

COMMUNITY TRUST BANCORP INC /KY/

Form 10-K

March 05, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the fiscal year ended December 31, 2007

Or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from _____ to _____

Commission file number 0-11129
COMMUNITY TRUST BANCORP, INC.
(Exact name of registrant as specified in its charter)

Kentucky	61-0979818
(State or other jurisdiction of incorporation or organization)	IRS Employer Identification No.
346 North Mayo Trail	41501
Pikeville, Kentucky	(Zip Code)
(address of principal executive offices)	
	(606) 432-1414
	(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, \$5.00 par value
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes

No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes

No ☐

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [☐]

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

Large accelerated filer	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer	Smaller reporting company
		(Do not check if a smaller reporting company)	

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

Yes ☐

No ☒

Based upon the closing price of the Common Shares of the Registrant on the NASDAQ-Stock Market LLC – Global Select Market, the aggregate market value of voting stock held by non-affiliates of the Registrant as of June 30, 2007 was \$456.1 million. For the purpose of the foregoing calculation only, all directors and executive officers of the Registrant have been deemed affiliates. The number of shares outstanding of the Registrant's Common Stock as of February 29, 2008 was 14,961,336.

TABLE OF CONTENTS

<u>DOCUMENTS INCORPORATED BY REFERENCE</u>	i
<u>PART I</u>	
<u>Item 1. Business</u>	1
<u>Item 1A. Risk Factors</u>	3
<u>Item 1B. Unresolved Staff Comments</u>	5
<u>Selected Statistical Information</u>	6
<u>Item 2. Properties</u>	14
<u>Item 3. Legal Proceedings</u>	14
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	15
<u>PART II</u>	
<u>Item 5. Market for the Registrant's Common Equity, Related Shareholder Matters, and Issuer Repurchases of Equity Securities</u>	16
<u>Item 6. Selected Financial Data 2003-2007</u>	18
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 7A. Quantitative and Qualitative Disclosures about Market Risk</u>	26
<u>Item 8. Financial Statements and Supplementary Data</u>	27
<u>Notes to Consolidated Financial Statements</u>	31
<u>Reports of Independent Registered Public Accounting Firms</u>	49
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	51
<u>Item 9A. Controls and Procedures</u>	51
<u>Item 9B. Other Information</u>	51
<u>PART III</u>	
<u>Items 10 and 11. Directors, Executive Officers, and Corporate Governance of the Registrant and Executive Compensation</u>	52

<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u>	52
<u>Item 13. Certain Relationships, Related Transactions, and Director Independence</u>	52
<u>Item 14. Principal Accountant Fees and Services</u>	52
<u>PART IV</u>	
<u>Item 15. Exhibits and Financial Statement Schedules</u>	53
<u>Signatures</u>	54
<u>Index to Exhibits</u>	56

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the Form 10-K part indicated:

Document	Form 10-K
(1) Proxy statement for the annual meeting of shareholders to be held April 22, 2008	Part III

i

PART I

Item 1. Business

Community Trust Bancorp, Inc. (“CTBI”) is a bank holding company registered with the Board of Governors of the Federal Reserve System pursuant to Section 5(a) of the Bank Holding Company Act of 1956, as amended. CTBI was incorporated August 12, 1980, under the laws of the Commonwealth of Kentucky for the purpose of becoming a bank holding company. At December 31, 2007, CTBI owned all the capital stock of one commercial bank and one trust company, serving small and mid-sized communities in eastern, northeastern, central, and south central Kentucky and southern West Virginia. The commercial bank is Community Trust Bank, Inc., Pikeville, Kentucky (the “Bank”) and the trust company is Community Trust and Investment Company, Lexington, Kentucky (the “Trust Company”). At December 31, 2007, CTBI had total consolidated assets of \$2.9 billion and total consolidated deposits, including repurchase agreements, of \$2.5 billion, making it the second largest bank holding company headquartered in the Commonwealth of Kentucky.

Through its subsidiaries, CTBI engages in a wide range of commercial and personal banking and trust activities, which include accepting time and demand deposits; making secured and unsecured loans to corporations, individuals and others; providing cash management services to corporate and individual customers; issuing letters of credit; renting safe deposit boxes; and providing funds transfer services. The lending activities of our Bank include making commercial, construction, mortgage, and personal loans. Lease-financing, lines of credit, revolving lines of credit, term loans, and other specialized loans, including asset-based financing, are also available. Our corporate subsidiaries act as trustees of personal trusts, as executors of estates, as trustees for employee benefit trusts, as registrars, transfer agents, and paying agents for bond and stock issues, as depositories for securities, and as providers of full service brokerage services.

COMPETITION

CTBI’s subsidiaries face substantial competition for deposit, credit, and trust relationships, as well as other sources of funding in the communities we serve. Competing providers include state banks, national banks, thrifts, trust companies, insurance companies, mortgage banking operations, credit unions, finance companies, brokerage companies, and other financial and non-financial companies which may offer products functionally equivalent to those offered by our subsidiaries. Many of these providers offer services within and outside the market areas served by our subsidiaries. We strive to offer competitively priced products along with quality customer service to build customer relationships in the communities we serve.

Since July 1989, banking legislation in Kentucky places no limits on the number of banks or bank holding companies that a bank holding company may acquire. Interstate acquisitions are allowed where reciprocity exists between the laws of Kentucky and the home state of the bank or bank holding company to be acquired. Bank holding companies continue to be limited to control of less than 15% of deposits held by banks in the states where they do business (exclusive of inter-bank and foreign deposits).

