expense	272	347	911	947
Amortization of limited partnership investments	546	1,031	2,078	2, 002
Other noninterest expense	2,871	3,071	8,994	8,937
Total noninterest expense	26,687	27,534	80,121	79,665
Income before income taxes	17,535	14,946	49,586	47,646
Income taxes	5,223	3,724	14,106	13,084
Net income	12,312	11,222	35,480	34,562
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available-for-sale:				
Unrealized holding gains (losses) arising during the period	(2,374)	3,463	5,750	3,525
Less: Reclassification adjustments for realized gains included in net income	458	12	522	142
Tax expense (benefit)	(991)	1,208	1,830	1,184
Other comprehensive income (loss), net of tax	(1,841)	2,243	3,398	2,199
Comprehensive income	$10,471	$13,465	$38,878	$36,761
Basic earnings per share	$0.70	$0.64	$2.02	$1.98
Diluted earnings per share	$0.70	$0.64	$2.02	$1.98
Weighted average shares outstanding-basic	17,554	17,440	17,532	17,420
Weighted average shares outstanding-diluted	17,569	17,491	17,548	17,472
Dividends declared per share	$0.32	$0.31	$0.94	$0.91

See notes to condensed consolidated financial statements.

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

(in thousands)	Nine Months Ended September 30 2016	2015
Cash flows from operating activities:		
Net income	$35,480	$34,562
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,878	2,977
Deferred taxes	519	1,711
Stock-based compensation	347	518
Excess tax benefits of stock-based compensation	(58)	190
Provision for loan losses	5,829	6,740
Write-downs of other real estate owned and other repossessed assets	632	1,146
Gains on sale of mortgage loans held for sale	(1,357)	(1,575)
Securities gains	(522)	(142)
(Gains)/losses on sale of assets, net	77	(115)
Proceeds from sale of mortgage loans held for sale	61,339	63,580
Funding of mortgage loans held for sale	(60,885)	(61,724)
Amortization of securities premiums and discounts, net	1,614	2,552
Change in cash surrender value of bank owned life insurance	(1,151)	(1,245)

Mortgage servicing rights:		
Fair value adjustments	660	381
New servicing assets created	(388)	(443)
Changes in:		
Other assets	(3,902)	(9,612)
Other liabilities	11,967	(1,068)
Net cash provided by operating activities	53,079	38,433
Cash flows from investing activities:		
Certificates of deposit in other banks:		
Maturity of certificates of deposit	2,852	2,438
Securities available-for-sale (AFS):		
Purchase of AFS securities	(159,603)	(36,561)
Proceeds from the sales of AFS securities	54,446	44,198
Proceeds from prepayments and maturities of AFS securities	73,027	56,809
Securities held-to-maturity (HTM):		
Proceeds from maturities of HTM securities	480	1
Change in loans, net	(65,136)	(98,730)
Purchase of premises and equipment	(2,411)	(1,685)
Proceeds from sale and retirement of premises and equipment	10	232
Investment in Federal Reserve Bank stock	0	(18)
Proceeds from sale of other real estate and other repossessed assets	4,041	7,563
Investment in other real estate and other repossessed assets	0	(85)
Net cash used in investing activities	(92,294)	(25,838)
Cash flows from financing activities:		
Change in deposits, net	73,203	100,972
Change in repurchase agreements, federal funds purchased, and other short-term borrowings, net	14,272	19,141
Advances from Federal Home Loan Bank	0	70,000
Payments on advances from Federal Home Loan Bank	(100,085)	(130,086)
Issuance of common stock	2,262	1,345
Repurchase of common stock	(382)	(189)
Excess tax benefits of stock-based compensation	58	(190)
Dividends paid	(16,546)	(15,913)
Net cash provided by (used in) financing activities	(27,218)	45,080
Net increase (decrease) in cash and cash equivalents	(66,433)	57,675
Cash and cash equivalents at beginning of period	187,611	105,517
Cash and cash equivalents at end of period	$121,178	$163,192
Supplemental disclosures:		
Income taxes paid	$13,991	$15,199
Interest paid	8,796	7,935
Non-cash activities:		
Loans to facilitate the sale of other real estate owned and repossessed assets	2,624	3,548
Common stock dividends accrued, paid in subsequent quarter	212	220
Real estate acquired in settlement of loans	4,300	9,986

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 September 30, 2016, the results of operations for the three and nine months ended September 30, 2016 and 2015, and the cash flows for the nine months ended September 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 nine months ended September 30, 2016 and 2015, and the cash flows for the nine months ended September 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.

