

COMMUNITY TRUST BANCORP INC /KY/
Form 10-K
March 15, 2017

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, 2016

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

(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)

(606) 432-1414

(Registrant's Telephone Number)

41501

(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$5.00 par value The NASDAQ Stock Market LLC

(Title of Class) (Name of Exchange on Which Registered)

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 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 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 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, 2016 was \$578.0 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 28, 2017 was 17,660,868.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates by reference certain information from Registrant's Proxy Statement for the Annual Meeting of Shareholders to be held on April 25, 2017.

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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

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. Currently, CTBI owns 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, southern West Virginia, and northeastern Tennessee. The commercial bank is Community Trust Bank, Inc., Pikeville, Kentucky ("CTB") and the trust company is Community Trust and Investment Company, Lexington, Kentucky.

At December 31, 2016, CTBI had total consolidated assets of \$3.9 billion and total consolidated deposits, including repurchase agreements, of \$3.3 billion. Total shareholders' equity at December 31, 2016 was \$500.6 million. Trust assets under management at December 31, 2016 were \$2.1 billion, including CTB's investment portfolio totaling \$0.6 billion.

Through its subsidiaries, CTBI engages in a wide range of commercial and personal banking and trust and wealth management 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 CTB 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 paying agents for bond and stock issues, as investment agent, as depositories for securities, and as providers of full service brokerage and insurance services.

COMPETITION

CTBI's subsidiaries face substantial competition for deposit, credit, trust, wealth management, and brokerage relationships 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. As financial services become increasingly dependent on technology, permitting transactions to be conducted by telephone, mobile banking, and the internet, non-bank institutions are able to attract funds and provide lending and other financial services without offices located in our market areas. Many of our nonbank competitors have fewer regulatory constraints, broader geographic service areas, greater capital and, in some cases, lower cost structures. In addition, competition for quality customers has intensified as a result of changes in regulation, consolidation among financial service providers, and advances in technology and product delivery systems. 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.

The United States and global markets, as well as general economic conditions, have been volatile. Some financial institutions have failed and others have been forced to seek acquisition partners. Larger financial institutions could strengthen their competitive position as a result of ongoing consolidation within the financial services industry.

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). Competition for deposits may be increasing as a consequence of FDIC assessments shifting from deposits to an asset based formula, as larger banks may move away from non-deposit funding sources.

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 19 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, 2016, CTBI and subsidiaries had 996 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 management and employee incentive compensation plans are available to all eligible personnel.

SUPERVISION AND REGULATION

General

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.

Community Trust Bank, Inc. is a state-chartered bank subject to state and federal banking laws and regulations and periodic examination by the Kentucky Department of Financial Institutions and the restrictions, including dividend restrictions, thereunder. CTB 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. Community Trust and Investment Company is also regulated by the Kentucky Department of Financial Institutions and the Federal Reserve.

Deposits of CTB are insured up to applicable limits by the Federal Deposit Insurance Corporation (FDIC), which subjects banks to regulation and examination under the provisions of the Federal Deposit Insurance Act.

The operations of CTBI and our subsidiaries are also 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 and other corporate governance documents are also available on our website. Copies of our annual report will be made available free of charge upon written request to:

Community Trust Bancorp, Inc.
Jean R. Hale
Chairman, President and CEO
P.O. Box 2947
Pikeville, KY 41502-2947

Basel III

On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to CTBI and CTB. The FDIC subsequently approved these rules. The final rules implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act").

The rules include new risk-based capital and leverage ratios, which are being phased in from 2015 to 2019, and refine the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to CTBI and CTB under the final rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a "capital conservation buffer" above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer began to be phased in on January 1, 2016 at 0.625% of risk-weighted assets and will increase by 0.625% annually until fully implemented in January 2019. An institution is subject to limitations on certain activities including payment of dividends, share repurchases, and discretionary bonuses to executive officers if its capital level is below the capital conservation buffer amount.

The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009 (which includes CTBI) will be able to permanently include non-qualifying instruments that were issued and included

in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions took effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions are required to meet the following increased capital level requirements in order to qualify as “well capitalized:” (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from previous rules).

The final rules set forth certain changes for the calculation of risk-weighted assets, which we were required to utilize beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with \$50 billion or more in total assets that are not subject to the “advance approach rules” that apply to banks with greater than \$250 billion in consolidated assets. We currently satisfy the well-capitalized and capital conservation buffer standards, and based on our current capital composition and levels, we anticipate that our capital ratios, on a Basel III basis, will continue to exceed the well-capitalized minimum capital requirements and the capital conservation buffer standards.

Item 1A. Risk Factors

An investment in our common stock is subject to risks inherent to our business. The material risks and uncertainties that management believes affect us are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below, together with all of the other information included or incorporated by reference herein. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair our business operations. This report is qualified in its entirety by these risk factors. See also, “Cautionary Statement Regarding Forward-Looking Statements.” If any of the following risks actually occur, our financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly, and you could lose all or part of your investment.

Economic Risk

CTBI may continue to be adversely affected by economic and market conditions.

Beginning in 2008, the U.S. economy faced a severe economic crisis including a major recession from which it is recovering. Commerce and business growth in certain regions in the U.S. remains reduced and local governments and many businesses continue to experience financial difficulty. In some areas of the U.S., including certain parts of our service area, unemployment levels remain elevated. There can be no assurance that these conditions will continue to improve and these conditions could worsen. In addition, the level of U.S. debt, the Federal Open Market Committee’s plan for economic stabilization, potential volatility in oil prices, potential U.S. tax law modifications, and the repeal of the Patient Protection and Affordable Care Act and the implementation of replacement healthcare legislation may have a destabilizing effect on financial markets or a negative effect on the economy.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the markets where we operate, in the states of Kentucky, West Virginia, and Tennessee and in the United States as a whole. While unemployment rates have

improved in many areas of the United States, unemployment rates remain elevated in certain markets in which we operate. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors.

Overall, during recent years, the business environment has been adverse for many households and businesses in the United States and worldwide. While economic conditions in the United States and worldwide have improved since the recession, there can be no assurance that this improvement will continue or that another recession will not occur. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing, and savings habits. Such conditions could adversely affect the credit quality of our loans and our business, financial condition, and results of operations.

Economy of Our Markets

Our business may continue to be adversely affected by ongoing weaknesses in the local economies on which we depend.

Our loan portfolio is concentrated primarily in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee. Our profits depend on providing products and services to clients in these local regions. While unemployment rates have improved in many areas of the United States, unemployment rates remain elevated in certain markets in which we operate. Increases in unemployment, decreases in real estate values, or increases in interest rates could weaken the local economies in which we operate. These economic indicators typically affect certain industries, such as real estate and financial services, more significantly. High levels of unemployment and depressed real estate asset values in certain of the markets we serve would likely prolong the economic recovery period in our market area. Also, our growth within certain of our markets may be adversely affected by the lack of population growth in such markets in recent years. Weakness in our market area could depress our earnings and consequently our financial condition because:

- Clients may not want, need, or qualify for 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.

Mortgage Assistance Risk

As government funded mortgage assistance programs lapse, consumer real estate defaults may increase.

During the economic recession, various legislation was enacted designed to assist those hit hardest through economic subsidies. These subsidies most often came in the form of mortgage payment assistance or mortgage note restructuring. Examples of these programs include: Consumer Financial Protection Bureau Alternatives to Foreclosure In House Modification Program, Kentucky Housing Unemployed Bridge Loan Program, Tennessee Hardest Hit Fund, Home Affordable Modification Program Home Affordable Refinance Program, and Freddie Mac Alternatives to Foreclosure. As these programs sunset or as the participants complete their eligibility in the program(s), we may experience significantly higher levels of past due mortgage loans and default rates.

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 financial 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.

Liquidity Risk

CTBI is subject to liquidity risk.

CTBI requires liquidity to meet its deposit and debt obligations as they come due and to fund loan demands. CTBI's access to funding sources in amounts adequate to finance its activities or on terms that are acceptable to it could be impaired by factors that affect it specifically or the financial services industry or economy in general. Factors that could reduce its access to liquidity sources include a downturn in the market, difficult credit markets, or adverse regulatory actions against CTBI. CTBI's access to deposits may also be affected by the liquidity needs of its depositors. In particular, a substantial majority of CTBI's liabilities are demand, savings, interest checking, and money market deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial portion of its assets are loans, which cannot be called or sold in the same time frame. To the extent that consumer confidence in other investment vehicles, such as the stock market, increases, customers may move funds from bank deposits and products into such other investment vehicles. Although CTBI historically has been able to replace maturing deposits and advances as necessary, it might not be able to replace such funds in the future, especially if a large number of its depositors sought to withdraw their accounts, regardless of the reason. A failure to maintain adequate liquidity could have a material adverse effect on our financial condition and results of operations.

Banking Reform

Our business may be adversely affected by “banking reform” legislation.

On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to CTBI and CTB. The FDIC subsequently approved these rules. The final rules implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act.

The rules include new risk-based capital and leverage ratios, which are being phased in from 2015 to 2019, and refine the definition of what constitutes “capital” for purposes of calculating those ratios. The new minimum capital level requirements applicable to CTBI and CTB under the final rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a “capital conservation buffer” above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer began to be phased in on January 1, 2016 at 0.625% of risk-weighted assets and will increase by 0.625% annually until fully implemented in January 2019. An institution is subject to limitations on certain activities including payment of dividends, share repurchases, and discretionary bonuses to executive officers if its capital level is below the capital conservation buffer amount.

The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009 (which includes CTBI) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions took effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions are required to meet the following increased capital level requirements in order to qualify as “well capitalized:” (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from previous rules).

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Government Policies and Oversight

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

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.

Many states and municipalities are experiencing financial stress. As a result, various levels of government have sought to increase their tax revenues through increased tax levies, which could have an adverse impact on our results of operations.

In recent years, federal banking regulators have increased regulatory scrutiny, and additional limitations (including those contained in the Dodd-Frank Act) on financial institutions have been proposed or adopted by regulators and by Congress. Moreover, banking regulatory agencies have increasingly over the last few years used authority under Section 5 of the Federal Trade Commission Act to take supervisory or enforcement action with respect to alleged unfair or deceptive acts or practices by banks to address practices that may not necessarily fall within the scope of a specific banking or consumer finance law. 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. In particular, there is no assurance that governmental actions designed to stabilize the economy and banking system will not adversely affect the financial position or results of operations of CTBI.

From time to time, CTBI and/or its subsidiaries may be involved in information requests, reviews, investigations, and proceedings (both formal and informal) by various governmental agencies and law enforcement authorities regarding our respective businesses. Any of these matters may result in material adverse consequences to CTBI and its subsidiaries, including adverse judgements, findings, limitations on merger and acquisition activity, settlements, fines, penalties, orders, injunctions, and other actions. Such adverse consequences may be material to the financial position of CTBI or its results of operations.

In particular, consumer products and services are subject to increasing regulatory oversight and scrutiny with respect to compliance with consumer laws and regulations. We may face a greater number or wider scope of investigations, enforcement actions, and litigation in the future related to consumer practices. In addition, any required changes to our business operations resulting from these developments could result in a significant loss of revenue, require remuneration to customers, trigger fines or penalties, limit the products or services we offer, require us to increase certain prices and therefore reduce demand for our products, impose additional compliance costs on us, cause harm to our reputation, or otherwise adversely affect our consumer business.

On February 3, 2017, President Trump issued an executive order directing the Secretary of the Treasury to consult with the heads of members agencies of the Financial Stability Oversight Council and identify federal regulations that inhibit certain core principles, including making regulation efficient, effective and appropriately tailored. While this process may lead to the revision or easing of some regulations applicable to us, there can be no assurance that the regulatory environment for financial institutions will become more favorable.

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:

- The length and severity of downturns in the local economies in which we operate or the national economy;
- The length and severity of downturns in one or more of the business sectors in which our customers operate, particularly the automobile, hotel/motel, coal, and residential development industries; or

· A rapid increase in interest rates.

Our loan portfolio includes loans with a higher risk of loss.

We originate commercial real estate loans, construction and development loans, consumer loans, and residential mortgage loans, primarily within our market area. Commercial real estate, commercial, and construction and development loans tend to involve larger loan balances to a single borrower or groups of related borrowers and are most susceptible to a risk of loss during a downturn in the business cycle. These loans also have historically had a greater credit risk than other loans for the following reasons:

Commercial Real Estate Loans. Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service. As of December 31, 2016, commercial real estate loans, including multi-family loans, comprised approximately 37% of our total loan portfolio.