The Gramm-Leach-Bliley Act of 1999 (the “GLB Act”) has expanded the permissible activities of a bank holding company. The GLB Act allows qualifying bank holding companies to elect to be treated as financial holding companies. A financial holding company may engage in activities that are financial in nature or are incidental or complementary to financial activities. We have not yet elected to be treated as a financial holding company. The GLB Act also eliminated restrictions imposed by the Glass-Steagall Financial Services Law, adopted in the 1930s, which prevented banking, insurance, and securities firms from fully entering each other’s business. This legislation has resulted in further consolidation in the financial services industry. In addition, removal of these restrictions has increased the number of entities providing banking services and thereby created additional competition.

No material portion of our business is seasonal. We are not dependent upon any one customer or a few customers, and the loss of any one or a few customers would not have a material adverse effect on us. See note 18 to the consolidated financial statements for additional information regarding concentrations of credit.

We do not engage in any operations in foreign countries.

EMPLOYEES

As of December 31, 2007, CTBI and subsidiaries had 1,011 full-time equivalent employees. Our employees are provided with a variety of employee benefits. A retirement plan, an employee stock ownership plan, group life insurance, major medical insurance, a cafeteria plan, and annual management and employee incentive compensation plans are available to eligible personnel.

SUPERVISION AND REGULATION

We, as a registered bank holding company, are restricted to those activities permissible under the Bank Holding Company Act of 1956, as amended, and are subject to actions of the Board of Governors of the Federal Reserve System thereunder. We are required to file an annual report with the Federal Reserve Board and are subject to an annual examination by the Board.

Our Bank is a state-chartered bank subject to state and federal banking laws and regulations and periodic examination by the Kentucky Office of Financial Institutions and the restrictions, including dividend restrictions, thereunder. Our Bank is also a member of the Federal Reserve System and is subject to certain restrictions imposed by and to examination and supervision under the Federal Reserve Act. Our Trust Company is also regulated by the Kentucky Office of Financial Institutions and the Federal Reserve.

Deposits of our Bank are insured by the Federal Deposit Insurance Corporation, which subjects banks to regulation and examination under the provisions of the Federal Deposit Insurance Act.

The operations of CTBI and our subsidiaries also are affected by other banking legislation and policies and practices of various regulatory authorities. Such legislation and policies include statutory maximum rates on some loans, reserve requirements, domestic monetary and fiscal policy, and limitations on the kinds of services that may be offered.

CTBI's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on our website at www.ctbi.com as soon as reasonably practicable after such materials are electronically filed with or furnished to the Securities and Exchange Commission. CTBI's Code of Business Conduct and Ethics is also available on our website. Copies of our annual report will be made available free of charge upon written request.

CAUTIONARY STATEMENT

Certain of the statements contained herein that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. CTBI's actual results may differ materially from those included in the forward-looking statements. Forward-looking statements are typically identified by words or phrases such as "believe," "expect," "anticipate," "intend," "estimate," "may increase," "may fluctuate," and similar expressions or future conditional verbs such as "will," "should," "would," and "could." These forward-looking statements involve risks and uncertainties including, but not limited to, economic conditions, portfolio growth, the credit performance of the portfolios, including bankruptcies, and seasonal factors; changes in general economic conditions including the performance of financial markets, prevailing inflation and interest rates, realized gains from sales of investments, gains from asset sales, and losses on commercial lending activities; results of various investment activities; the effects of competitors' pricing policies, changes in laws and regulations, competition, and demographic changes on target market populations' savings and financial planning needs; industry changes in information technology systems on which we are highly dependent; failure of acquisitions to produce revenue enhancements or cost savings at levels or within the time frames originally anticipated or unforeseen integration difficulties; the adoption by CTBI of a Federal Financial Institutions Examination Council (FFIEC) policy that provides guidance on the reporting of delinquent

consumer loans and the timing of associated credit charge-offs for financial institution subsidiaries; and the resolution of legal proceedings and related matters. In addition, the banking industry in general is subject to various monetary and fiscal policies and regulations, which include those determined by the Federal Reserve Board, the Federal Deposit Insurance Corporation, and state regulators, whose policies and regulations could affect CTBI's results. These statements are representative only on the date hereof, and CTBI undertakes no obligation to update any forward-looking statements made.

Item 1A. Risk Factors

Enterprise Risk Management

Risk is an inherent component of CTBI's business activities. The ability to effectively identify, assess, measure, respond, monitor, and report on risk in our business activities is critical to the achievement of CTBI's mission and strategic objectives. CTBI utilizes an enterprise wide risk management (EWRM) process designed to provide the Board and management with the capabilities needed to identify, assess, and manage the full spectrum of risks inherent to our industry. While business unit managers are primarily responsible for managing risk inherent in their areas of responsibility, CTBI has established a risk management governance structure to establish policies, monitor adherence to the policies, and manage the overall risk profile of the company. CTBI's EWRM program is not intended to replace normal risk management activities conducted by the business unit managers. The EWRM program is designed to provide a portfolio view of risks across the entire enterprise.