Ø Statement of Cash Flows – In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. Stakeholders indicated that there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this Update apply to all entities, including both business entities and not-for-profit entities that are required to present a statement of cash flows under Topic 230. This Update is the final version of Proposed Accounting Standards Update EITF-15F—Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments (Topic 230), which has been deleted. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. We do not expect this ASU to 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.

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 nine months ended September 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 September 30, 2016 and 2015, and $42 thousand and $29 thousand, respectively for the nine months ended September 30, 2016 and 2015. Restricted stock expense for the three months ended September 30, 2016 and 2015 was $97 thousand and $186 thousand, respectively, including $9 thousand and $20 thousand in dividends paid for each period. Restricted stock expense for the nine months ended September 30, 2016 and 2015 was $305 thousand and $554 thousand, respectively, including $28 thousand and $59 thousand in dividends. As of September 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 3.5 years and a total of $0.7 million of unrecognized compensation expense related to restricted stock grants that will be recognized as expense as the awards vest over a weighted average period of 2.8 years.

There were 18,069 and 10,582 shares of restricted stock granted during the nine months ended September 30, 2016 and 2015, respectively. No shares of restricted stock were granted during the three months ended September 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 nine months ended September 30, 2016 and 2015. No stock options were granted during the three months ended September 30, 2016 and 2015. The fair value of stock options granted during the nine months ended September 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:

	Nine Months Ended September 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 September 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	$243,980	$ 1,311	$ (180)	$245,111
State and political subdivisions	128,644	4,646	(115)	133,175
U.S. government sponsored agency mortgage-backed securities	226,794	1,820	(843)	227,771
Total debt securities	599,418	7,777	(1,138)	606,057
CRA investment funds	25,000	293	(149)	25,144
Total available-for-sale securities	$624,418	$ 8,070	$ (1,287)	$631,201

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 1,181	$ 1	$ 0	$1,182
Total held-to-maturity securities	$ 1,181	$ 1	$ 0	$1,182

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 September 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.

	Available-for-Sale		Held-to-Maturity	
	Amortized	Fair	Amortized	Fair
(in thousands)	Cost	Value	Cost	Value
Due in one year or less	$68,479	$68,576	$0	$0
Due after one through five years	154,511	156,366	1,181	1,182
Due after five through ten years	63,044	65,336	0	0
Due after ten years	86,590	88,008	0	0
U.S. government sponsored agency mortgage-backed securities	226,794	227,771	0	0
Total debt securities	599,418	606,057	1,181	1,182
CRA investment funds	25,000	25,144	0	0
Total securities	$624,418	$631,201	$1,181	$1,182

During the three months ended September 30, 2016, there was a net gain of $458 thousand on sales and calls of AFS securities, consisting of a pre-tax gain of $460 thousand and a pre-tax loss of $2 thousand. During the three months ended September 30, 2015, there was a net gain of $12 thousand on sales.

During the nine months ended September 30, 2016, there was a combined gain of $522 thousand on sales and calls of AFS securities, consisting of a pre-tax gain of $529 thousand and a pre-tax loss of $7 thousand. During the nine months ended September 30, 2015, there was a combined gain of $142 thousand on sales and calls of AFS securities, consisting of a pre-tax gain of $840 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 $203.4 million at September 30, 2016 and $228.2 million at December 31, 2015.

The amortized cost of securities sold under agreements to repurchase amounted to $297.4 million at September 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 September 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 September 30, 2016 was 36.0% 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 September 30, 2016 that are not deemed to be other-than-temporarily impaired.