Other Commercial Loans. Repayment is generally dependent upon the successful operation of the borrower's business. In addition, the collateral securing the loans may depreciate over time, be difficult to appraise, be illiquid, or fluctuate in value based on the success of the business. As of December 31, 2016, other commercial loans comprised approximately 12% of our total loan portfolio.

Construction and Development Loans. The risk of loss is largely dependent on our initial estimate of whether the property's value at completion equals or exceeds the cost of property construction and the availability of take-out financing. During the construction phase, a number of factors can result in delays or cost overruns. If our estimate is inaccurate or if actual construction costs exceed estimates, the value of the property securing our loan may be insufficient to ensure full repayment when completed through a permanent loan, sale of the property, or by seizure of collateral. As of December 31, 2016, construction and development loans comprised approximately 4% of our total loan portfolio.

Consumer loans may carry a higher degree of repayment risk than residential mortgage loans, particularly when the consumer loan is unsecured. Repayment of a consumer loan typically depends on the borrower's financial stability, and it is more likely to be affected adversely by job loss, illness, or personal bankruptcy. In addition, federal and state bankruptcy, insolvency, and other laws may limit the amount we can recover when a consumer client defaults. As of December 31, 2016, consumer loans comprised approximately 20% of our total loan portfolio.

A significant part of our lending business is focused on small to medium-sized business which may be impacted more severely during periods of economic weakness.

A significant portion of our commercial loan portfolio is tied to small to medium-sized businesses in our markets. During periods of economic weakness, small to medium-sized businesses may be impacted more severely than larger businesses. As a result, the ability of smaller businesses to repay their loans may deteriorate, particularly if economic challenges persist over a period of time, and such deterioration would adversely impact our results of operations and financial condition.

A large percentage of our loan portfolio is secured by real estate, in particular commercial real estate. Weakness in the real estate market or other segments of our loan portfolio would lead to additional losses, which could have a material adverse effect on our business, financial condition, and results of operations.

As of December 31, 2016, approximately 68% of our loan portfolio is secured by real estate, 39% of which is commercial real estate. High levels of commercial and consumer delinquencies or declines in real estate market values could require increased net charge-offs and increases in the allowance for loan and lease losses, which could have a material adverse effect on our business, financial condition, and results of operations and prospects.

Our level of other real estate owned remains above our historical norm, primarily as a result of foreclosures. To the extent that we continue to hold a higher level of other real estate owned, related real estate expense will likely remain high.

During the economic downturn which began in 2008, we experienced an increase in nonperforming real estate loans. As a result, we have experienced, and we continue to experience, an increased level of foreclosed properties. Foreclosed real estate expense consists of maintenance costs, taxes, valuation adjustments to appraisal values, and gains or losses on disposition. The amount that we may realize after a default is dependent upon factors outside of our control, including but not limited to: (i) general and local economic conditions; (ii) neighborhood values; (iii) interest rates; (iv) real estate tax rates; (v) operating expenses of the properties; (vi) environmental remediation liabilities; (vii) ability to obtain and maintain occupancy of the properties; (viii) zoning laws; (ix) governmental rules, regulations, and fiscal policies; (x) potential vandalism; and (xi) acts of God. Expenditures associated with the ownership of real estate, such as real estate taxes, insurance, and maintenance costs, may adversely affect income from the real estate. The cost of operating real property may exceed the income earned from the property, and we may need to advance funds in order to protect our investment in the property, or we may be required to dispose of the property at a loss. If our levels of other real estate owned increase or are sustained and local real estate values decline, our foreclosed real estate expense will increase, which would adversely impact our results of operations.

As of December 31, 2016, forty-two percent (based on book value) of our foreclosed properties had been held by us for over five years. Regulatory approval is required and has been obtained to hold these properties beyond the initial period of five years. Additional approval may be required to continue to hold these properties in the event they are not liquidated during the extension period, which is typically one year. While we have previously received regulatory approval to continue to hold foreclosed properties for over five years, to the extent such approval is not obtained in the future with respect to a foreclosed property, we might be forced to liquidate such property at a price less than its appraised value.

Environmental Liability Risk

We are subject to environmental liability risk associated with lending activity.

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

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 financial services become increasingly dependent on technology, permitting transactions to be conducted by telephone, mobile banking, and the internet, non-bank institutions are able to attract funds and provide lending and other financial services without offices located in 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. With the increased consolidation in the financial industry, larger financial institutions may strengthen their competitive positions. 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.

Technology and other changes are allowing consumers to complete financial transactions through alternative methods to those which historically involved banks. For example, consumers can now hold funds that would have been held as bank deposits in mutual funds, brokerage accounts, or general purpose reloadable prepaid cards. In addition, consumers can complete transactions, such as paying bills or transferring funds, directly without utilizing the services of a bank. The process of eliminating banks as intermediaries (known as disintermediation), could result in the loss of fee income, as well as the loss of deposits and the income that might be generated from those deposits. The related revenue reduction could adversely affect our financial condition, cash flows, and results of operations.

Acquisition Risk

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

We may experience difficulty in making acquisitions on acceptable terms due to the decreasing number of suitable acquisition targets, competition for attractive acquisitions, regulatory impediments, and certain limitations on interstate acquisitions.

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, the International Money Laundering Abatement and Anti-Terrorist Financing Act, the Sarbanes-Oxley Act 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 and consumer protection 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. As more fully described under “Results of Operations and Financial Condition” in Item 7, the resolution of a Federal Reserve investigation in 2014 has resulted in impediments to CTBI’s merger and acquisition activity for an unspecified period of time.

We have grown, and, subject to regulatory approval, 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 bank acquisition activities.

We have a long history of acquiring financial institutions and, subject to regulatory approval, 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.

Third party vendors provide key components of our business infrastructure, such as processing, internet connections, and network access. While CTBI has selected these third party vendors carefully through its vendor management process, it does not control their actions and generally is not able to obtain satisfactory indemnification provisions in its third party vendor written contracts. Any problems caused by third parties or arising from their services, such as disruption in service, negligence in the performance of services or a breach of customer data security with regard to the third parties' systems, could adversely affect our ability to deliver services, negatively impact our business reputation, cause a loss of customers, or result in increased expenses, regulatory fines and sanctions, or litigation.

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;
- News reports of trends, concerns, and other issues related to the financial services industry; and
- Additional governmental policies and enforcement of current laws.

Our stock price may fluctuate significantly in the future, and these fluctuations may be unrelated to CTBI's performance. Although investor confidence in financial institutions has strengthened, the financial crisis adversely impacted investor confidence in the financial institutions sector. 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.

Cyber Risk

A breach in the security of our systems could disrupt our business, result in the disclosure of confidential information, damage our reputation, and create significant financial and legal exposure for us.

Our businesses are dependent on our ability and the ability of our third party service providers to process, record, and monitor a large number of transactions. If the financial, accounting, data processing, or other operating systems and facilities fail to operate properly, become disabled, experience security breaches, or have other significant shortcomings, our results of operations could be materially adversely affected.

Although we and our third party service providers devote significant resources to maintain and upgrade our systems and processes that are designed to protect the security of computer systems, software, networks, and other technology assets and the confidentiality, integrity, and availability of information belonging to us and our customers, there is no assurance that our security systems and those of our third party service providers will provide absolute security. Financial services institutions and companies engaged in data processing have reported breaches in the security of their websites or other systems, some of which have involved sophisticated and targeted attacks intended to obtain unauthorized access to confidential information, destroy data, disable or degrade service, or sabotage systems, often through the introduction of computer viruses or malware, cyber-attacks, and other means. Despite our efforts and those of our third party service providers to ensure the integrity of these systems, it is possible that we or our third party service providers may not be able to anticipate or to implement effective preventive measures against all security breaches of these types, especially because techniques used change frequently or are not recognized until launched, and because security attacks can originate from a wide variety of sources.

A successful breach of the security of our systems or those of our third party service providers could cause serious negative consequences to us, including significant disruption of our operations, misappropriation of our confidential information or the confidential information of our customers, or damage to our computers or operating systems, and could result in violations of applicable privacy and other laws, financial loss to us or to our customers, loss in confidence in our security measures, customer dissatisfaction, litigation exposure, and harm to our reputation, all of which could have a material adverse effect on us. While we maintain insurance coverage that should, subject to policy terms and conditions, cover certain aspects of our cyber risks, this insurance coverage may be insufficient to cover all losses we could experience resulting from a cyber security breach.

We could incur increased costs or reductions in revenue or suffer reputational damage in the event of misuse of information.

Our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks regarding our customers and their accounts. To provide these products and services, we use information systems and infrastructure that we and third party service providers operate. As a financial institution, we also are subject to and examined for compliance with an array of data protection laws, regulations, and guidance, as well as to our own internal privacy and information security policies and programs.

Information security risks for financial institutions like us have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, and other external parties. Our technologies and systems may become the target of cyber-attacks or other attacks that could result in the misuse or destruction of our or our customers' confidential, proprietary, or other information or that could result in disruptions to the business operations of us or our customers or other third parties. Also, our customers, in order to access some of our products and services, may use personal computers, smart mobile phones, tablet PCs, and other devices that are beyond our controls and security systems. Further, a breach or attack affecting one of our third-party service providers or partners could impact us through no fault of our own. In addition, because the methods and techniques employed by perpetrators of fraud and others to attack systems and applications change frequently and often are not fully recognized or understood until after they have been launched, we and our third-party service providers and partners may be unable to anticipate certain attack methods in order to implement effective preventative measures.

While we have policies and procedures designed to prevent or limit the effect of the possible security breach of our information systems, if unauthorized persons were somehow to get access to confidential or proprietary information in our possession or to our proprietary information, it could result in significant legal and financial exposure, damage to our reputation, or a loss of confidence in the security of our systems that could materially adversely affect our business.

Counterparty Risk

The soundness of other financial institutions could adversely affect CTBI.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional counterparties. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan due us. There is no assurance that any such losses would not materially and adversely affect our businesses, financial condition, or results of operations.

Item 1B. Unresolved Staff Comments

None.

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

(in thousands)	2016			2015			2014		
	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
Earning assets:									
Loans (1)(2)(3)	\$2,916,031	\$134,455	4.61 %	\$2,791,871	\$131,304	4.70 %	\$2,642,231	\$128,929	4.88 %
Loans held for sale	728	101	13.87	1,075	95	8.84	943	74	7.85
Securities:									
U.S. Treasury and agencies	445,500	6,669	1.50	446,081	7,425	1.66	474,062	9,302	1.96
Tax exempt state and political subdivisions									
(3)	99,086	4,182	4.22	101,382	4,162	4.11	95,460	3,963	4.15
Other securities	53,492	1,596	2.98	59,705	1,728	2.89	66,793	2,012	3.01
Federal Reserve Bank and Federal Home Loan Bank stock	22,814	1,011	4.43	22,812	1,010	4.43	23,978	1,136	4.74
Federal funds sold	3,121	19	0.61	3,344	13	0.39	4,007	15	0.37
Interest bearing deposits	108,546	538	0.50	90,106	219	0.24	103,823	248	0.24
Other investments	1,550	17	1.10	6,285	56	0.89	9,307	87	0.93
Investment in unconsolidated subsidiaries	1,846	43	2.33	1,845	35	1.90	1,846	34	1.84
Total earning assets	3,652,714	\$148,631	4.07 %	3,524,506	\$146,047	4.14 %	3,422,450	\$145,800	4.26 %
Allowance for loan and lease losses	(36,681)			(35,735)			(34,544)		
	3,616,033			3,488,771			3,387,906		
Nonearning assets:									
Cash and due from banks	50,946			53,641			55,658		
	48,138			49,103			50,923		

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Premises and equipment, net										
Other assets	205,140			198,767			185,044			
Total assets	\$3,920,257			\$3,790,282			\$3,679,531			
Interest bearing liabilities:										
Deposits:										
Savings and demand deposits	\$1,088,291	\$2,566	0.24 %	\$1,018,866	\$2,299	0.23 %	\$956,389	\$2,141	0.22 %	
Time deposits	1,203,081	8,355	0.69	1,217,225	7,317	0.60	1,291,896	7,657	0.59	
Repurchase agreements and federal funds purchased	262,361	1,155	0.44	256,091	938	0.37	233,431	841	0.36	
Advances from Federal Home Loan Bank	14,410	62	0.43	15,821	49	0.31	4,210	27	0.64	
Long-term debt	61,341	1,417	2.31	61,341	1,170	1.91	61,341	1,131	1.84	
Total interest bearing liabilities	2,629,484	\$13,555	0.52 %	2,569,344	\$11,773	0.46 %	2,547,267	\$11,797	0.46 %	
Noninterest bearing liabilities:										
Demand deposits	758,555			720,508			660,833			
Other liabilities	37,820			34,748			36,141			
Total liabilities	3,425,859			3,324,600			3,244,241			
Shareholders' equity	494,398			465,682			435,290			
Total liabilities and shareholders' equity	\$3,920,257			\$3,790,282			\$3,679,531			
Net interest income, tax equivalent		\$135,076			\$134,274			\$134,003		
Less tax equivalent interest income		2,055			2,027			1,933		
Net interest income		\$133,021			\$132,247			\$132,070		
Net interest spread			3.55 %			3.68 %			3.80 %	
			0.15			0.13			0.12	

Benefit of interest free funding			
Net interest margin	3.70 %	3.81 %	3.92 %

(1) Interest includes fees on loans of \$1,717, \$1,782, and \$1,848 in 2016, 2015, and 2014, respectively.