As an integral part of the risk management process, management has established various committees consisting of senior executives and others within CTBI. The purpose of these committees is to closely monitor risks and ensure that adequate risk management practices exist within their respective areas of authority. Some of the principal committees include the Asset/Liability Management (ALCO) Committee, the Loan Portfolio Risk Management Committee, the Senior Credit Committee, the Information Technology Steering Committee, and various compliance-related committees. Overlapping membership of these committees by senior executives and others helps provide a unified view of risk on an enterprise-wide basis. To facilitate an enterprise-wide view of CTBI's risk profile and coordinate the enterprise risk management governance process, a Chief Risk Officer has been appointed, who oversees the process and reports on CTBI's risk profile. Additionally, risk champions are assigned for various areas. The risk champions facilitate implementation of the enterprise risk management and governance process across the company. An Enterprise Risk Management Committee has been established consisting of senior executives and others within CTBI, which oversees and supports the EWRM process. The Board of Directors, through its Risk and Compliance Committee, has overall responsibility for oversight of CTBI's enterprise risk management governance process.

Interest Rate Risk

Changes in interest rates could adversely affect our earnings and financial condition.

Our earnings and financial condition are dependent to a large degree upon net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. The narrowing of interest-rate spreads, meaning the difference between the interest rates earned on loans and investments and the interest rates paid on deposits and borrowings, could adversely affect our earnings and financial condition. Interest rates are highly sensitive to many factors, including:

- The rate of inflation;
- The rate of economic growth;
 - Employment levels;
 - Monetary policies; and
- Instability in domestic and foreign financial markets.

Changes in market interest rates will also affect the level of voluntary prepayments on our loans and the receipt of payments on our mortgage-backed securities resulting in the receipt of proceeds that may be reinvested at a lower rate than the loan or mortgage-backed security being prepaid.

We originate residential loans for sale and for our portfolio. The origination of loans for sale is designed to meet client financing needs and earn fee income. The origination of loans for sale is highly dependent upon the local real estate market and the level and trend of interest rates. Increasing interest rates may reduce the origination of loans for sale

and consequently the fee income we earn. While our commercial banking, construction, and income property business lines remain a significant portion of our activities, high interest rates may reduce our mortgage-banking activities and thereby our income. In contrast, decreasing interest rates have the effect of causing clients to refinance mortgage loans faster than anticipated. This causes the value of assets related to the servicing rights on loans sold to be lower than originally anticipated. If this happens, we may need to write down our servicing assets faster, which would accelerate our expense and lower our earnings.

We consider interest rate risk one of our most significant market risks. Interest rate risk is the exposure to adverse changes in net interest income due to changes in interest rates. Consistency of our net interest revenue is largely dependent upon the effective management of interest rate risk. We employ a variety of measurement techniques to identify and manage our interest rate risk including the use of an earnings simulation model to analyze net interest income sensitivity to changing interest rates. The model is based on actual cash flows and repricing characteristics for on and off-balance sheet instruments and incorporates market-based assumptions regarding the effect of changing interest rates on the prepayment rates of certain assets and liabilities. Assumptions based on the historical behavior of deposit rates and balances in relation to changes in interest rates are also incorporated into the model. These assumptions are inherently uncertain, and as a result, the model cannot precisely measure net interest income or precisely predict the impact of fluctuations in interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude, and frequency of interest rate changes as well as changes in market conditions and management strategies.

Government Policies

Our business may be adversely affected by changes in government policies.

The earnings of banks and bank holding companies such as ours are affected by the policies of regulatory authorities, including the Federal Reserve Board, which regulates the money supply. Among the methods employed by the Federal Reserve Board are open market operations in U.S. Government securities, changes in the discount rate on member bank borrowings, and changes in reserve requirements against member bank deposits. These methods are used in varying combinations to influence overall growth and distribution of bank loans, investments and deposits, and their use may also affect interest rates charged on loans or paid on deposits. The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of commercial and savings banks in the past and are expected to continue to do so in the future.

The banking industry is highly regulated and changes in federal and state banking regulations as well as policies and administration guidelines may affect our practices, growth prospects, and earnings.

Credit Risk

Our earnings and reputation may be adversely affected if we fail to effectively manage our credit risk.

Originating and underwriting loans are integral to the success of our business. This business requires us to take “credit risk,” which is the risk of losing principal and interest income because borrowers fail to repay loans. Collateral values and the ability of borrowers to repay their loans may be affected at any time by factors such as:

- A downturn in the local economies in which we operate or the national economy;
- A downturn in one or more of the business sectors in which our customers operate; or
- A rapid increase in interest rates.

Although we do not have a subprime lending program, the current subprime lending crisis may have an adverse effect on our residential loan portfolio as proposed legislation may create an environment that will unreasonably delay the collection of past due amounts and impede our ability to make new residential loans.

Competition

Strong competition within our market area may reduce our ability to attract and retain deposits and originate loans.

We face competition both in originating loans and in attracting deposits. Competition in the financial services industry is intense. We compete for clients by offering excellent service and competitive rates on our loans and deposit products. The type of institutions we compete with include commercial banks, savings institutions, mortgage banking firms, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms. Competition arises from institutions located within and outside our market areas. As a result of their size and ability to achieve economies of scale, certain of our competitors offer a broader range of products and services than we offer. In addition, to stay competitive in our markets we may need to adjust the interest rates on our products to match the rates offered by our competitors, which could adversely affect our net interest margin. As a result, our profitability depends upon our continued ability to successfully compete in our market areas while achieving our investment objectives.