Available-for-Sale

		Gross	
	Amortized	Unrealized	Fair
(in thousands)	Cost	Losses	Value
Less Than 12 Months			
U.S. Treasury and government agencies	$58,160	$ (155)	$58,005
State and political subdivisions	10,697	(105)	10,592
U.S. government sponsored agency mortgage-backed securities	109,623	(308)	109,315
Total debt securities	178,480	(568)	177,912

CRA investment funds	10,000	(27)	9,973
Total <12 months temporarily impaired AFS securities	188,480	(595)	187,885
12 Months or More			
U.S. Treasury and government agencies	1,927	(25)	1,902
State and political subdivisions	753	(10)	743
U.S. government sponsored agency mortgage-backed securities	32,712	(535)	32,177
Total debt securities	35,392	(570)	34,822
CRA investment funds	5,000	(122)	4,878
Total ≥12 months temporarily impaired AFS securities	40,392	(692)	39,700
Total			
U.S. Treasury and government agencies	60,087	(180)	59,907
State and political subdivisions	11,450	(115)	11,335
U.S. government sponsored agency mortgage-backed securities	142,335	(843)	141,492
Total debt securities	213,872	(1,138)	212,734
CRA investment funds	15,000	(149)	14,851
Total temporarily impaired AFS securities	$ 228,872	$ (1,287)	$ 227,585

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 September 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 September 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 September 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 ($25.1 million of the total fair value and $0.1 million of the total gross unrealized losses in common stock investments). The severity of the impairment (fair value is approximately 0.6% 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 September 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:

(in thousands)	September 30 2016	December 31 2015
Commercial construction	$68,275	$78,020
Commercial secured by real estate	1,083,640	1,052,919
Equipment lease financing	6,242	8,514
Commercial other	354,984	358,898
Real estate construction	55,412	61,750
Real estate mortgage	706,028	707,874
Home equity	89,467	89,450
Consumer direct	131,815	126,406
Consumer indirect	435,436	390,130
Total loans	$2,931,299	$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 $2.1 million at September 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:

(in thousands)	September 30 2016	December 31 2015
Commercial:		
Commercial construction	$ 2,216	$ 3,402
Commercial secured by real estate	7,328	5,928
Commercial other	1,446	1,485
Residential:		
Real estate construction	11	249
Real estate mortgage	5,475	5,206
Home equity	322	183
Consumer:		
Consumer direct	0	110
Total nonaccrual loans	$ 16,798	$ 16,563

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

	September 30, 2016						
(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	$41	$0	$2,215	$2,256	$66,019	$68,275	$ 24
Commercial secured by real estate	3,720	2,850	9,196	15,766	1,067,874	1,083,640	5,001
Equipment lease financing	0	0	0	0	6,242	6,242	0
Commercial other	1,277	236	1,283	2,796	352,188	354,984	345
Residential:							
Real estate construction	1,386	286	478	2,150	53,262	55,412	478
Real estate mortgage	897	5,762	8,369	15,028	691,000	706,028	4,819
Home equity	947	320	641	1,908	87,559	89,467	405
Consumer:							
Consumer direct	901	250	109	1,260	130,555	131,815	109
Consumer indirect	2,406	977	317	3,700	431,736	435,436	317
Total	$11,575	$10,681	$22,608	$44,864	$2,886,435	$2,931,299	$ 11,498

	December 31, 2015						
(in thousands)	30-59 Days	60-89 Days	90+ Days	Total Past	Current	Total Loans	90+ and Accruing*

	Past Due	Past Due	Past Due	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:

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 September 30, 2016 and December 31, 2015:

(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Equipment Leases	Commercial Other	Total
September 30, 2016					
Pass	$ 55,878	$ 970,069	$ 5,885	$ 304,799	$ 1,336,631
Watch	4,006	54,232	0	31,638	89,876
OAEM	2,330	27,688	357	6,675	37,050
Substandard	5,871	31,095	0	11,052	48,018
Doubtful	190	556	0	820	1,566
Total	$ 68,275	$ 1,083,640	$ 6,242	$ 354,984	$ 1,513,141
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 September 30, 2016 and December 31, 2015:

(in thousands)	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
September 30, 2016						
Performing	$ 54,923	$ 695,734	$ 88,740	$ 131,706	$ 435,119	$ 1,406,222
Nonperforming (1)	489	10,294	727	109	317	11,936
Total	$ 55,412	$ 706,028	$ 89,467	$ 131,815	$ 435,436	$ 1,418,158
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 $3.3 million at September 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 September 30, 2016, December 31, 2015, and September 30, 2015:

	September 30, 2016		
(in thousands)	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Commercial construction	$4,270	$ 4,293	$ 0
Commercial secured by real estate	32,311	33,004	0
Commercial other	11,382	13,191	0
Real estate mortgage	1,489	1,489	0
Loans with a specific valuation allowance:			
Commercial construction	1,668	1,670	212
Commercial secured by real estate	3,537	4,688	747
Commercial other	388	408	190
Totals:			
Commercial construction	5,938	5,963	212
Commercial secured by real estate	35,848	37,692	747
Commercial other	11,770	13,599	190
Real estate mortgage	1,489	1,489	0
Total	$55,045	$ 58,743	$ 1,149

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
(in thousands)	Average Investment in Impaired Loans	*Interest Income Recognized	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:				
Commercial construction	$4,299	$ 63	$4,450	$ 168
Commercial secured by real estate	32,534	390	31,795	1,164
Commercial other	11,497	153	11,564	470
Real estate mortgage	1,492	15	1,759	45

Loans with a specific valuation allowance:				
Commercial construction	1,798	0	2,524	0
Commercial secured by real estate	3,547	1	3,957	19
Commercial other	405	0	597	0
Totals:				
Commercial construction	6,097	63	6,974	168
Commercial secured by real estate	36,081	391	35,752	1,183
Commercial other	11,902	153	12,161	470
Real estate mortgage	1,492	15	1,759	45
Total	$55,572	$ 622	$56,646	$ 1,866

	December 31, 2015				
(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	$2,861	$ 2,862	$ 0	$ 4,574	$ 200
Commercial secured by real estate	30,761	32,166	0	30,605	1,378
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

	September 30, 2015		
(in thousands)	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance
Loans without a specific valuation allowance:			
Commercial construction	$4,669	$ 4,669	$ 0
Commercial secured by real estate	30,318	31,551	0
Commercial other	7,163	8,804	0
Real estate mortgage	1,189	1,189	0
Loans with a specific valuation allowance:			
Commercial construction	3,411	3,412	719
Commercial secured by real estate	835	1,075	317
Commercial other	754	935	312

Totals:			
Commercial construction	8,080	8,081	719
Commercial secured by real estate	31,153	32,626	317
Commercial other	7,917	9,739	312
Real estate mortgage	1,189	1,189	0
Total	$48,339	$ 51,635	$ 1,348

(in thousands)	Three Months Ended September 30, 2015 Average Investment in Impaired Loans	*Interest Income Recognized	Nine Months Ended September 30, 2015 Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:				
Commercial construction	$4,864	$ 41	$5,142	$ 160
Commercial secured by real estate	30,713	316	30,357	985
Commercial other	7,312	73	9,182	201
Real estate mortgage	1,183	13	1,090	37
Loans with a specific valuation allowance:				
Commercial construction	3,445	0	3,712	0
Commercial secured by real estate	841	6	2,244	7
Commercial other	776	1	788	1
Totals:				
Commercial construction	8,309	41	8,854	160
Commercial secured by real estate	31,554	322	32,601	992
Commercial other	8,088	74	9,970	202
Real estate mortgage	1,183	13	1,090	37
Total	$49,134	$ 450	$52,515	$ 1,391

*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 nine months ended September 30, 2016 and 2015 and the year ended December 31, 2015:

	Three Months Ended September 30, 2016				
(in thousands)	Number of Loans	Term Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial secured by real estate	2	$ 152	$ 0	$ 0	$ 152
Total troubled debt restructurings	2	$ 152	$ 0	$ 0	$ 152

	Nine Months Ended September 30, 2016				
(in thousands)	Number of Loans	Term Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial construction	5	$ 1,408	$ 0	$ 0	$ 1,408
Commercial secured by real estate	23	5,761	0	580	6,341
Commercial other	16	5,041	0	0	5,041
Residential:					
Real estate mortgage	1	0	0	280	280
Total troubled debt restructurings	45	$ 12,210	$ 0	$ 860	$ 13,070

	Three Months Ended September 30, 2015				
(in thousands)	Number of Loans	Term Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial secured by real estate	5	$ 346	$ 0	$ 165	$ 511
Commercial other	1	1,139	0	0	1,139
Total troubled debt restructurings	6	$ 1,485	$ 0	$ 165	$ 1,650

	Nine Months Ended September 30, 2015				
(in thousands)	Number of Loans	Term Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial secured by real estate	13	$ 953	$ 0	$ 165	$ 1,118
Commercial other	4	1,193	0	0	1,193
Residential:					
Real estate mortgage	1	0	0	290	290