(2) Loan balances include deferred loan origination costs and 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 2016 and 2015 and also between 2015 and 2014.

(in thousands)	Total Change 2016/2015	Change Due to		Total Change 2015/2014	Change Due to	
		Volume	Rate		Volume	Rate
Interest income:						
Loans	\$3,151	\$5,760	\$(2,609)	\$2,375	\$7,141	\$(4,766)
Loans held for sale	6	(24)	30	21	11	10
U.S. Treasury and agencies	(756)	(10)	(746)	(1,877)	(572)	(1,305)
Tax exempt state and political subdivisions	20	(93)	113	199	244	(45)
Other securities	(132)	(176)	44	(284)	(220)	(64)
Federal Reserve Bank and Federal Home Loan Bank stock	1	0	1	(126)	(57)	(69)
Federal funds sold	6	(1)	7	(2)	(2)	0
Interest bearing deposits	319	52	267	(29)	(32)	3
Other investments	(39)	(35)	(4)	(31)	(29)	(2)
Investment in unconsolidated subsidiaries	8	0	8	1	0	1
Total interest income	2,584	5,473	(2,889)	247	6,484	(6,237)
Interest expense:						
Savings and demand deposits	267	161	106	158	141	17
Time deposits	1,038	(84)	1,122	(340)	(438)	98
Repurchase agreements and federal funds purchased	217	23	194	97	83	14
Advances from Federal Home Loan Bank	13	(4)	17	22	42	(20)
Long-term debt	247	0	247	39	0	39
Total interest expense	1,782	96	1,686	(24)	(172)	148
Net interest income	\$802	\$5,377	\$(4,575)	\$271	\$6,656	\$(6,385)

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, 2016 are as follows:

Available-for-sale

Estimated Maturity at December 31, 2016

(in thousands)	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Fair Value		Amortized Cost
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
U.S. Treasury, government agencies, and government sponsored agency mortgage-backed securities	\$101,616	0.79%	\$95,908	1.66%	\$85,877	1.71%	\$164,119	1.93%	\$447,520	1.57%	\$450,500
State and political subdivisions	2,800	2.99	44,225	3.66	46,283	4.33	40,208	4.36	133,516	4.09	133,300
Other securities	0	0.00	0	0.00	0	0.00	24,358	2.28	24,358	2.28	25,000
Total	\$104,416	0.85%	\$140,133	2.29%	\$132,160	2.63%	\$228,685	2.40%	\$605,394	2.15%	\$608,900

Held-to-maturity

Estimated Maturity at December 31, 2016

(in thousands)	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Amortized Cost		Fair Value
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
U.S. Treasury, government agencies, and government sponsored agency mortgage-backed securities	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0
State and political subdivisions	0	0.00	866	4.30	0	0.00	0	0.00	866	4.30	867
Total	\$0	0.00%	\$866	4.30%	\$0	0.00%	\$0	0.00%	\$866	4.30%	\$867

Total Securities

Estimated Maturity at December 31, 2016

(in thousands)	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Book Value		Fair Value
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	
Total	\$104,416	0.85%	\$140,999	2.30%	\$132,160	2.63%	\$228,685	2.40%	\$606,260	2.16%	\$606,261

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.

Excluding those holdings of the investment portfolio in U.S. Treasury securities, government agencies, and government sponsored agency mortgage-backed securities, there were no securities of any one issuer that exceeded 10% of our shareholders' equity at December 31, 2016.

The book values of securities available-for-sale and securities held-to-maturity as of December 31, 2016 and 2015 are presented in note 3 to the consolidated financial statements.

The book value of securities at December 31, 2014 is presented below:

(in thousands)	Available-for-Sale	Held-to-Maturity
U.S. Treasury and government agencies	\$ 190,563	\$ 480
State and political subdivisions	133,951	1,182
U.S. government sponsored agency mortgage-backed securities	288,881	0
Total debt securities	613,395	1,662
CRA investment funds	25,000	0
Total securities	\$ 638,395	\$ 1,662

Loan Portfolio

(in thousands)	2016	2015	2014	2013	2012
Commercial:					
Construction	\$66,998	\$78,020	\$121,942	\$110,779	\$119,447
Secured by real estate	1,085,428	1,052,919	948,626	872,542	807,213
Equipment lease financing	5,512	8,514	10,344	8,840	9,246
Commercial other	350,159	358,898	352,048	374,881	376,348
Total commercial	1,508,097	1,498,351	1,432,960	1,367,042	1,312,254
Residential:					
Real estate construction	57,966	61,750	62,412	56,075	55,041
Real estate mortgage	702,969	707,874	712,465	697,601	696,928
Home equity	91,511	89,450	88,335	84,880	82,292
Total residential	852,446	859,074	863,212	838,556	834,261
Consumer:					
Consumer direct	133,093	126,406	122,136	122,215	122,581
Consumer indirect	444,735	390,130	315,516	287,541	281,477
Total consumer	577,828	516,536	437,652	409,756	404,058
Total loans	\$2,938,371	\$2,873,961	\$2,733,824	\$2,615,354	\$2,550,573

Percent of total year-end loans

Commercial:										
Construction	2.28	%	2.71	%	4.46	%	4.24	%	4.68	%
Secured by real estate	36.94		36.64		34.70		33.36		31.65	
Equipment lease financing	0.18		0.30		0.38		0.34		0.36	
Commercial other	11.92		12.49		12.88		14.33		14.76	
Total commercial	51.32		52.14		52.42		52.27		51.45	
Residential:										
Real estate construction	1.97		2.15		2.28		2.15		2.16	
Real estate mortgage	23.93		24.63		26.06		26.67		27.32	
Home equity	3.11		3.11		3.23		3.25		3.23	
Total residential	29.01		29.89		31.57		32.07		32.71	
Consumer:										
Consumer direct	4.53		4.40		4.47		4.67		4.80	
Consumer indirect	15.14		13.57		11.54		10.99		11.04	

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Total consumer	19.67		17.97		16.01		15.66		15.84
Total loans	100.00	%	100.00	%	100.00	%	100.00	%	100.00

The total loans above are net of deferred loan fees and costs.

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).

(in thousands)	Maturity at December 31, 2016			
	Within One Year	After One but Within Five Years	After Five Years	Total
Commercial secured by real estate and commercial other	\$203,129	\$211,021	\$1,021,437	\$1,435,587
Commercial and real estate construction	78,507	18,358	28,099	124,964
	\$281,636	\$229,379	\$1,049,536	\$1,560,551
Rate sensitivity:				
Fixed rate	\$70,554	\$72,075	\$25,355	\$167,984
Adjustable rate	211,082	157,304	1,024,181	1,392,567
	\$281,636	\$229,379	\$1,049,536	\$1,560,551

Nonperforming Assets

(in thousands)	2016	2015	2014	2013	2012
Nonaccrual loans	\$16,623	\$16,563	\$20,971	\$19,958	\$16,791
90 days or more past due and still accruing interest	10,847	12,046	17,985	23,599	19,215
Total nonperforming loans	27,470	28,609	38,956	43,557	36,006
Other repossessed assets	103	183	90	0	5
Foreclosed properties	35,856	40,674	36,776	39,188	46,986
Total nonperforming assets	\$63,429	\$69,466	\$75,822	\$82,745	\$82,997

Nonperforming assets to total loans and foreclosed properties	2.13	%	2.38	%	2.74	%	3.12	%	3.20	%
Allowance to nonperforming loans	130.81	%	126.16	%	88.43	%	78.08	%	92.33	%

Nonaccrual and Past Due Loans

(in thousands)	Nonaccrual 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, 2016					
Commercial construction	\$ 1,912	2.85 %	\$28	0.04 %	\$66,998
Commercial secured by real estate	6,326	0.58	3,015	0.28	1,085,428
Equipment lease financing	0	0.00	0	0.00	5,512

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Commercial other	1,559	0.45	141	0.04	350,159
Real estate construction	11	0.02	152	0.26	57,966
Real estate mortgage	6,260	0.89	6,295	0.90	702,969
Home equity	555	0.61	467	0.51	91,511
Consumer direct	0	0.00	68	0.05	133,093
Consumer indirect	0	0.00	681	0.15	444,735
Total	\$ 16,623	0.57	% \$ 10,847	0.37	% \$ 2,938,371

December 31, 2015

Commercial construction	\$ 3,402	4.36	% \$ 30	0.04	% \$ 78,020
Commercial secured by real estate	5,928	0.56	3,757	0.36	1,052,919
Equipment lease financing	0	0.00	0	0.00	8,514
Commercial other	1,485	0.41	310	0.09	358,898
Real estate construction	249	0.40	55	0.09	61,750
Real estate mortgage	5,206	0.74	6,925	0.98	707,874
Home equity	183	0.20	448	0.50	89,450
Consumer direct	110	0.09	126	0.10	126,406
Consumer indirect	0	0.00	395	0.10	390,130
Total	\$ 16,563	0.58	% \$ 12,046	0.42	% \$ 2,873,961

Discussion of the Nonaccrual Policy

The accrual of interest income on loans 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 the collection of interest is doubtful. Cash payments received on nonaccrual loans generally are applied against principal, and interest income is only recorded once principal recovery is reasonably assured. Any loans greater than 90 days past due must be well secured and in the process of collection to continue accruing interest. See note 1 for further discussion on our nonaccrual policy.

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, 2016. See note 19 to the consolidated financial statements for further information.