Economy

Our business may be adversely affected by downturns in the local economies on which we depend.

Our loan portfolio is concentrated primarily in eastern, northeastern, central, and south central Kentucky and southern West Virginia. Our profits depend on providing products and services to clients in these local regions. An increase in unemployment, a decrease in real estate values, or increases in interest rates could weaken the local economies in which we operate. Weakness in our market area could depress our earnings and consequently our financial condition because:

- Clients may not want or need our products and services;
 - Borrowers may not be able to repay their loans;
- The value of the collateral securing our loans to borrowers may decline; and
 - The quality of our loan portfolio may decline.

Acquisition Risk

We may have difficulty in the future continuing to grow through acquisitions.

Due to consolidation within the banking industry, the number of suitable acquisition targets has decreased and there is intense competition for attractive acquisitions. As a result, we may experience difficulty in making acquisitions on

acceptable terms.

Any future acquisitions or mergers by CTBI or its banking subsidiary are subject to approval by the appropriate federal and state banking regulators. The banking regulators evaluate a number of criteria in making their approval decisions, such as:

- Safety and soundness guidelines;
- Compliance with all laws including the USA Patriot Act of 2001, the International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, the Sarbanes-Oxley Act of 2002 and the related rules and regulations promulgated under such Act or the Exchange Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Community Reinvestment Act, the Home Mortgage Disclosure Act, and all other applicable fair lending laws and other laws relating to discriminatory business practices; and
- Anti-competitive concerns with the proposed transaction.

If the banking regulators or a commenter on our regulatory application raise concerns about any of these criteria at the time a regulatory application is filed, the banking regulators may deny, delay, or condition their approval of a proposed transaction.

We have grown, and intend to continue to grow, through acquisitions of banks and other financial institutions. After these acquisitions, we may experience adverse changes in results of operations of acquired entities, unforeseen liabilities, asset quality problems of acquired entities, loss of key personnel, loss of clients because of change of identity, difficulties in integrating data processing and operational procedures, and deterioration in local economic conditions. These various acquisition risks can be heightened in larger transactions.

Integration Risk

We may not be able to achieve the expected integration and cost savings from our ongoing bank acquisition activities.

We have a long history of acquiring financial institutions and we expect this acquisition activity to continue in the future. Difficulties may arise in the integration of the business and operations of the financial institutions that agree to merge with and into CTBI and, as a result, we may not be able to achieve the cost savings and synergies that we expect will result from the merger activities. Achieving cost savings is dependent on consolidating certain operational and functional areas, eliminating duplicative positions and terminating certain agreements for outside services. Additional operational savings are dependent upon the integration of the banking businesses of the acquired financial institution with that of CTBI, including the conversion of the acquired entity's core operating systems, data systems and products to those of CTBI and the standardization of business practices. Complications or difficulties in the conversion of the core operating systems, data systems, and products of these other banks to those of CTBI may result in the loss of clients, damage to our reputation within the financial services industry, operational problems, one-time costs currently not anticipated by us, and/or reduced cost savings resulting from the merger activities.

Operational Risk

An extended disruption of vital infrastructure or a security breach could negatively impact our business, results of operations, and financial condition.

Our operations depend upon, among other things, our infrastructure, including equipment and facilities. Extended disruption of vital infrastructure by fire, power loss, natural disaster, telecommunications failure, computer hacking or viruses, terrorist activity or the domestic and foreign response to such activity, or other events outside of our control could have a material adverse impact on the financial services industry as a whole and on our business, results of operations, cash flows, and financial condition in particular. Our business recovery plan may not work as intended or may not prevent significant interruption of our operations. The occurrence of any failures, interruptions, or security breaches of our information systems could damage our reputation, result in the loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have an adverse effect on our financial condition and results of operation.

Market Risk

Community Trust Bancorp, Inc.'s stock price is volatile.

Our stock price has been volatile in the past, and several factors could cause the price to fluctuate substantially in the future. These factors include:

- Actual or anticipated variations in earnings;
- Changes in analysts' recommendations or projections;
- CTBI's announcements of developments related to our businesses;
- Operating and stock performance of other companies deemed to be peers;
- New technology used or services offered by traditional and non-traditional competitors; and
- News reports of trends, concerns, and other issues related to the financial services industry.

Our stock price may fluctuate significantly in the future, and these fluctuations may be unrelated to CTBI's performance. General market price declines or market volatility in the future could adversely affect the price of our common stock, and the current market price may not be indicative of future market prices.

Technology Risk

CTBI continually encounters technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables

financial institutions to better serve customers and to reduce costs. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None.

5

SELECTED STATISTICAL INFORMATION

The following tables set forth certain statistical information relating to CTBI and subsidiaries on a consolidated basis and should be read together with our consolidated financial statements.