Total troubled debt restructurings	18	$ 2,146	$ 0	$ 455	$ 2,601

	Year Ended December 31, 2015				
(in thousands)	Number of Loans	Term 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 September 30, 2016		Nine Months Ended September 30, 2016	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
Commercial:				
Commercial secured by real estate	1	$ 1,446	2	$ 1,956
Commercial other	1	14	2	372
Total defaulted restructured loans	2	$ 1,460	4	$ 2,328

(in thousands)	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2015	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
Commercial:				
Commercial secured by real estate	2	$ 31	4	$ 390
Residential:				
Real estate construction	0	0	1	290

Total defaulted restructured loans	2	$ 31	5	$ 680

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

	Three Months Ended September 30, 2016									
(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										
Beginning balance	$1,437	$14,438	$94	$4,430	$558	$6,372	$819	$1,634	$5,915	$35,697
Provision charged to expense	54	585	(28)	185	8	330	3	170	884	2,191
Losses charged off	(79)	(319)	0	(622)	(61)	(366)	0	(204)	(1,311)	(2,962)
Recoveries	18	78	0	92	4	8	2	111	562	875
Ending balance	$1,430	$14,782	$66	$4,085	$509	$6,344	$824	$1,711	$6,050	$35,801
Ending balance:										
Individually evaluated for impairment	$212	$747	$0	$190	$0	$0	$0	$0	$0	$1,149
Collectively evaluated for impairment	$1,218	$14,035	$66	$3,895	$509	$6,344	$824	$1,711	$6,050	$34,652
Loans										
Ending balance:										
Individually evaluated for impairment	$5,938	$35,848	$0	$11,770	$0	$1,489	$0	$0	$0	$55,045
Collectively evaluated for impairment	$62,337	$1,047,792	$6,242	$343,214	$55,412	$704,539	$89,467	$131,815	$435,436	$2,876,254

Nine Months Ended

(in thousands)	September 30, 2016 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										
Beginning balance	$2,199	$14,434	$79	$4,225	$550	$6,678	$839	$1,594	$5,496	$36,094
Provision charged to expense	(701)	1,726	(13)	1,156	144	440	(1)	669	2,409	5,829
Losses charged off	(94)	(1,505)	0	(1,667)	(192)	(849)	(21)	(893)	(3,508)	(8,729)
Recoveries	26	127	0	371	7	75	7	341	1,653	2,607
Ending balance	$1,430	$14,782	$66	$4,085	$509	$6,344	$824	$1,711	$6,050	$35,801
Ending balance: Individually evaluated for impairment	$212	$747	$0	$190	$0	$0	$0	$0	$0	$1,149
Collectively evaluated for impairment	$1,218	$14,035	$66	$3,895	$509	$6,344	$824	$1,711	$6,050	$34,652
Loans Ending balance: Individually evaluated for impairment	$5,938	$35,848	$0	$11,770	$0	$1,489	$0	$0	$0	$55,045
Collectively evaluated for impairment	$62,337	$1,047,792	$6,242	$343,214	$55,412	$704,539	$89,467	$131,815	$435,436	$2,876,254

(in thousands)	Three Months Ended September 30, 2015 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										
	$2,622	$13,022	$113	$4,414	$570	$6,965	$867	$1,541	$5,076	$35,190

Beginning balance										
Provision charged to expense	151	293	(9)	153	61	564	(38)	382	963	2,520
Losses charged off	0	(364)	0	(431)	(20)	(647)	0	(436)	(1,001)	(2,899)
Recoveries	3	2	0	149	0	52	41	113	369	729
Ending balance	$2,776	$12,953	$104	$4,285	$611	$6,934	$870	$1,600	$5,407	$35,540
Ending balance: Individually evaluated for impairment	$719	$317	$0	$312	$0	$0	$0	$0	$0	$1,348
Collectively evaluated for impairment	$2,057	$12,636	$104	$3,973	$611	$6,934	$870	$1,600	$5,407	$34,192
Loans										
Ending balance: Individually evaluated for impairment	$8,080	$31,153	$0	$7,917	$0	$1,189	$0	$0	$0	$48,339
Collectively evaluated for impairment	$98,775	$966,501	$9,146	$338,401	$62,226	$704,998	$88,624	$125,847	$377,603	$2,772,121