Analysis of the Allowance for Loan and Lease Losses

(in thousands)	2016	2015	2014	2013	2012
Allowance for loan and lease losses, beginning of year	\$36,094	\$34,447	\$34,008	\$33,245	\$33,171
Loans charged off:					
Commercial construction	(316)	(3)	(15)	(1,135)	(1,034)
Commercial secured by real estate	(1,641)	(1,379)	(2,163)	(1,607)	(2,035)

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Commercial other	(2,136)	(1,961)	(3,141)	(2,265)	(3,233)
Real estate construction	(192)	(135)	(123)	(89)	(189)
Real estate mortgage	(1,043)	(1,421)	(1,058)	(744)	(1,123)
Home equity	(54)	(129)	(115)	(241)	(248)
Consumer direct	(1,236)	(1,306)	(1,326)	(1,166)	(1,245)
Consumer indirect	(5,050)	(3,536)	(3,495)	(3,802)	(3,483)
Total charge-offs	(11,668)	(9,870)	(11,436)	(11,049)	(12,590)
Recoveries of loans previously charged off:					
Commercial construction	36	13	28	309	35
Commercial secured by real estate	178	60	305	163	303
Commercial other	439	585	621	557	764
Real estate construction	7	4	2	4	28
Real estate mortgage	101	117	40	56	151
Home equity	9	54	5	11	11
Consumer direct	615	435	566	495	538
Consumer indirect	2,250	1,599	1,553	1,649	1,384
Total recoveries	3,635	2,867	3,120	3,244	3,214
Net charge-offs:					
Commercial construction	(280)	10	13	(826)	(999)
Commercial secured by real estate	(1,463)	(1,319)	(1,858)	(1,444)	(1,732)
Commercial other	(1,697)	(1,376)	(2,520)	(1,708)	(2,469)
Real estate construction	(185)	(131)	(121)	(85)	(161)
Real estate mortgage	(942)	(1,304)	(1,018)	(688)	(972)
Home equity	(45)	(75)	(110)	(230)	(237)
Consumer direct	(621)	(871)	(760)	(671)	(707)
Consumer indirect	(2,800)	(1,937)	(1,942)	(2,153)	(2,099)
Total net charge-offs	(8,033)	(7,003)	(8,316)	(7,805)	(9,376)
Provisions charged against operations	7,872	8,650	8,755	8,568	9,450
Balance, end of year	\$35,933	\$36,094	\$34,447	\$34,008	\$33,245
Allocation of allowance, end of year:					
Commercial construction	\$884	\$2,199	\$2,896	\$3,396	\$4,033
Commercial secured by real estate	14,191	14,434	13,618	14,535	13,541
Equipment lease financing	42	79	119	121	126
Commercial other	4,656	4,225	4,263	5,238	5,469
Real estate construction	629	550	534	397	376
Real estate mortgage	6,027	6,678	6,094	4,939	4,767
Home equity	774	839	756	601	563
Consumer direct	1,885	1,594	1,574	1,127	1,102
Consumer indirect	6,845	5,496	4,593	3,654	3,268
Balance, end of year	\$35,933	\$36,094	\$34,447	\$34,008	\$33,245
Average loans outstanding, net of deferred loan costs and fees					
Loans outstanding at end of year, net of deferred loan costs and fees	\$2,916,031	\$2,791,871	\$2,642,231	\$2,579,805	\$2,549,459
Loans outstanding at end of year, net of deferred loan costs and fees	\$2,938,371	\$2,873,961	\$2,733,824	\$2,615,354	\$2,550,573

Net charge-offs to average loan type:

Commercial construction	0.40	%	(0.01)%	(0.01)%	0.77	%	0.86	%
Commercial secured by real estate	0.14		0.13		0.21		0.17		0.21	
Commercial other	0.47		0.39		0.70		0.46		0.64	
Real estate construction	0.32		0.21		0.20		0.16		0.30	
Real estate mortgage	0.13		0.18		0.15		0.10		0.15	
Home equity	0.05		0.08		0.13		0.28		0.28	
Consumer direct	0.48		0.71		0.63		0.55		0.57	
Consumer indirect	0.67		0.55		0.67		0.75		0.67	
Total	0.28	%	0.25	%	0.31	%	0.30	%	0.37	%

Other ratios:

Allowance to net loans, end of year	1.22	%	1.26	%	1.26	%	1.30	%	1.30	%
Provision for loan losses to average loans	0.27	%	0.31	%	0.33	%	0.33	%	0.37	%

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 notes 1, 4, and 7 to the consolidated financial statements for further information.

Average Deposits and Other Borrowed Funds

(in thousands)	2016	2015	2014
Deposits:			
Noninterest bearing deposits	\$758,555	\$720,508	\$660,833
NOW accounts	49,037	36,227	31,208
Money market accounts	640,297	613,804	585,467
Savings accounts	398,957	368,835	339,714
Certificates of deposit of \$100,000 or more	578,669	571,660	598,684
Certificates of deposit < \$100,000 and other time deposits	624,412	645,565	693,212
Total deposits	3,049,927	2,956,599	2,909,118
Other borrowed funds:			
Repurchase agreements and federal funds purchased	262,361	256,091	233,431
Advances from Federal Home Loan Bank	14,410	15,821	4,210
Long-term debt	61,341	61,341	61,341
Total other borrowed funds	338,112	333,253	298,982
Total deposits and other borrowed funds	\$3,388,039	\$3,289,852	\$3,208,100

The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2016 occurred at October 31, 2016, with a month-end balance of \$269.3 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2015 occurred at September 30, 2015, with a month-end balance of \$265.4 million. The maximum balance for federal funds purchased and repurchase agreements at any month-end during 2014 occurred at November 30, 2014, with a month-end balance of \$252.3 million.

Maturities and/or repricing of time deposits of \$100,000 or more outstanding at December 31, 2016 are summarized as follows:

(in thousands)	Certificates of Deposit	Other Time Deposits	Total
Three months or less	\$ 119,653	\$ 7,982	\$ 127,635
Over three through six months	118,173	10,105	128,278
Over six through twelve months	244,562	15,909	260,471
Over twelve through sixty months	116,444	19,054	135,498
Over sixty months	0	0	0
	\$ 598,832	\$ 53,050	\$ 651,882

Item 2. Properties

Our main office, which is owned by Community Trust Bank, Inc., 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, 2016:

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 (lease land to 1 owned location)	4	1	5
5 locations in Letcher County, Kentucky			
Hazard Market (lease land to 2 owned locations)	3	0	3
4 locations in Perry County, Kentucky			
*Lexington Market (lease land to 3 owned locations)	4	2	6
6 locations in Fayette County, Kentucky			
Winchester Market	2	0	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)	2	3	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			
*Ashland Market (lease land to 1 owned location)	5	0	5
4 locations in Boyd County, Kentucky and 1 location in Greenup County, Kentucky			
Flemingsburg Market	3	0	3
3 locations in Fleming County, Kentucky			
Advantage Valley Market	3	1	4
2 locations in Lincoln County, West Virginia, 1 location in Wayne County, West Virginia, and 1 location in Cabell County, West Virginia			

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Summersville Market	1	0	1
1 location in Nicholas County, West Virginia			
Middlesboro Market (lease land to 1 owned location)	3	0	3
3 locations in Bell County, Kentucky			
Williamsburg Market	5	0	5
2 locations in Whitley County, Kentucky and 3 locations in Laurel County, Kentucky			
Campbellsville Market (lease land to 2 owned locations)	8	0	8
2 locations in Taylor County, Kentucky, 2 locations in Pulaski County, Kentucky, 1 location in Adair County, Kentucky, 1 location in Green County, Kentucky, 1 location in Russell County, Kentucky, and 1 location in Marion County, Kentucky			
Mt. Vernon Market	2	0	2
2 locations in Rockcastle County, Kentucky			
*LaFollette Market	3	1	4
3 locations in Campbell County, Tennessee and 1 location in Anderson County, Tennessee			
Total banking locations	70	10	80
Operational locations:			
Community Trust Bank, Inc.			
Pikeville (Pike County, Kentucky) (lease land to 1 owned location)	1	0	1
Total operational locations	1	0	1
Total locations	71	10	81

*Community Trust and Investment Company has leased offices in the main office locations in these markets.

See notes 8 and 16 to the consolidated financial statements included herein for the year ended December 31, 2016, for additional information relating to lease commitments and amounts invested in premises and equipment.

Item 3. Legal Proceedings

CTBI and subsidiaries, and from time to time, our officers, are named defendants in legal actions arising from ordinary business activities. Management, after consultation with legal counsel, believes any pending actions are without merit or that the ultimate liability, if any, will not materially affect our consolidated financial position or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities

Our common stock is listed on The NASDAQ-Stock Market LLC – Global Select Market under the symbol CTBI. As of February 28, 2017, there were approximately 6,400 holders of record of our outstanding common shares.

Dividends

The annual dividend paid to our stockholders was increased from \$1.22 per share to \$1.26 per share during 2016. We have adopted a conservative policy of cash dividends by generally maintaining an average annual cash dividend ratio of approximately 45%, with periodic stock dividends. The current year cash dividend ratio was 46.67%. Dividends are typically paid on a quarterly basis. Future dividends are subject to the discretion of CTBI's Board of Directors, cash needs, general business conditions, dividends from our subsidiaries, and applicable governmental regulations and policies. For information concerning restrictions on dividends from the subsidiary bank to CTBI, see note 21 to the consolidated financial statements included herein for the year ended December 31, 2016.

Stock Repurchases

CTBI did not acquire any shares of common stock through the stock repurchase program during the years 2016 and 2015. There are 67,371 shares remaining under CTBI's current repurchase authorization. For further information, see the Stock Repurchase Program section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Securities Authorized for Issuance Under Equity Compensation Plans

For information concerning securities authorized for issuance under CTBI's equity compensation plans, see Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters.

Common Stock Performance

The following graph shows the cumulative total return experienced by CTBI's shareholders during the last five years compared to the NASDAQ Stock Market (U.S.) and the NASDAQ Bank Stock Index. The graph assumes the investment of \$100 on December 31, 2011 in CTBI's common stock and in each index and the reinvestment of all dividends paid during the five-year period.

Comparison of 5 Year Cumulative Total Return
among Community Trust Bancorp, Inc., NASDAQ Stock Market (U.S.),
and NASDAQ Bank Stocks

Fiscal Year Ending December 31 (\$)

	2011	2012	2013	2014	2015	2016
Community Trust Bancorp, Inc.	100.00	115.65	163.79	150.78	149.01	216.78
NASDAQ Stock Market (U.S.)	100.00	116.43	155.41	174.78	175.62	198.47
NASDAQ Bank Stocks	100.00	134.74	184.08	205.85	210.40	266.24

Item 6. Selected Financial Data 2012-2016

(in thousands except ratios, per share amounts and # of employees)

Year Ended December 31	2016	2015	2014	2013	2012
Interest income	\$ 146,576	\$ 144,020	\$ 143,867	\$ 148,127	\$ 153,722
Interest expense	13,555	11,773	11,797	13,440	21,588
Net interest income	133,021	132,247	132,070	134,687	132,134
Provision for loan losses	7,872	8,650	8,755	8,568	9,450
Noninterest income	48,441	46,809	45,081	49,304	45,957

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Noninterest expense	107,126	105,443	105,999	110,251	103,554				
Income before income taxes	66,464	64,963	62,397	65,172	65,087				
Income taxes	19,118	18,531	19,146	20,000	20,225				
Net income	\$47,346	\$46,432	\$43,251	\$45,172	\$44,862				
Per common share:									
Basic earnings per share	\$2.70	\$2.66	\$2.50	\$2.63	\$2.64				
Diluted earnings per share	\$2.70	\$2.66	\$2.49	\$2.62	\$2.63				
Cash dividends declared-	\$1.260	\$1.220	\$1.181	\$1.154	\$1.136				
as a % of net income	46.67	% 45.86	% 47.24	% 43.79	% 43.10				%
Book value, end of year	\$28.40	\$27.12	\$25.64	\$23.70	\$23.31				
Market price, end of year	\$49.60	\$34.96	\$36.61	\$41.05	\$29.80				
Market to book value, end of year	1.75	x 1.29	x 1.43	x 1.73	x 1.28				x
Price/earnings ratio, end of year	18.37	x 13.14	x 14.64	x 15.57	x 11.30				x
Cash dividend yield, for the year	2.54	% 3.49	% 3.23	% 2.81	% 3.81				%
At year-end:									
Total assets	\$3,932,169	\$3,903,934	\$3,723,765	\$3,581,716	\$3,635,664				
Long-term debt	61,341	61,341	61,341	61,341	61,341				
Shareholders' equity	500,615	475,583	447,877	412,492	400,344				
Averages:									
Assets	\$3,920,257	\$3,790,282	\$3,679,531	\$3,651,541	\$3,641,660				
Deposits, including repurchase agreements	3,306,550	3,201,545	3,130,338	3,127,709	3,139,229				
Earning assets	3,652,714	3,524,506	3,422,450	3,384,211	3,357,134				
Loans	2,916,031	2,791,871	2,642,231	2,579,805	2,549,459				
Shareholders' equity	494,398	465,682	435,290	408,782	389,377				
Profitability ratios:									
Return on average assets	1.21	% 1.23	% 1.18	% 1.24	% 1.23				%
Return on average equity	9.58	9.97	9.94	11.05	11.52				
Capital ratios:									
Equity to assets, end of year	12.73	% 12.18	% 12.03	% 11.52	% 11.01				%
Average equity to average assets	12.61	12.29	11.83	11.19	10.69				
Risk based capital ratios:									
Tier 1 leverage	12.75	% 12.40	% 12.04	% 11.51	% 10.65				%
Common equity Tier 1 capital	15.18	14.58	--	--	--				
Tier 1 capital	17.25	16.70	16.51	16.15	15.23				
Total capital	18.50	17.95	17.76	17.40	16.49				
Other significant ratios:									
Allowance to net loans, end of year	1.22	% 1.26	% 1.26	% 1.30	% 1.30				%
Allowance to nonperforming loans, end of year	130.81	126.16	88.43	78.08	92.33				
Nonperforming assets to loans and foreclosed properties, end of year	2.13	2.38	2.74	3.12	3.20				
Net interest margin	3.70	3.81	3.92	4.03	3.99				
Efficiency ratio	58.54	58.20	59.12	59.33	57.93				