Consolidated Average Balance Sheets and Taxable Equivalent Income/Expense and Yields/Rates

	2007			2006			2005		
(in thousands)	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
Earning assets:									
Loans (1)(2)(3)	\$ 2,205,431	\$ 171,632	7.78%	\$ 2,131,649	\$ 163,526	7.67%	\$ 2,024,756	\$ 137,602	6.80%
Loans held for sale	2,484	157	6.32	1,685	130	7.71	1,135	131	11.54
Securities:									
U.S. Treasury and agencies	275,219	12,034	4.37	312,611	13,520	4.32	391,810	15,984	4.08
Tax exempt state and political subdivisions									
(3)	45,514	2,946	6.47	49,173	3,175	6.46	50,995	3,237	6.35
Other securities	117,136	5,351	4.57	125,937	5,396	4.28	46,687	1,572	3.37
Federal Reserve Bank and Federal Home Loan Bank stock	28,040	1,794	6.40	27,176	1,588	5.84	25,673	1,337	5.21
Federal funds sold	82,324	4,246	5.16	66,422	3,346	5.04	57,394	1,849	3.22
Interest bearing deposits	2,010	88	4.38	811	38	4.69	993	26	2.62
Undistributed income from unconsolidated subsidiaries	1,856	130	7.00	1,861	160	8.60	1,861	160	8.60
Total earning assets	2,760,014	\$ 198,378	7.19%	2,717,325	\$ 190,879	7.02%	2,601,304	\$ 161,898	6.22%
Allowance for loan and lease losses	(28,129)			(28,622)			(29,236)		
	2,731,885			2,688,703			2,572,068		
Nonearning assets:									
Cash and due from banks	75,667			78,069			78,251		
Premises and equipment, net	54,434			56,846			55,480		
Other assets	118,727			119,274			111,750		

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Total assets	\$ 2,980,713			\$ 2,942,892			\$ 2,817,549		
Interest bearing liabilities:									
Deposits:									
Savings and demand deposits	\$ 696,329	\$ 17,457	2.51%	\$ 664,958	\$ 15,399	2.32%	\$ 624,908	\$ 8,787	1.41%
Time deposits	1,231,039	58,180	4.73	1,194,410	48,457	4.06	1,169,680	34,225	2.93
Repurchase agreements and federal funds purchased	174,697	8,429	4.82	185,098	8,620	4.66	118,906	3,819	3.21
Advances from Federal Home Loan Bank	67,452	2,402	3.56	108,355	3,648	3.37	152,823	4,872	3.19
Long-term debt	61,830	4,364	7.06	61,341	5,414	8.83	61,341	5,414	8.83
Total interest bearing liabilities	2,231,347	\$ 90,832	4.07%	2,214,162	\$ 81,538	3.68%	2,127,658	\$ 57,117	2.68%
Noninterest bearing liabilities:									
Demand deposits	425,534			435,017			423,147		
Other liabilities	29,726			24,511			20,625		
Total liabilities	2,686,607			2,673,690			2,571,430		
Shareholders' equity	294,106			269,202			246,119		
Total liabilities and shareholders' equity	\$ 2,980,713			\$ 2,942,892			\$ 2,817,549		
Net interest income	\$ 107,546			\$ 109,341			\$ 104,781		
Net interest spread			3.12%			3.34%			3.54%
Benefit of interest free funding			0.78%			0.68%			0.48%
Net interest margin			3.90%			4.02%			4.02%

(1) Interest includes fees on loans of \$1,819, \$1,500, and \$2,841 in 2007, 2006, and 2005, respectively.

(2) Loan balances are net of unearned income and include principal balances on nonaccrual loans.

(3) Tax exempt income on securities and loans is reported on a fully taxable equivalent basis using a 35% rate.

Net Interest Differential

The following table illustrates the approximate effect of volume and rate changes on net interest differentials between 2007 and 2006 and also between 2006 and 2005.

	Total Change		Change Due to		Total Change		Change Due to					
(in thousands)	2007/2006		Volume	Rate	2006/2005		Volume	Rate				
Interest income												
Loans	\$	8,106	\$	5,718	\$	2,388	\$	25,924	\$	7,536	\$	18,388
Loans held for sale		27		54		(27)		(1)		51		(52)
U.S. Treasury and agencies		(1,486)		(1,601)		115		(2,463)		(3,081)		618
Tax exempt state and political subdivisions		(229)		(236)		7		(62)		(114)		52
Other securities		(45)		(364)		319		3,825		3,295		530
Federal Reserve Bank and Federal Home Loan Bank stock		206		52		154		250		81		169
Federal funds sold		900		818		82		1,496		327		1,169
Interest bearing deposits		50		53		(3)		12		(4)		16
Undistributed income from unconsolidated subsidiaries		(30)		0		(30)		0		0		0
Total interest income		7,499		4,494		3,005		28,981		8,091		20,890
Interest expense												
Savings and demand deposits		2,058		748		1,310		6,612		596		6,016
Time deposits		9,723		1,523		8,200		14,232		738		13,494
Repurchase agreements and federal funds purchased		(191)		(474)		283		4,801		2,655		2,146
Advances from Federal Home Loan Bank		(1,246)		(1,308)		62		(1,224)		(1,351)		127
Long-term debt		(1,050)		43		(1,093)		0		0		0
Total interest expense		9,294		532		8,762		24,421		2,638		21,783
Net interest income	\$	(1,795)	\$	3,962	\$	(5,757)	\$	4,560	\$	5,453	\$	(893)

For purposes of the above table, changes which are due to both rate and volume are allocated based on a percentage basis, using the absolute values of rate and volume variance as a basis for percentages. Income is stated at a fully taxable equivalent basis, assuming a 35% tax rate.