	Nine Months Ended September 30, 2015									
(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										
Beginning balance	$2,896	$13,618	$119	$4,263	$534	$6,094	$756	$1,574	$4,593	$34,447
Provision charged to expense	(127)	577	(15)	1,054	184	2,023	128	804	2,112	6,740
Losses charged off	(2)	(1,290)	0	(1,495)	(110)	(1,260)	(67)	(1,101)	(2,494)	(7,819)
Recoveries	9	48	0	463	3	77	53	323	1,196	2,172

Ending balance	$2,776	$12,953	$104	$4,285	$611	$6,934	$870	$1,600	$5,407	$35,540
Ending balance: Individually evaluated for impairment	$719	$317	$0	$312	$0	$0	$0	$0	$0	$1,348
Collectively evaluated for impairment	$2,057	$12,636	$104	$3,973	$611	$6,934	$870	$1,600	$5,407	$34,192
Loans Ending balance: Individually evaluated for impairment	$8,080	$31,153	$0	$7,917	$0	$1,189	$0	$0	$0	$48,339
Collectively evaluated for impairment	$98,775	$966,501	$9,146	$338,401	$62,226	$704,998	$88,624	$125,847	$377,603	$2,772,121

	December 31, 2015									
(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										
Beginning balance	$2,896	$13,618	$119	$4,263	$534	$6,094	$756	$1,574	$4,593	$34,447
Provision charged to expense	(707)	2,135	(40)	1,338	147	1,888	158	891	2,840	8,650
Losses charged off	(3)	(1,379)	0	(1,961)	(135)	(1,421)	(129)	(1,306)	(3,536)	(9,870)
Recoveries	13	60	0	585	4	117	54	435	1,599	2,867
Ending balance	$2,199	$14,434	$79	$4,225	$550	$6,678	$839	$1,594	$5,496	$36,094
Ending balance: Individually evaluated for impairment	$831	$1,227	$0	$403	$0	$0	$0	$0	$0	$2,461
	$1,368	$13,207	$79	$3,822	$550	$6,678	$839	$1,594	$5,496	$33,633

Collectively evaluated for impairment										
Loans Ending balance: Individually evaluated for impairment	$6,263	$33,421	$0	$8,460	$0	$1,744	$0	$0	$0	$49,888
Collectively evaluated for impairment	$71,757	$1,019,498	$8,514	$350,438	$61,750	$706,130	$89,450	$126,406	$390,130	$2,824,073

Note 6 – Other Real Estate Owned

Activity for other real estate owned was as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	2016	2015	2016	2015
Beginning balance of other real estate owned	$37,740	$36,698	$40,674	$36,776
New assets acquired	1,008	3,725	4,300	9,986
Capitalized costs	0	0	0	85
Fair value adjustments	(408)	(784)	(632)	(1,146)
Sale of assets	(675)	(4,985)	(6,677)	(11,047)
Ending balance of other real estate owned	$37,665	$34,654	$37,665	$34,654

Carrying costs and fair value adjustments associated with foreclosed properties for the three months ended September 30, 2016 and 2015 were $0.9 million and $1.3 million, respectively. Carrying costs and fair value adjustments associated with foreclosed properties for the nine months ended September 30, 2016 and 2015 were $1.9 million and $2.5 million.

The major classifications of foreclosed properties are shown in the following table:

(in thousands)	September 30 2016	December 31 2015
1-4 family	$ 6,793	$ 7,493
Agricultural/farmland	93	116
Construction/land development/other	21,372	22,570
Multifamily	270	833
Non-farm/non-residential	9,137	9,662
Total foreclosed properties	$ 37,665	$ 40,674

Note 7 – Repurchase Agreements

We utilize securities sold under agreements to repurchase to facilitate the needs of our customers and provide additional funding to our balance sheet. Repurchase agreements are transactions whereby we offer to sell to a counterparty an undivided interest in an eligible security at an agreed upon purchase price, and which obligates CTBI to repurchase the security on an agreed upon date at an agreed upon repurchase price plus interest at an agreed upon rate. Securities sold under agreements to repurchase are recorded at the amount of cash received in connection with the transaction and are reflected in the accompanying consolidated balance sheets.