Other statistics:

Average common shares outstanding	17,548	17,431	17,326	17,158	17,013
Number of full-time equivalent employees, end of year	996	984	1,012	1,022	1,035

Quarterly Financial Data
(Unaudited)

(in thousands except ratios and per share amounts)

Three Months Ended	December 31	September 30	June 30	March 31
2016				
Net interest income	\$ 33,411	\$ 33,227	\$33,059	\$33,324
Net interest income, taxable equivalent basis	33,930	33,726	33,565	33,855
Provision for loan losses	2,043	2,191	1,873	1,765
Noninterest income	12,515	13,186	11,769	10,971
Noninterest expense	27,005	26,687	27,192	26,242
Net income	11,866	12,312	11,566	11,602
Per common share:				
Basic earnings per share	\$ 0.67	\$ 0.70	\$0.66	\$0.66
Diluted earnings per share	0.67	0.70	0.66	0.66
Dividends declared	0.32	0.32	0.31	0.31
Common stock price:				
High	\$ 51.35	\$ 37.49	\$36.95	\$36.00
Low	35.85	33.71	32.98	30.89
Last trade	49.60	37.11	34.66	35.32
Selected ratios:				
Return on average assets, annualized	1.19 %	1.25 %	1.19 %	1.20 %
Return on average common equity, annualized	9.41	9.81	9.46	9.63
Net interest margin, annualized	3.66	3.66	3.71	3.76
Three Months Ended	December 31	September 30	June 30	March 31
2015				
Net interest income	\$ 33,195	\$ 32,965	\$33,182	\$32,905
Net interest income, taxable equivalent basis	33,692	33,467	33,697	33,418
Provision for loan losses	1,910	2,520	2,319	1,901
Noninterest income	11,810	12,035	12,228	10,736
Noninterest expense	25,778	27,534	26,313	25,818
Net income	11,870	11,222	12,402	10,938
Per common share:				
Basic earnings per share	\$ 0.68	\$ 0.64	\$0.71	\$0.63
Diluted earnings per share	0.68	0.64	0.71	0.63
Dividends declared	0.31	0.31	0.30	0.30
Common stock price:				

High	\$ 37.15	\$ 37.63	\$ 35.49	\$ 36.47
Low	33.68	33.62	31.54	31.53
Last trade	34.96	35.51	34.87	33.16

Selected ratios:

Return on average assets, annualized	1.22	%	1.18	%	1.32	%	1.18	%
Return on average common equity, annualized	9.91		9.50		10.78		9.70	
Net interest margin, annualized	3.74		3.77		3.85		3.89	

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand Community Trust Bancorp, Inc., our operations, and our present business environment. The MD&A is provided as a supplement to—and should be read in conjunction with—our consolidated financial statements and the accompanying notes thereto contained in Item 8 of this annual report. The MD&A includes the following sections:

v Our Business

v Financial Goals and Performance

v Results of Operations and Financial Condition

v Contractual Obligations and Commitments

v Liquidity and Market Risk

v Interest Rate Risk

v Capital Resources

v Impact of Inflation, Changing Prices, and Economic Conditions

v Stock Repurchase Program

v Critical Accounting Policies and Estimates

Our Business

Community Trust Bancorp, Inc. ("CTBI") is a bank holding company headquartered in Pikeville, Kentucky. Currently, we own one commercial bank, Community Trust Bank, Inc. ("CTB") and one trust company, Community Trust and Investment Company. Through our subsidiaries, we have eighty banking locations in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee, four trust offices across Kentucky, and one trust office in northeastern Tennessee. At December 31, 2016, we had total consolidated assets of \$3.9 billion and total consolidated deposits, including repurchase agreements, of \$3.3 billion. Total shareholders' equity at December 31, 2016 was \$500.6 million. Trust assets under management, which are excluded from CTBI's total consolidated assets, at December 31, 2016, were \$2.1 billion. Trust assets under management include CTB's investment portfolio totaling \$0.6 billion.

Through its subsidiaries, CTBI engages in a wide range of commercial and personal banking and trust and wealth management 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 CTB 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 paying agents for bond and stock issues, as investment agent, as depositories for securities, and as providers of full service brokerage and insurance services. For further information, see Item 1 of this annual report.

Financial Goals and Performance

The following table shows the primary measurements used by management to assess annual performance. The goals in the table below should not be viewed as a forecast of our performance for 2017. Rather, the goals represent a range of target performance for 2017. There is no assurance that any or all of these goals will be achieved. See “Cautionary Statement Regarding Forward Looking Statements.”

	2016 Goals	2016 Performance	2017 Goals
Earnings per share	\$2.72 - \$2.82	\$2.70	\$2.76 - \$2.86
Net income	\$48.0 - \$49.2 million	\$47.3 million	\$49.0 - \$50.2 million
ROAA	1.22% - 1.28%	1.21%	1.19% - 1.25%
ROAE	9.4% - 10.4%	9.58%	9.10% - 10.10%
Revenues		\$181.5 million	
	\$183.0 - \$189.6 million		\$187.8 - \$193.8 million
Noninterest revenue as of % of total revenue	26.0% - 26.5%	26.48%	25.00% - 25.80%
Assets	\$3.8 - \$4.2 billion	\$3.93 billion	\$3.90 - \$4.40 billion
Loans	\$2.9 - \$3.1 billion	\$2.94 billion	\$3.00 - \$3.20 billion
Deposits, including repurchase agreements	\$3.2 - \$3.4 billion	\$3.33 billion	\$3.30 - \$3.50 billion
Shareholders' equity	\$485.0 - \$520.0 million	\$500.6 million	\$510.0 - \$550.0 million

Results of Operations and Financial Condition

We reported earnings of \$47.3 million, or \$2.70 per basic share, for the year ended December 31, 2016 compared to \$46.4 million, or \$2.66 per basic share, for the year ended December 31, 2015 and \$43.3 million, or \$2.50 per basic share, for the year ended December 31, 2014.

2016 Highlights

v Our loan portfolio increased \$64.4 million from December 31, 2015.

v Our investment portfolio increased \$9.7 million from December 31, 2015.

v Deposits, including repurchase agreements, increased \$100.4 million from December 31, 2015.

v Nonperforming loans at \$27.5 million decreased \$1.1 million from December 31, 2015. Nonperforming assets at \$63.4 million decreased \$6.0 million from December 31, 2015.

v Net loan charge-offs for the year 2016 were \$8.0 million, or 0.28% of average loans, compared to \$7.0 million, or 0.25%, for the year 2015.

Income Statement Review

(dollars in thousands)				Change 2016 vs.	
	2016	2015	2014	2015	2015
Year Ended December 31				Amount	Percent
Net interest income	\$ 133,021	\$ 132,247	\$ 132,070	\$ 774	0.6 %
Provision for loan losses	7,872	8,650	8,755	(778)	(9.0)
Noninterest income	48,441	46,809	45,081	1,632	3.5
Noninterest expense	107,126	105,443	105,999	1,683	1.6
Income taxes	19,118	18,531	19,146	587	3.2
Net income	\$ 47,346	\$ 46,432	\$ 43,251	\$ 914	2.0 %
Average earning assets	\$ 3,652,714	\$ 3,524,506	\$ 3,422,450	\$ 128,208	3.6 %
Yield on average earnings assets	4.07 %	4.14 %	4.26 %	(0.07)%	(1.8)%
Cost of interest bearing funds	0.52 %	0.46 %	0.46 %	0.06 %	12.5 %
Net interest margin	3.70 %	3.81 %	3.92 %	(0.11)%	(2.9)%

Net Interest Income

Net interest income for the year ended December 31, 2016 of \$133.0 million increased \$0.8 million, or 0.6%, from prior year. Average earning assets increased \$128.2 million over prior year. Our yield on average earning assets decreased 7 basis points from prior year, while our cost of interest bearing funds increased 6 basis points. Average loans to deposits, including repurchase agreements, for the year ended December 31, 2016 were 88.2% compared to 87.2% for the year ended December 31, 2015.

Net interest income for the year ended December 31, 2015 increased \$0.2 million, or 0.1%, from 2014. Our yield on average earning assets decreased 12 basis points from 2014 to 2015, while our cost of interest bearing funds remained flat. Average loans to deposits, including repurchase agreements, for the year ended December 31, 2015 were 87.2% compared to 84.4% for the year ended December 31, 2014.

Provision for Loan Losses

The provision for loan losses added to the allowance for 2016 of \$7.9 million was a \$0.8 million decrease from prior year. This provision represented a charge against current earnings in order to maintain the allowance at an appropriate level determined using the accounting estimates described in the Critical Accounting Policies and Estimates section.

The provision for loan losses added to the allowance for 2015 of \$8.7 million was a \$0.1 million decrease from 2014.

Noninterest Income

Noninterest income for the year ended December 31, 2016 of \$48.4 million was an increase of \$1.6 million, or 3.5%, from 2015. The increase in noninterest income year over year was primarily due to a \$0.7 million increase in deposit services charges, a \$0.3 million increase in trust revenue, a \$0.3 million increase in loan related fees, and a \$0.6 million positive variance in securities gains (losses).

Noninterest income for the year ended December 31, 2015 increased \$1.7 million, or 3.8%, from 2014 as a result of increases in gains on sales of loans (\$0.5 million), deposit service charges (\$0.4 million), trust revenue (\$0.3 million), and loan related fees (\$0.3 million) and decreased securities losses (\$0.1 million). Loan related fees were affected by a \$0.5 million fluctuation in the fair value adjustments of our mortgage servicing rights from 2014 to 2015.

Noninterest Expense

Noninterest expense for the year ended December 31, 2016 of \$107.1 million increased \$1.7 million, or 1.6%, from prior year. The increase in noninterest expense was primarily due to an increase in personnel expense, partially offset by decreased FDIC insurance expense. The increase in our personnel expense is a result of changes in our group medical insurance expense caused by differences in our claims paid experience as a self-insured employer.

Noninterest expense for the year ended December 31, 2015 decreased \$0.6 million, or 0.5%, from 2014, as a result of decreases in occupancy and equipment expense (\$0.6 million), data processing expense (\$1.1 million), and repossession expense (\$0.2 million), partially offset by a \$1.7 million increase in amortization expense related to tax credits.

Balance Sheet Review

CTBI's total assets at \$3.9 billion increased \$28.2 million, or 0.7%, from December 31, 2015. Loans outstanding at December 31, 2016 were \$2.9 billion, increasing \$64.4 million, or 2.2%, year over year. We experienced growth during the year of \$9.7 million in the commercial loan portfolio, \$54.6 million in the indirect loan portfolio, and \$6.7 million in the consumer direct loan portfolio, partially offset by a \$6.6 million decrease in the residential loan portfolio. CTBI's investment portfolio increased \$9.7 million, or 1.6%, from December 31, 2015. Deposits in other banks decreased \$42.1 million from December 31, 2015. Deposits, including repurchase agreements, at \$3.3 billion increased \$100.4 million, or 3.1%, from December 31, 2015.

Shareholders' equity at December 31, 2016 was \$500.6 million compared to \$475.6 million at December 31, 2015. CTBI's annualized dividend yield to shareholders as of December 31, 2016 was 2.58%.