Investment Portfolio

The maturity distribution and weighted average interest rates of securities at December 31, 2007 are as follows:

Available-for-sale

Estimated Maturity at December 31, 2007											
	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Fair Value		Amortized Cost
(in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
U.S. Treasury, government agencies, and government sponsored agencies	\$ 2,218	5.32%	\$ 118,641	4.61%	\$ 101,636	4.55%	\$ 784	6.06%	\$ 223,279	4.59%	\$ 225,356
State and municipal obligations	6,671	6.62	25,979	6.50	8,090	6.63	396	6.08	41,136	6.54	40,472
Other securities	1	7.75	19,687	4.42	0	0.00	40,050	6.61	59,738	5.89	60,051
Total	\$ 8,890	6.30%	\$ 164,307	4.88%	\$ 109,726	4.70%	\$ 41,230	6.59%	\$ 324,153	5.08%	\$ 325,879

Held-to-maturity

Estimated Maturity at December 31, 2007											
	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Amortized Cost		Fair Value
(in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
U.S. Treasury, government agencies, and government sponsored agencies	\$ 0	0.00%	\$ 31,058	3.83%	\$ 0	0.00%	\$ 0	0.00%	\$ 31,058	3.83%	\$ 30,436
State and municipal obligations	325	6.38	394	6.61	0	0.00	1,182	5.97	1,901	6.17	1,914
Total	\$ 325	6.38%	\$ 31,452	3.86%	\$ 0	0.00%	\$ 1,182	5.97%	\$ 32,959	3.97%	\$ 32,350

Total Securities	\$ 9,215	6.30%	\$ 195,759	4.72%	\$ 109,726	4.70%	\$ 42,412	6.58%	\$ 357,112	4.98%	\$ 358,229
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The calculations of the weighted average interest rates for each maturity category are based upon yield weighted by the respective costs of the securities. The weighted average rates on state and political subdivisions are computed on a taxable equivalent basis using a 35% tax rate. For purposes of the above presentation, maturities of mortgage-backed pass through certificates and collateralized mortgage obligations are based on estimated maturities.

Excluding those holdings of the investment portfolio in U.S. Treasury securities and other agencies of the U.S. government, there were no securities of any one issuer that exceeded 10% of our shareholders' equity at December 31, 2007.

The book values of securities available-for-sale and securities held-to-maturity as of December 31, 2007 and 2006 are presented in note 4 to the consolidated financial statements.

The book value of securities at December 31, 2005 is presented below:

(in thousands)	Available-for-Sale	Held-to-Maturity
U.S. Treasury and government agencies	\$ 2,005	\$ 0
State and political subdivisions	46,932	3,134
U.S. government sponsored agencies and mortgage-backed pass through certificates	288,631	45,310
Collateralized mortgage obligations	1,012	0
Other debt securities	16,991	0
Total debt securities	355,571	48,444
Marketable equity securities	40,000	0
Total securities	\$ 395,571	\$ 48,444

Loan Portfolio

(in thousands)	2007	2006	2005	2004	2003
Commercial:					
Construction	\$ 143,773	\$ 133,902	\$ 115,721	\$ 75,078	\$ 67,147
Secured by real estate	640,574	632,881	665,911	613,059	583,924
Other	333,774	337,075	301,828	276,921	256,837
Total commercial	1,118,121	1,103,858	1,083,460	965,058	907,908
Real estate construction	69,021	50,588	51,232	30,456	32,495
Real estate mortgage	599,665	579,197	542,809	499,410	413,939
Consumer	435,273	422,291	414,920	395,588	368,578
Equipment lease financing	5,817	11,524	14,923	12,007	13,340
Total loans	\$ 2,227,897	\$ 2,167,458	\$ 2,107,344	\$ 1,902,519	\$ 1,736,260

Percent of total year-end loans

Commercial:					
Construction	6.45%	6.18%	5.49%	3.95%	3.87%
Secured by real estate	28.75	29.20	31.60	32.22	33.63
Other	14.98	15.55	14.32	14.56	14.79
Total commercial	50.18	50.93	51.41	50.73	52.29
Real estate construction	3.10	2.34	2.43	1.60	1.87
Real estate mortgage	26.92	26.72	25.76	26.25	23.84
Consumer	19.54	19.48	19.69	20.79	21.23
Equipment lease financing	0.26	0.53	0.71	0.63	0.77
Total loans	100.00%	100.00%	100.00%	100.00%	100.00%

The total loans above are net of unearned income.

The following table shows the amounts of loans (excluding residential mortgages of 1-4 family residences, consumer loans, and lease financing) which, based on the remaining scheduled repayments of principal are due in the periods indicated. Also, the amounts are classified according to sensitivity to changes in interest rates (fixed, variable).

Maturity at December 31, 2007				
(in thousands)	Within One Year	After One but Within Five Years	After Five Years	Total
Commercial secured by real estate and commercial other	\$ 263,751	\$ 256,753	\$ 453,844	\$ 974,348
Commercial and real estate construction	153,547	34,075	25,172	212,794
	\$ 417,298	\$ 290,828	\$ 479,016	\$ 1,187,142
Rate sensitivity:				
Predetermined rate	\$ 102,754	\$ 105,847	\$ 45,724	\$ 254,325
Adjustable rate	314,544	184,981	433,292	932,817
	\$ 417,298	\$ 290,828	\$ 479,016	\$ 1,187,142