We monitor collateral levels on a continuous basis and maintain records of each transaction specifically describing the applicable security and the counterparty's fractional interest in that security, and we segregate the security from its general assets in accordance with regulations governing custodial holdings of securities. The primary risk with our repurchase agreements is market risk associated with the securities securing the transactions, as we may be required to provide additional collateral based on fair value changes of the underlying securities. Securities pledged as collateral under repurchase agreements are maintained with our safekeeping agents. The carrying value of investment securities available-for-sale pledged as collateral under repurchase agreements totaled $302.6 million and $288.1 million at September 30, 2016 and December 31, 2015, respectively.

The remaining contractual maturity of the securities sold under agreements to repurchase by class of collateral pledged included in the accompanying consolidated balance sheets as of September 30, 2016 and December 31, 2015 is presented in the following tables:

	September 30, 2016 Remaining Contractual Maturity of the Agreements				
(in thousands)	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions:					
U.S. Treasury and government agencies	$21,892	$30,072	$261	$52,930	$105,155
State and political subdivisions	56,895	5,008	2,255	5,955	70,113
U.S. government sponsored agency mortgage-backed securities	27,992	28,920	204	29,911	87,027
Total	$106,779	$64,000	$2,720	$88,796	$262,295

	December 31, 2015 Remaining Contractual Maturity of the Agreements				
(in thousands)	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions:					
U.S. Treasury and government agencies	$19,184	$0	$10,401	$48,695	$78,280
State and political subdivisions	58,676	494	1,656	9,159	69,985
U.S. government sponsored agency mortgage-backed securities	27,810	6	12,278	62,866	102,960
Total	$105,670	$500	$24,335	$120,720	$251,225

Note 8 – Fair Market Value of Financial Assets and Liabilities

Fair Value Measurements

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

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

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

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

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 and indicate the level within the fair value hierarchy of the valuation techniques.

		Fair Value Measurements at September 30, 2016 Using		
(in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured – recurring basis				
Available-for-sale securities:				
U.S. Treasury and government agencies	$245,111	$44,981	$ 200,130	$ 0
State and political subdivisions	133,175	0	133,175	0
U.S. government sponsored agency mortgage-backed securities	227,771	0	227,771	0
CRA investment funds	25,144	25,144	0	0
Mortgage servicing rights	2,964	0	0	2,964

		Fair Value Measurements at December 31, 2015 Using		
(in thousands)	Fair Value	Quoted Prices in Active	Significant Other Observable Inputs	Significant Unobservable Inputs (Level 3)

		Markets for Identical Assets (Level 1)	(Level 2)	
Assets measured – recurring basis				
Available-for-sale securities:				
U.S. Treasury and government agencies	$239,394	$44,702	$ 194,692	$ 0
State and political subdivisions	129,215	0	129,215	0
U.S. government sponsored agency mortgage-backed securities	201,576	0	201,576	0
CRA investment funds	24,751	24,751	0	0
Mortgage servicing rights	3,236	0	0	3,236

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. These valuation methodologies were applied to all of CTBI's financial assets carried at fair value. CTBI had no liabilities measured and recorded at fair value as of September 30, 2016 and December 31, 2015. There have been no significant changes in the valuation techniques during the quarter or nine months ended September 30, 2016. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Available-for-Sale Securities

Securities classified as available-for-sale are reported at fair value on a recurring basis. U.S. Treasury and government agencies and CTBI's CRA investment funds are classified as Level 1 of the valuation hierarchy where quoted market prices are available in the active market on which the individual securities are traded.

If quoted market prices are not available, CTBI obtains fair value measurements from an independent pricing service, such as Interactive Data, which utilizes pricing models to determine fair value measurement. CTBI reviews the pricing quarterly to verify the reasonableness of the pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other factors. U.S. Treasury and government agencies, state and political subdivisions, and U.S. government sponsored agency mortgage-backed securities are classified as Level 2 inputs.

In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Fair value determinations for Level 3 measurements are estimated on a quarterly basis where assumptions used are reviewed to ensure the estimated fair value complies with accounting standards generally accepted in the United States. As of September 30, 2016 and December 31, 2015, CTBI did not own any securities valued using Level 3 inputs.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. CTBI reports mortgage servicing rights at fair value on a recurring basis with subsequent remeasurement of MSRs based on change in fair value.