Loans

(in thousands)	December 31, 2016					
		Variance				
		from				
		Prior				
Loan Category	Balance	Year	Net	Charge-Offs	Nonperforming	ALLL
Commercial:						
Construction	\$66,998	(14.1)%	\$ 280		\$ 1,940	\$884
Secured by real estate	1,085,428	3.1)	1,463		9,341	14,191
Equipment lease financing	5,512	(35.3)	0		0	42
Other commercial	350,159	(2.4)	1,697		1,700	4,656
Total commercial	1,508,097	0.7)	3,440		12,981	19,773
Residential:						
Real estate construction	57,966	(6.1)	185		163	629
Real estate mortgage	702,969	(0.7)	942		12,555	6,027
Home equity	91,511	2.3)	45		1,022	774
Total residential	852,446	(0.8)	1,172		13,740	7,430
Consumer:						
Consumer direct	133,093	5.3)	621		68	1,885
Consumer indirect	444,735	14.0)	2,800		681	6,845
Total consumer	577,828	11.9)	3,421		749	8,730

Total loans	\$2,938,371	2.2	%	\$ 8,033	\$ 27,470	\$35,933
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Asset Quality

CTBI's total nonperforming loans were \$27.5 million at December 31, 2016, a 4.0% decrease from the \$28.6 million at December 31, 2015. The decrease for the year included a \$1.2 million decrease in loans 90+ days past due partially offset by a \$0.1 million increase in nonaccrual loans. Loans 30-89 days past due and accruing interest at \$16.4 million was an increase of \$2.0 million from December 31, 2015. Our loan portfolio management processes focus on the immediate identification, management, and resolution of problem loans to maximize recovery and minimize loss. Our loan portfolio risk management processes include weekly delinquent loan review meetings at the market levels and monthly delinquent loan review meetings involving senior corporate management to review all nonaccrual loans and loans 30 days or more past due. Any activity regarding a criticized/classified loan (i.e. problem loan) must be approved by CTB's Watch List Asset Committee (i.e. Problem Loan Committee). CTB's Watch List Asset Committee also meets on a quarterly basis and reviews every criticized/classified loan of \$100,000 or greater. We also have a Loan Review Department that reviews every market within CTB annually and performs extensive testing of the loan portfolio to assure the accuracy of loan grades and classifications for delinquency, troubled debt restructuring, impaired status, impairment, nonaccrual status, and adequate loan loss reserves. The Loan Review Department has annually reviewed on average 95% of the outstanding commercial loan portfolio for the past three years. The average annual review percentage of the consumer and residential loan portfolio for the past three years was 85% based on the loan production during the number of months included in the review scope. The review scope is generally four to six months of production.

Impaired loans, loans not expected to meet contractual principal and interest payments, at December 31, 2016 totaled \$52.2 million compared to \$49.9 million at December 31, 2015. Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. At December 31, 2016, CTBI had \$28.8 million in commercial loans secured by real estate, \$5.3 million in commercial real estate construction loans, \$10.8 million in commercial other loans, and \$1.5 million in real estate mortgage loans that were modified in troubled debt restructurings and impaired. Management evaluates all impaired loans for impairment and records a direct charge-off or provides specific reserves when necessary.

For further information regarding nonperforming and impaired loans, see note 4 to the consolidated financial statements.

CTBI generally does not offer high risk loans such as option ARM products, high loan to value ratio mortgages, interest-only loans, loans with initial teaser rates, or loans with negative amortizations, and therefore, CTBI would have no significant exposure to these products.

Our level of foreclosed properties at \$35.9 million at December 31, 2016 was a \$4.8 million decrease from \$40.7 million at December 31, 2015. Sales of foreclosed properties for the year ended December 31, 2016 totaled \$9.5 million while new foreclosed properties totaled \$5.9 million. At December 31, 2016, the book value of properties under contracts to sell was \$1.9 million; however, the closings had not occurred at year-end.

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. Charges to earnings in 2016 to reflect the decrease in current market values of foreclosed properties totaled \$1.2 million. There were 72 properties reappraised during 2016. Of these, 45 were written down by a total of \$0.9 million. Charges during the year ended December 31, 2015 were \$1.7 million. 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. Approximately eighty-eight percent of

our OREO properties have appraisals dated within the past 18 months. Management anticipates that our foreclosed properties will remain elevated as we work through current market conditions.

The appraisal aging analysis of foreclosed properties, as well as the holding period, at December 31, 2016 is shown below:

(in thousands)	Appraisal Aging Analysis		Holding Period Analysis	
	Current Book Value	Holding Period	Current Book Value	
Days Since Last Appraisal				
Up to 3 months	\$2,783	Less than one year	\$5,095	
3 to 6 months	3,739	1 to 2 years	9,145	
6 to 9 months	1,317	2 to 3 years	3,330	
9 to 12 months	3,493	3 to 4 years	976	
12 to 18 months	20,289	4 to 5 years	2,203	
18 to 24 months	4,195	Over 5 years*	15,107	
Over 24 months	40			
Total	\$35,856	Total	\$35,856	

* Regulatory approval is required and has been obtained to hold these properties beyond the initial period of 5 years. Additional approval may be required to continue to hold these properties should they not be liquidated during the extension period, which is typically one year.

Net loan charge-offs for the year were \$8.0 million, or 0.28% of average loans annualized, an increase from prior year's \$7.0 million, or 0.25% of average loans annualized. Of the total net charge-offs, \$3.4 million were in commercial loans, \$2.8 million were in indirect auto loans, \$1.2 million were in residential real estate mortgage loans, and \$0.6 million were in direct consumer loans.

Our loan loss reserve as a percentage of total loans outstanding at December 31, 2016 decreased to 1.22% from the 1.26% at December 31, 2015. Our reserve coverage (allowance for loan and lease loss reserve to nonperforming loans) improved to 130.8% at December 31, 2016 compared to 126.2% at December 31, 2015.

Contractual Obligations and Commitments

As disclosed in the notes to the consolidated financial statements, we have certain obligations and commitments to make future payments under contracts. At December 31, 2016, the aggregate contractual obligations and commitments are:

(in thousands)	Contractual Obligations:	Payments Due by Period			
		Total	1 Year	2-5 Years	After 5 Years
Deposits without stated maturity		\$1,868,265	\$1,868,265	\$0	\$0
Certificates of deposit and other time deposits		1,213,043	988,296	224,419	328
Repurchase agreements and federal funds purchased		255,881	255,881	0	0
Advances from Federal Home Loan Bank		944	106	464	374
Interest on advances from Federal Home Loan Bank*		21	12	9	0
Long-term debt		61,341	0	0	61,341
Interest on long-term debt*		57,842	1,842	10,280	45,720
Annual rental commitments under leases		8,878	2,010	3,779	3,089
Total contractual obligations		\$3,466,215	\$3,116,412	\$238,951	\$110,852

*The amounts provided as interest on advances from Federal Home Loan Bank and interest on long-term debt assume the liabilities will not be prepaid and interest is calculated to their individual maturities.

The interest on \$61.3 million in long-term debt is calculated based on the three-month LIBOR plus 1.59% until its maturity of June 1, 2037. The three-month LIBOR rate is projected using the most likely rate forecast from assumptions incorporated in the interest rate risk model and is determined two business days prior to the interest payment date. These assumptions are uncertain, and as a result, the actual payments will differ from the projection due to changes in economic conditions.

Other Commitments:	Amount of Commitment - Expiration by Period			
	Total	1 Year	2-5 Years	After 5 Years
(in thousands)				
Standby letters of credit	\$29,917	\$19,829	\$10,088	\$0
Commitments to extend credit	570,467	436,984	121,080	12,403
Total other commitments	\$600,384	\$456,813	\$131,168	\$12,403

Commitments to extend credit and standby letters of credit do not necessarily represent future cash requirements in that these commitments often expire without being drawn upon. Refer to note 18 to the consolidated financial statements for additional information regarding other commitments.

Liquidity and Market Risk

The objective of CTBI's Asset/Liability management function is to maintain consistent growth in net interest income within our policy limits. This objective is accomplished through management of our consolidated balance sheet composition, liquidity, and interest rate risk exposures arising from changing economic conditions, interest rates, and customer preferences. The goal of liquidity management is to provide adequate funds to meet changes in loan and lease demand or deposit withdrawals. This is accomplished by maintaining liquid assets in the form of cash and cash equivalents and investment securities, sufficient unused borrowing capacity, and growth in core deposits. As of December 31, 2016, we had approximately \$144.7 million in cash and cash equivalents and approximately \$605.4 million in securities valued at estimated fair value designated as available-for-sale and available to meet liquidity needs on a continuing basis compared to \$187.6 million and \$594.9 million at December 31, 2015. Additional asset-driven liquidity is provided by the remainder of the securities portfolio and the repayment of loans. In addition to core deposit funding, we also have a variety of other short-term and long-term funding sources available. We also rely on Federal Home Loan Bank advances for both liquidity and management of our asset/liability position. Federal Home Loan Bank advances were \$0.9 million at December 31, 2016 compared to \$101.1 million at December 31, 2015. As of December 31, 2016, we had a \$295.8 million available borrowing position with the Federal Home Loan Bank compared to \$218.3 million at December 31, 2015. We generally rely upon net inflows of cash from financing activities, supplemented by net inflows of cash from operating activities, to provide cash for our investing activities. As is typical of many financial institutions, significant financing activities include deposit gathering, use of short-term borrowing facilities such as repurchase agreements and federal funds purchased, and issuance of long-term debt. At December 31, 2016, we had \$57 million in lines of credit with various correspondent banks available to meet any future cash needs compared to \$44 million at December 31, 2015. Our primary investing activities include purchases of securities and loan originations. We do not rely on any one source of liquidity and manage availability in response to changing consolidated balance sheet needs. Included in our cash and cash equivalents at December 31, 2016 were federal funds sold of \$0.5 million compared to \$0.8 million at December 31, 2015, and deposits with the Federal Reserve were \$93.4 million at December 31, 2016 compared to \$130.6 million at December 31, 2015. Additionally, we project cash flows from our investment portfolio to generate additional liquidity over the next 90 days.

The investment portfolio consists primarily of investment grade short-term issues suitable for bank investments. The majority of the investment portfolio is in U.S. government and government sponsored agency issuances. At the end of 2016, available-for-sale (“AFS”) securities comprised approximately 99.9% of the total investment portfolio, and the AFS portfolio was approximately 120.9% of equity capital. Ninety-two percent of the pledge eligible portfolio was pledged.

Interest Rate Risk

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.

CTBI’s Asset/Liability Management Committee (ALCO), which includes executive and senior management representatives and reports to the Board of Directors, monitors and manages interest rate risk within Board-approved policy limits. Our current exposure to interest rate risks is determined by measuring the anticipated change in net interest income spread evenly over the twelve-month period.

The following table shows our estimated earnings sensitivity profile as of December 31, 2016:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income (12 Months)
+400	7.05%
+300	5.10%
+200	3.15%
+100	1.30%
-25	(0.21)%

The following table shows our estimated earnings sensitivity profile as of December 31, 2015:

Change in Interest Rates (basis points)	Percentage Change in Net Interest Income (12 Months)
+400	7.54%
+300	5.46%
+200	3.33%
+100	1.35%
-25	(0.30)%

The simulation model used the yield curve spread evenly over a twelve-month period. The measurement at December 31, 2016 estimates that our net interest income in an up-rate environment would increase by 7.05% at a 400 basis point change, 5.10% increase at a 300 basis point change, 3.15% increase at a 200 basis point change, and a 1.30% increase at a 100 basis point change. In a down-rate environment, a 25 basis point decrease in interest rates would decrease net interest income by 0.21% over one year. In order to reduce the exposure to interest rate fluctuations and

to manage liquidity, we have developed sale procedures for several types of interest-sensitive assets. Primarily all long-term, fixed rate single family residential mortgage loans underwritten according to Federal Home Loan Mortgage Corporation guidelines are sold for cash upon origination or originated under terms where they could be sold. Periodically, additional assets such as commercial loans are also sold. In 2016 and 2015, \$81.4 million and \$80.6 million, respectively, were realized on the sale of fixed rate residential mortgages. We focus our efforts on consistent net interest revenue and net interest margin growth through each of the retail and wholesale business lines. We do not currently engage in trading activities.

The preceding analysis was prepared using a rate ramp analysis which attempts to spread changes evenly over a specified time period as opposed to a rate shock which measures the impact of an immediate change. Had these measurements been prepared using the rate shock method, the results would vary.

Our Static Repricing GAP as of December 31, 2016 is presented below. In the 12 month repricing GAP, rate sensitive liabilities (“RSL”) exceeded rate sensitive assets (“RSA”) by \$158.7 million.