Nonperforming Assets

(in thousands)	2007	2006	2005	2004	2003
Nonaccrual loans	\$ 22,237	\$ 9,863	\$ 12,219	\$ 13,808	\$ 9,705
Restructured loans	20	66	899	974	1,726
90 days or more past due and still accruing interest	9,622	4,294	8,284	5,319	5,463
Total nonperforming loans	31,879	14,223	21,402	20,101	16,894
Foreclosed properties	7,851	4,524	5,410	4,756	6,566
Total nonperforming assets	\$ 39,730	\$ 18,747	\$ 26,812	\$ 24,857	\$ 23,460
Nonperforming assets to total loans and foreclosed properties	1.78%	0.86%	1.27%	1.30%	1.35%
Allowance to nonperforming loans	88.00%	193.54%	137.87%	134.41%	145.93%

Nonaccrual, Past Due, and Restructured Loans

(in thousands)	Nonaccrual loans	As a % of Loan Balances by Category	Restructured Loans	As a % of Loan Balances by Category	Accruing Loans Past Due 90 Days or More	As a % of Loan Balances by Category	Balances
December 31, 2007							
Commercial construction	\$ 8,682	6.04%	\$ 0	0.00%	\$ 1,733	1.21%	\$ 143,773
Commercial secured by real estate	5,715	0.89	0	0.00	3,300	0.52	640,574
Commercial other	4,489	1.34	20	0.01	1,305	0.39	333,774
Consumer real estate construction	723	1.05	0	0.00	722	1.05	69,021
Consumer real estate secured	2,628	0.44	0	0.00	2,113	0.35	599,665
Consumer other	0	0.00	0	0.00	449	0.10	435,273
Equipment lease financing	0	0.00	0	0.00	0	0.00	5,817
Total	\$ 22,237	1.00%	\$ 20	0.00%	\$ 9,622	0.43%	\$ 2,227,897
December 31, 2006							
Commercial construction	\$ 430	0.32%	\$ 0	0.00%	\$ 283	0.21%	\$ 133,902
Commercial secured by real estate	3,631	0.57	17	0.00	938	0.15	632,881
Commercial other	3,227	0.96	49	0.01	873	0.26	337,075
Consumer real estate construction	361	0.71	0	0.00	405	0.80	50,588
Consumer real estate secured	2,212	0.38	0	0.00	1,507	0.26	579,197
Consumer other	2	0.00	0	0.00	288	0.07	422,291
Equipment lease financing	0	0.00	0	0.00	0	0.00	11,524
Total	\$ 9,863	0.46%	\$ 66	0.00%	\$ 4,294	0.20%	\$ 2,167,458

In 2007, gross interest income that would have been recorded on nonaccrual loans had the loans been current in accordance with their original terms amounted to \$2.3 million. Interest income actually received and included in net income for the period was \$0.3 million, leaving \$2.0 million of interest income not recognized during the period.

Discussion of the Nonaccrual Policy

The accrual of interest income on loans is discontinued when the collection of interest and principal in full is not expected. When interest accruals are discontinued, interest income accrued in the current period is reversed and interest income accrued in prior periods is charged to the allowance for loan and lease losses. Any loans past due 90 days or more must be well secured and in the process of collection to continue accruing interest.

Potential Problem Loans

Interest accrual is discontinued when we believe, 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.

Foreign Outstandings

None

Loan Concentrations

We had no concentration of loans exceeding 10% of total loans at December 31, 2007. See note 18 to the consolidated financial statements for further information.

Analysis of the Allowance for Loan and Lease Losses

(in thousands)	2007	2006	2005	2004	2003
Allowance for loan and lease losses, beginning of year	\$ 27,526	\$ 29,506	\$ 27,017	\$ 24,653	\$ 23,271
Loans charged off:					
Commercial construction	273	23	56	339	164
Commercial secured by real estate	1,106	872	826	1,135	773
Commercial other	2,134	3,816	4,233	2,331	4,085
Real estate construction	32	56	10	20	0
Real estate mortgage	547	572	746	683	957
Consumer	4,340	4,091	5,097	5,080	5,725
Equipment lease financing	0	0	0	0	0
Total charge-offs	8,432	9,430	10,968	9,588	11,704
Recoveries of loans previously charged off:					
Commercial construction	0	0	0	1	32
Commercial secured by real estate	180	132	94	301	243
Commercial other	428	689	766	382	450
Real estate construction	1	0	20	0	0
Real estate mortgage	250	210	310	244	159
Consumer	1,561	2,114	2,223	2,376	2,870
Equipment lease financing	0	0	0	0	0
Total recoveries	2,420	3,145	3,413	3,304	3,754
Net charge-offs:					
Commercial construction	273	23	56	338	132
Commercial secured by real estate	926	740	732	834	530
Commercial other	1,706	3,127	3,467	1,949	3,635
Real estate construction	31	56	(10)	20	0
Real estate mortgage	297	362	436	439	798
Consumer	2,779	1,977	2,874	2,704	2,855
Equipment lease financing	0	0	0	0	0
Total net charge-offs	6,012	6,285	7,555	6,284	7,950
Provisions charged against operations	6,540	4,305	8,285	8,648	9,332
Allowance of acquired bank	0	0	1,759	0	0
Balance, end of year	\$ 28,054	\$ 27,526	\$ 29,506	\$ 27,017	\$ 24,653
Allocation of allowance, end of year:					
Commercial construction	\$ 3,194	\$ 2,059	\$ 1,799	\$ 1,123	\$ 2,623
	9,081	7,224	10,354	8,285	7,010