In determining fair value, CTBI utilizes the expertise of an independent third party. Accordingly, fair value is determined by the independent third party by utilizing assumptions about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and industry demand. Due to the nature of the

valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy. Fair value determinations for Level 3 measurements of mortgage servicing rights are tested for impairment on a quarterly basis where assumptions used are reviewed to ensure the estimated fair value complies with accounting standards generally accepted in the United States. See the table below for inputs and valuation techniques used for Level 3 mortgage servicing rights.

Transfers between Levels

There were no transfers between Levels 1, 2, and 3 as of September 30, 2016.

Level 3 Reconciliation

Following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheet using significant unobservable (Level 3) inputs for the three and nine months ended September 30, 2016 and 2015:

Mortgage Servicing Rights

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	2016	2015	2016	2015
Beginning balance	$2,797	$3,235	$3,236	$2,968
Total recognized gains (losses)				
Included in net income	118	(228)	(422)	(37)
Issues	167	146	388	443
Settlements	(118)	(123)	(238)	(344)
Ending balance	$2,964	$3,030	$2,964	$3,030
Total gains (losses) for the period included in net income attributable to the change in unrealized gains or losses related to assets still held at the reporting date	$118	$(228)	$(422)	$(37)

Realized and unrealized gains and losses for items reflected in the tables above are included in net income in the consolidated statements of income as follows:

Noninterest Income

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	2016	2015	2016	2015
Total gains (losses)	$0	$(351)	$(660)	$(381)

Nonrecurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a nonrecurring basis as of September 30, 2016 and December 31, 2015 and indicate the level within the fair value hierarchy of the valuation techniques.

Fair Value Measurements at

		September 30, 2016 Using		
(in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured – nonrecurring basis				
Impaired loans (collateral dependent)	$4,824	$0	$ 0	$ 4,824
Other real estate/assets owned	2,687	0	0	2,687

		Fair Value Measurements at December 31, 2015 Using		
(in thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured – nonrecurring basis				
Impaired loans (collateral dependent)	$3,192	$0	$ 0	$ 3,192
Other real estate/assets owned	6,798	0	0	6,798

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Impaired Loans (Collateral Dependent)

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

CTBI considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Chief Credit Officer. Appraisals are reviewed for accuracy and consistency by the Chief Credit Officer. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Chief Credit Officer by comparison to historical results.

Loans considered impaired under ASC 310-35, Impairment of a Loan, are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect subsequent (i) partial write-downs that are based on the observable market price or current appraised value of the collateral or (ii) the full charge-off of the loan carrying value. Quarter-to-date fair value adjustments on impaired loans disclosed above were $0.3 million, $1.0 million, and $0.3 million for the quarters ended September 30, 2016, December 31, 2015, and September 30, 2015, respectively. Year-to-date adjustments were $0.6 million for the nine months ended September 30, 2016, $1.8 million for the year ended December 31, 2015, and $0.9 million for the nine months ended September 30, 2015.

Other Real Estate Owned

In accordance with the provisions of ASC 360, Property, Plant, and Equipment, other real estate owned (OREO) is carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy. Long-lived assets are subject to nonrecurring fair value adjustments to reflect subsequent partial write-downs that are based on the observable market price or current appraised value of the collateral. Quarter-to-date fair value adjustments on other real estate/assets owned were $0.4 million, $0.5 million, and $0.8 million for the quarters ended September 30, 2016, December 31, 2015, and September 30, 2015, respectively. Year-to-date adjustments were $0.6 million for the nine months ended September 30, 2016, $1.7 million for the year ended December 31, 2015, and $1.1 million for the nine months ended September 30, 2015.

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. Appraisers are selected from the list of approved appraisers maintained by management.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at September 30, 2016 and December 31, 2015.

(in thousands)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at September 30, 2016	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Mortgage servicing rights	$2,964	Discount cash flows, computer pricing model	Constant prepayment rate	6.1% - 26.2% (12.1%)
			Probability of default	0.0% - 100.0% (2.6%)
			Discount rate	10.0% - 11.0% (10.1%)
Impaired loans (collateral-dependent)	$4,824	Market comparable properties	Marketability discount	0.0% - 82.5%

(25.7%)