(dollars in thousands)	1-3 Months	4-6 Months	7-9 Months	10-12 Months	2-3 Years	4-5 Years	> 5 Years
Assets	\$1,435,324	\$227,194	\$193,639	\$215,660	\$756,883	\$469,905	\$633,565
Liabilities and Equity	871,530	341,950	421,541	595,465	1,075,805	92,109	533,769
Repricing difference	563,794	(114,756)	(227,902)	(379,805)	(318,921)	377,795	99,795
Cumulative GAP	563,794	449,038	221,136	(158,669)	(477,590)	(99,795)	0
RSA/RSL	1.65	x 0.66	x 0.46	x 0.36	x 0.70	x 5.10	x 1.19
Cumulative GAP to total assets	14.34	% 11.42	% 5.62	% (4.04)	% (12.15)	% (2.54)	% 0.00

Capital Resources

We continue to grow our shareholders’ equity while also providing an annual dividend yield for the year 2016 of 2.54% to shareholders. Shareholders’ equity increased 5.3% from December 31, 2015 to \$500.6 million at December 31, 2016. Our primary source of capital growth is the retention of earnings. Cash dividends were \$1.260 per share for 2016 and \$1.220 per share for 2015. We retained 53.3% of our earnings in 2016 compared to 54.1% in 2015.

Regulatory guidelines require bank holding companies, commercial banks, and savings banks to maintain certain minimum capital ratios and define companies as “well-capitalized” that sufficiently exceed the minimum ratios. The banking regulators may alter minimum capital requirements as a result of revising their internal policies and their ratings of individual institutions. To be “well-capitalized” banks and bank holding companies must maintain a Tier 1 leverage ratio of no less than 5%, a common equity Tier 1 capital ratio of no less than 6.5%, a Tier 1 risk based ratio of no less than 8%, and a total risk based ratio of no less than 10%. Our ratios as of December 31, 2016 were 12.75%, 15.18%, 17.25%, and 18.50%, respectively, all exceeding the threshold for meeting the definition of “well-capitalized.” See note 21 to the consolidated financial statements for further information.

As of December 31, 2016, we are not aware of any current recommendations by banking regulatory authorities which, if they were to be implemented, would have, or are reasonably likely to have, a material adverse impact on our

liquidity, capital resources, or operations. However, based on a recent discussion with a regulatory agency representative concerning the status of an ongoing review of two CTB deposit add-on products, CTBI believes it is likely that it will be cited for two violations based on alleged unfair and deceptive practices with respect to such products. CTBI has evaluated the possible violations and their potential financial impact. Based upon this analysis, management established an accrual in 2014 for possible customer reimbursements. We have not received a final written notice citing such violations and have not been informed as to the amount of, or relevant time period for, related reimbursement. The actual amount of reimbursement may materially vary from the amount management has evaluated as most likely at December 31, 2016.

Basel III

On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to CTBI and CTB. The FDIC subsequently approved these rules. The final rules implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act.

The rules include new risk-based capital and leverage ratios, which are being phased in from 2015 to 2019, and refine the definition of what constitutes “capital” for purposes of calculating those ratios. The new minimum capital level requirements applicable to CTBI and CTB under the final rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a “capital conservation buffer” above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer began to be phased in on January 1, 2016 at 0.625% of risk-weighted assets and will increase by 0.625% annually until fully implemented in January 2019. An institution is subject to limitations on certain activities including payment of dividends, share repurchases, and discretionary bonuses to executive officers if its capital level is below the capital conservation buffer amount.

The final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than \$15 billion in total assets as of December 31, 2009 (which includes CTBI) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions took effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions are required to meet the following increased capital level requirements in order to qualify as “well capitalized:” (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from previous rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from previous rules).

The final rules set forth certain changes for the calculation of risk-weighted assets, which we were required to utilize beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with \$50 billion or more in total assets that are not subject to the “advance approach rules” that apply to banks with greater than \$250 billion in consolidated assets. We currently satisfy the well-capitalized and the capital conservation standards, and based on our current capital composition and levels, we anticipate that our capital ratios, on a Basel III basis, will continue to exceed the well-capitalized minimum

capital requirements and capital conservation buffer standards.

Impact of Inflation, Changing Prices, and Economic Conditions

The majority of our assets and liabilities are monetary in nature. Therefore, CTBI differs greatly from most commercial and industrial companies that have significant investment in nonmonetary assets, such as fixed assets and inventories. However, inflation does have an important impact on the growth of assets in the banking industry and on the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio. Inflation also affects other expenses, which tend to rise during periods of general inflation.

We believe one of the most significant impacts on financial and operating results is our ability to react to changes in interest rates. We seek to maintain an essentially balanced position between interest rate sensitive assets and liabilities in order to protect against the effects of wide interest rate fluctuations.

Beginning in 2008, the U.S. economy faced a severe economic crisis including a major recession from which it is recovering. Commerce and business growth in certain regions in the U.S. remains reduced and local governments and many businesses continue to experience financial difficulty. In some areas of the U.S., including certain parts of our service area, unemployment levels remain elevated. There can be no assurance that these conditions will continue to improve and these conditions could worsen. In addition, the level of U.S. debt, the Federal Open Market Committee's plan for economic stabilization, potential volatility in oil prices, potential U.S. tax law modifications, and the repeal of the Patient Protection and Affordable Care Act and the implementation of replacement healthcare legislation may have a destabilizing effect on financial markets or a negative effect on the economy.

Our financial performance generally, and in particular the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services we offer, is highly dependent upon the business environment in the markets where we operate, in the states of Kentucky, West Virginia, and Tennessee and in the United States as a whole. While unemployment rates have improved in many areas of the United States, unemployment rates remain elevated in certain markets in which we operate. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity, or investor or business confidence; limitations on the availability or increases in the cost of credit and capital; increases in inflation or interest rates; high unemployment; natural disasters; or a combination of these or other factors.

Overall, during recent years, the business environment has been adverse for many households and businesses in the United States and worldwide. While economic conditions in the United States and worldwide have improved since the recession, there can be no assurance that this improvement will continue or that another recession will not occur. Economic pressure on consumers and uncertainty regarding continuing economic improvement may result in changes in consumer and business spending, borrowing, and savings habits. Such conditions could adversely affect the credit quality of our loans and our business, financial condition, and results of operations.

Stock Repurchase Program

CTBI's stock repurchase program began in December 1998 with the authorization to acquire up to 500,000 shares and was increased by an additional 1,000,000 shares in July 2000 and in May 2003. We have not repurchased any shares of our common stock since February 2008. There are currently 67,371 shares remaining under CTBI's current repurchase authorization. As of December 31, 2016, a total of 2,432,629 shares have been repurchased through this program. The following table shows Board authorizations and repurchases made through the stock repurchase program for the years 1998 through 2016:

Board Authorizations	Repurchases*		Shares Available for Repurchase
	Average Price (\$)	# of Shares	
1998 500,000	-	0	
1999 0	14.45	144,669	
2000 1,000,000	10.25	763,470	
2001 0	13.35	489,440	
2002 0	17.71	396,316	
2003 1,000,000	19.62	259,235	
2004 0	23.14	60,500	
2005 0	-	0	
2006 0	-	0	
2007 0	28.56	216,150	
2008 0	25.53	102,850	
2009 0	-	0	
2010 0	-	0	
2011 0	-	0	
2012 0	-	0	
2013 0	-	0	
2014 0	-	0	
2015 0	-	0	
2016 0	-	0	
Total 2,500,000	15.93	2,432,629	67,371

*Repurchased shares and average prices have been restated to reflect stock dividends that have occurred; however, board authorized shares have not been adjusted.

Critical Accounting Policies and Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the appropriate application of certain accounting policies, many of which require us to make estimates and assumptions about future events and their impact on amounts reported in our consolidated financial statements and related notes. Since future events and their impact cannot be determined with certainty, the actual results will inevitably differ from our estimates. Such differences could be material to the consolidated financial statements.

We believe the application of accounting policies and the estimates required therein are reasonable. These accounting policies and estimates are constantly reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

Our accounting policies are described in note 1 to the consolidated financial statements. 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. Any unsecured commercial loan is charged off when it is considered uncollectable or 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 years ended December 31, 2016, 2015, and 2014, CTBI has not recognized a significant amount of interest expense or penalties in connection with income taxes.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

CTBI currently does not engage in any hedging activity or any derivative activity which management considers material. Analysis of CTBI's interest rate sensitivity can be found in the Interest Rate Risk section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 8. Financial Statements and Supplementary Data

Community Trust Bancorp, Inc. Consolidated Balance Sheets

(dollars in thousands)

December 31	2016	2015
Assets:		
Cash and due from banks	\$48,603	\$51,974
Interest bearing deposits	95,586	134,846
Federal funds sold	527	791
Cash and cash equivalents	144,716	187,611
Certificates of deposit in other banks	980	3,832
Securities available-for-sale at fair value (amortized cost of \$608,939 and \$593,381, respectively)	605,394	594,936
Securities held-to-maturity at amortized cost (fair value of \$867 and \$1,651, respectively)	866	1,661
Loans held for sale	1,244	1,172
Loans	2,938,371	2,873,961
Allowance for loan and lease losses	(35,933)	(36,094)
Net loans	2,902,438	2,837,867
Premises and equipment, net	47,940	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 \$8,483 and \$8,324, respectively)	133	291
Bank owned life insurance	63,881	62,335
Mortgage servicing rights	3,433	3,236
Other real estate owned	35,856	40,674
Other assets	36,984	33,827

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Total assets	\$3,932,169	\$3,903,934
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing	\$767,918	\$749,975
Interest bearing	2,313,390	2,230,807
Total deposits	3,081,308	2,980,782
Repurchase agreements	251,065	251,225
Federal funds purchased	4,816	3,596
Advances from Federal Home Loan Bank	944	101,056
Long-term debt	61,341	61,341
Deferred taxes	7,836	8,920
Other liabilities	24,244	21,431
Total liabilities	3,431,554	3,428,351
Commitments and contingencies (notes 18 and 20)		
Shareholders' equity:		
Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, \$5 par value, shares authorized 25,000,000; shares outstanding 2016 – 17,628,695; 2015 – 17,536,914	88,144	87,685
Capital surplus	219,697	217,032
Retained earnings	195,078	169,855
Accumulated other comprehensive income (loss), net of tax	(2,304)	1,011
Total shareholders' equity	500,615	475,583
Total liabilities and shareholders' equity	\$3,932,169	\$3,903,934
See notes to consolidated financial statements.		

Consolidated Statements of Income and Comprehensive Income

(in thousands except per share data)

Year Ended December 31	2016	2015	2014
Interest income:			
Interest and fees on loans, including loans held for sale	\$ 133,965	\$ 130,829	\$ 128,457
Interest and dividends on securities:			
Taxable	8,265	9,153	11,314
Tax exempt	2,718	2,705	2,576
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock	1,011	1,010	1,136
Other, including interest on federal funds sold	617	323	384
Total interest income	146,576	144,020	143,867
Interest expense:			
Interest on deposits	10,921	9,616	9,798
Interest on repurchase agreements	1,155	938	841
Interest on advances from Federal Home Loan Bank	62	49	27
Interest on long-term debt	1,417	1,170	1,131
Total interest expense	13,555	11,773	11,797
Net interest income	133,021	132,247	132,070
Provision for loan losses	7,872	8,650	8,755
Net interest income after provision for loan losses	125,149	123,597	123,315
Noninterest income:			
Service charges on deposit accounts	24,966	24,282	23,892
Gains on sales of loans, net	1,831	1,978	1,468
Trust and wealth management income	9,585	9,286	9,011
Loan related fees	4,107	3,821	3,531
Bank owned life insurance	2,199	2,158	1,996
Brokerage revenue	1,314	1,426	2,454
Securities gains (losses)	522	(106)	(211)
Other noninterest income	3,917	3,964	2,940
Total noninterest income	48,441	46,809	45,081
Noninterest expense:			
Officer salaries and employee benefits	12,198	11,652	11,076
Other salaries and employee benefits	44,877	42,911	43,417
Occupancy, net	7,999	7,826	8,017
Equipment	2,950	3,049	3,414
Data processing	6,497	6,743	7,877
Bank franchise tax	5,671	5,174	4,857
Legal fees	1,906	2,236	2,444
Professional fees	1,890	1,884	1,832
Advertising and marketing	2,614	2,428	2,421
FDIC insurance	1,789	2,382	2,400
Other real estate owned provision and expense	2,879	3,533	3,897
Repossession expense	1,156	1,265	1,508
Amortization of limited partnership investments	2,623	2,580	859

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Other noninterest expense	12,077	11,780	11,980
Total noninterest expense	107,126	105,443	105,999
Income before income taxes	66,464	64,963	62,397
Income taxes	19,118	18,531	19,146
Net income	\$47,346	\$46,432	\$43,251
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities available-for-sale:			
Unrealized holding gains (losses) arising during the period	(4,578)	(342)	13,928
Less: Reclassification adjustments for realized gains (losses) included in net income	522	(106)	(211)
Tax expense (benefit)	(1,785)	(83)	4,949
Other comprehensive income (loss), net of tax	(3,315)	(153)	9,190
Comprehensive income	\$44,031	\$46,279	\$52,441
Basic earnings per share	\$2.70	\$2.66	\$2.50
Diluted earnings per share	\$2.70	\$2.66	\$2.49
Weighted average shares outstanding-basic	17,548	17,431	17,326
Weighted average shares outstanding-diluted	17,566	17,483	17,397
Dividends declared per share	\$1.260	\$1.220	\$1.181
See notes to consolidated financial statements.			