Commercial secured by real estate

Commercial other	4,817	4,335	4,693	3,745	1,392
Real estate construction	335	206	159	107	1,034
Real estate mortgage	2,907	2,352	1,677	1,435	741
Consumer	5,034	4,288	4,602	3,104	3,341
Equipment lease financing	76	126	232	168	160
Unallocated	2,610	6,936	5,990	9,050	8,352
Balance, end of year	\$ 28,054	\$ 27,526	\$ 29,506	\$ 27,017	\$ 24,653

Average loans outstanding, net of unearned interest	\$ 2,205,431	\$ 2,131,649	\$ 2,024,756	\$ 1,816,146	\$ 1,658,289
Loans outstanding at end of year, net of unearned interest	\$ 2,227,897	\$ 2,167,458	\$ 2,107,344	\$ 1,902,519	\$ 1,736,260

Net charge-offs to average loan type:

Commercial construction	0.19%	0.02%	0.06%	0.47%	0.19%
Commercial secured by real estate	0.14	0.11	0.11	0.14	0.10
Commercial other	0.51	0.99	1.18	0.76	1.29
Real estate construction	0.05	0.11	(0.03)	0.06	0.00
Real estate mortgage	0.05	0.06	0.08	0.09	0.20
Consumer	0.64	0.48	0.71	0.70	0.79
Equipment lease financing	0.00	0.00	0.00	0.00	0.00
Total	0.27%	0.29%	0.37%	0.35%	0.48%

Other ratios:

Allowance to net loans, end of year	1.26%	1.27%	1.40%	1.42%	1.42%
Provision for loan losses to average loans	0.30%	0.20%	0.41%	0.48%	0.56%

The allowance for loan and lease losses balance is maintained at a level considered adequate to cover anticipated probable losses based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time. This analysis is completed quarterly and forms the basis for allocation of the loan loss reserve and what charges to the provision may be required. See note 1 to the consolidated financial statements for further information.

Average Deposits and Other Borrowed Funds

(in thousands)	2007	2006	2005
Deposits:			
Noninterest bearing deposits	\$ 425,534	\$ 435,017	\$ 423,147
NOW accounts	18,590	18,338	16,486
Money market accounts	483,782	437,707	383,900
Savings accounts	193,957	208,914	224,522
Certificates of deposit of \$100,000 or more	456,483	417,671	409,866
Certificates of deposit < \$100,000 and other time deposits	774,556	776,738	759,814
Total deposits	2,352,902	2,294,385	2,217,735
Other borrowed funds:			
Repurchase agreements and federal funds purchased	174,697	185,098	118,906
Other short-term borrowings	0	0	0
Advances from Federal Home Loan Bank	67,452	108,355	152,823
Long-term debt	61,830	61,341	61,341
Total other borrowed funds	303,979	354,794	333,070
Total deposits and other borrowed funds	\$ 2,656,881	\$ 2,649,179	\$ 2,550,805

The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2007 occurred at August 31, 2007, with a month-end balance of \$203.6 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2006 occurred at May 31, 2006, with a month-end balance of \$220.2 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2005 occurred at December 31, 2005, with a month-end balance of \$146.6 million.

Maturities and/or repricing of time deposits of \$100,000 or more outstanding at December 31, 2007 are summarized as follows:

(in thousands)	Certificates of Deposit	Other Time Deposits	Total
Three months or less	\$ 136,887	\$ 10,239	\$ 147,126
Over three through six months	76,142	5,751	81,893
Over six through twelve months	182,874	7,547	190,421
Over twelve through sixty months	33,753	7,452	41,205
Over sixty months	100	200	300
	\$ 429,756	\$ 31,189	\$ 460,945

Item 2. Properties

Our main office, which is owned by the Bank, is located at 346 North Mayo Trail, Pikeville, Kentucky 41501. Following is a schedule of properties owned and leased by CTBI and its subsidiaries as of December 31, 2007:

	Location	Owned	Leased	Total
Banking locations:				
Community Trust Bank, Inc.				
*	Pikeville Market (lease land to 3 owned locations)	9	1	10
	10 locations in Pike County, Kentucky			
	Floyd/Knott/Johnson Market (lease land to 1 owned location)	3	1	4
	2 locations in Floyd County, Kentucky, 1 location in Knott County, Kentucky, and 1 location in Johnson County, Kentucky			
	Tug Valley Market (lease land to 1 owned location)	2	0	2
	1 location in Pike County, Kentucky, 1 location in Mingo County, West Virginia			
	Whitesburg Market	4	1	5
	5 locations in Letcher County, Kentucky			
	Hazard Market (lease land to 2 owned locations)	4	0	4
	4 locations in Perry County, Kentucky			
*	Lexington Market (lease land to 2 owned locations)	3	2	5
	5 locations in Fayette County, Kentucky			
	Winchester Market	1	1	2
	2 locations in Clark County, Kentucky			
	Richmond Market (lease land to 1 owned location)	3	0	3
	3 locations in Madison County, Kentucky			
	Mt. Sterling Market	2	0	2
	2 locations in Montgomery County, Kentucky			
*	Versailles Market (lease land to 1 owned location)	3	2	5
	2 locations in Woodford County, Kentucky, 2 locations in Franklin County, Kentucky, and 1 location in Scott County, Kentucky			
	Danville Market (lease land to 1 owned location)	3	0	3
	2 locations in Boyle County, Kentucky and 1 location in Mercer County, Kentucky			