Consolidated Statements of Changes in Shareholders' Equity

(in thousands except per share and share amounts)	Common Shares	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance, January 1, 2014	17,403,441	\$ 79,107	\$ 167,122	\$ 174,289	\$ (8,026)	\$ 412,492
Net income				43,251		43,251
Other comprehensive income, net of tax of \$4,949					9,190	9,190
Cash dividends declared (\$1.181 per share)				(20,539)		(20,539)
Issuance of 10% stock dividend		7,910	44,394	(52,304)		0
Issuance of common stock	69,138	346	1,646			1,992
Vesting of restricted stock	(8,945)	(45)	45			0
Issuance of restricted stock	4,576	23	(23)			0
Forfeiture of restricted stock	(1,835)	(9)	9			0
Stock-based compensation and related excess tax benefits			1,491			1,491
Balance, December 31, 2014	17,466,375	87,332	214,684	144,697	1,164	447,877
Net income				46,432		46,432
Other comprehensive loss, net of tax of \$(83)					(153)	(153)
Cash dividends declared (\$1.22 per share)				(21,274)		(21,274)
Issuance of common stock	112,837	564	1,518			2,082
Repurchase of common stock	(5,724)	(29)	(160)			(189)
Vesting of restricted stock	(46,482)	(232)	232			0
Issuance of restricted stock	10,582	53	(53)			0
Forfeiture of restricted stock	(674)	(3)	3			0
Stock-based compensation and related excess tax benefits			808			808
Balance, December 31, 2015	17,536,914	87,685	217,032	169,855	1,011	475,583
Net income				47,346		47,346
Other comprehensive loss, net of tax of \$(1,785)					(3,315)	(3,315)
Cash dividends declared (\$1.26 per share)				(22,123)		(22,123)
Issuance of common stock	138,605	693	2,292			2,985
Repurchase of common stock	(11,574)	(57)	(325)			(382)
Vesting of restricted stock	(52,963)	(265)	265			0
Issuance of restricted stock	18,069	90	(90)			0
Forfeiture of restricted stock	(356)	(2)	2			0
Stock-based compensation and related excess tax benefits			521			521
Balance, December 31, 2016	17,628,695	\$ 88,144	\$ 219,697	\$ 195,078	\$ (2,304)	\$ 500,615

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)

Year Ended December 31	2016	2015	2014
Cash flows from operating activities:			
Net income	\$47,346	\$46,432	\$43,251
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,904	3,932	4,314
Deferred taxes	701	115	(1,048)
Stock-based compensation	458	783	852
Excess tax benefits of stock-based compensation	100	104	760
Provision for loan losses	7,872	8,650	8,755
Write-downs of other real estate owned and other repossessed assets	1,214	1,656	1,730
Gains on sale of mortgage loans held for sale	(1,831)	(1,978)	(1,468)
Securities (gains) losses	(522)	106	211
Gains on sale of assets, net	46	(321)	(73)
Proceeds from sale of mortgage loans held for sale	81,441	80,571	51,181
Funding of mortgage loans held for sale	(79,682)	(77,501)	(51,149)
Amortization of securities premiums and discounts, net	2,452	3,098	2,661
Change in cash surrender value of bank owned life insurance	(1,546)	(1,638)	(1,506)
Mortgage servicing rights:			
Fair value adjustments	324	289	830
New servicing assets created	(521)	(557)	(374)
Changes in:			
Other assets	(3,205)	(6,274)	(60)
Other liabilities	2,874	(2,488)	(1,339)
Net cash provided by operating activities	61,425	54,979	57,528
Cash flows from investing activities:			
Certificates of deposit in other banks:			
Purchase of certificates of deposit	0	0	(245)
Maturity of certificates of deposit	2,852	4,365	1,616
Securities available-for-sale (AFS):			
Purchase of AFS securities	(176,236)	(81,456)	(217,949)
Proceeds from sales of AFS securities	54,446	44,198	135,411
Proceeds from prepayments, calls, and maturities of AFS securities	104,302	79,068	63,023
Securities held-to-maturity (HTM):			
Proceeds from prepayments and maturities of HTM securities	795	1	0
Change in loans, net	(74,379)	(161,702)	(132,906)
Purchase of premises and equipment	(3,498)	(2,246)	(2,081)
Proceeds from sale of premises and equipment	10	239	82
Redemption of stock by FHLB	0	0	7,746
Additional investment in Federal Reserve Bank stock	0	(18)	(1)
Cancellation of Federal Reserve Bank stock	0	0	18
Proceeds from sale of other real estate owned and repossessed assets	5,601	9,287	6,714
Additional investment in other real estate owned and repossessed assets	0	(85)	0
Additional investment in bank owned life insurance	0	0	(5,504)
Net cash used in investing activities	(86,107)	(108,349)	(144,076)

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Cash flows from financing activities:			
Change in deposits, net	100,526	106,525	19,183
Change in repurchase agreements and federal funds purchased, net	1,060	8,594	25,695
Advances from Federal Home Loan Bank	50,000	170,000	60,000
Payments on advances from Federal Home Loan Bank	(150,112)	(130,114)	(116)
Issuance of common stock	2,985	2,082	1,992
Repurchase of common stock	(382)	(189)	0
Excess tax benefits of stock-based compensation	(100)	(104)	(760)
Dividends paid	(22,190)	(21,330)	(20,570)
Net cash provided by (used in) financing activities	(18,213)	135,464	85,424
Net increase (decrease) in cash and cash equivalents	(42,895)	82,094	(1,124)
Cash and cash equivalents at beginning of year	187,611	105,517	106,641
Cash and cash equivalents at end of year	\$ 144,716	\$ 187,611	\$ 105,517
Supplemental disclosures:			
Income taxes paid	\$ 19,244	\$ 20,527	\$ 15,818
Interest paid	13,426	11,609	11,922
Non-cash activities:			
Loans to facilitate the sale of other real estate owned and repossessed assets	3,964	4,343	6,168
Common stock dividends accrued, paid in subsequent quarter	209	239	216
Real estate acquired in settlement of loans	5,900	18,557	12,199
See notes to consolidated financial statements.			

Notes to Consolidated Financial Statements

1. Accounting Policies

Basis of Presentation – The consolidated financial statements include Community Trust Bancorp, Inc. (“CTBI”) and its subsidiaries, including its principal subsidiary, Community Trust Bank, Inc. (“CTB”). Intercompany transactions and accounts have been eliminated in consolidation.

Nature of Operations – Substantially all assets, liabilities, revenues, and expenses are related to banking operations, including lending, investing of funds, obtaining of deposits, trust and wealth management operations, full service brokerage operations, and other financing activities. All of our business offices and the majority of our business are located in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee.

Use of Estimates – In preparing the consolidated financial statements, management must make certain estimates and assumptions. These estimates and assumptions affect the amounts reported for assets, liabilities, revenues, and expenses, as well as affecting the disclosures provided. Future results could differ from the current estimates. Such estimates include, but are not limited to, the allowance for loan and lease losses, valuation of other real estate owned, fair value of securities and mortgage servicing rights, goodwill, and valuation of deferred tax assets.

The accompanying financial statements have been prepared using values and information currently available to CTBI.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan and lease losses, and capital.

Cash and Cash Equivalents – CTBI considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash and cash equivalents include cash on hand, amounts due from banks, interest bearing deposits in other financial institutions, and federal funds sold. Generally, federal funds are sold for one-day periods.

Certificates of Deposit in Other Banks – Certificates of deposit in other banks generally mature within 18 months and are carried at cost.

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.

Loans Held for Sale – Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses, if any, are recognized by charges to income. Gains and losses on loan sales are recorded in noninterest income.

Premises and Equipment – Premises and equipment are stated at cost less accumulated depreciation and amortization. Capital leases are included in premises and equipment at the capitalized amount less accumulated amortization. Premises and equipment are evaluated for impairment on a quarterly basis.

Depreciation and amortization are computed primarily using the straight-line method. Estimated useful lives range up to 40 years for buildings, 2 to 10 years for furniture, fixtures, and equipment, and up to the lease term for leasehold improvements. Capitalized leased assets are amortized on a straight-line basis over the lives of the respective leases.

Federal Home Loan Bank and Federal Reserve Stock – CTB is a member of the Federal Home Loan Bank ("FHLB") system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically

evaluated for impairment based on the ultimate recovery par value. Both cash and stock dividends are reported as income.

CTB is also a member of its regional Federal Reserve Bank. Federal Reserve Bank stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery par value. Both cash and stock dividends are reported as income.

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.

Goodwill and Core Deposit Intangible – We evaluate total goodwill and core deposit intangible for impairment, based upon ASC 350, Intangibles-Goodwill and Other, using fair value techniques including multiples of price/equity. Goodwill and core deposit intangible are evaluated for impairment on an annual basis or as other events may warrant.

The balance of goodwill, at \$65.5 million, has not changed since January 1, 2014. The activity to core deposit intangible for the years ended December 31, 2016, 2015, and 2014 is shown below.

Core Deposit Intangible:

(in thousands)	2016	2015	2014
Beginning balance, January 1	\$291	\$477	\$690
Amortization	(158)	(186)	(213)
Ending balance, December 31	\$133	\$291	\$477

Amortization of core deposit intangible is estimated at approximately \$0.1 million for year one, at which time core deposit intangible will be fully amortized.

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from CTBI—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) CTBI does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes – Income tax expense is based on the taxes due on the consolidated tax return plus deferred taxes based on the expected future tax benefits and consequences of temporary differences between carrying amounts and tax bases of assets and liabilities, using enacted tax rates. 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 years ended December 31, 2016, 2015, and 2014, CTBI has not recognized a significant amount of interest expense or penalties in connection with income taxes.

Earnings Per Share (“EPS”) – Basic EPS is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding, excluding restricted shares.

Diluted EPS adjusts the number of weighted average shares of common stock outstanding by the dilutive effect of stock options, including restricted shares, as prescribed in ASC 718, Share-Based Payment.

Segments – Management analyzes the operation of CTBI assuming one operating segment, community banking services. CTBI, through its operating subsidiaries, offers a wide range of consumer and commercial community banking services. These services include: (i) residential and commercial real estate loans; (ii) checking accounts; (iii) regular and term savings accounts and savings certificates; (iv) full service securities brokerage services; (v) consumer loans; (vi) debit cards; (vii) annuity and life insurance products; (viii) Individual Retirement Accounts and Keogh plans; (ix) commercial loans; (x) trust and wealth management services; (xi) commercial demand deposit accounts; and (xii) repurchase agreements.

Bank Owned Life Insurance – CTBI’s bank owned life insurance policies are carried at their cash surrender value. We recognize tax-free income from the periodic increases in cash surrender value of these policies and from death benefits.

Mortgage Servicing Rights – Mortgage servicing rights (“MSRs”) are carried at fair market value following the accounting guidance in ASC 860-50, Servicing Assets and Liabilities. MSRs are valued using Level 3 inputs as defined in ASC 820, Fair Value Measurements. The fair value is determined quarterly based on an independent third-party valuation using a discounted cash flow analysis and calculated using a computer pricing model. The system used in this evaluation, Compass Point, attempts to quantify loan level idiosyncratic risk by calculating a risk derived value. As a result, each loan’s unique characteristics determine the valuation assumptions ascribed to that loan. Additionally, the computer valuation is based on key economic assumptions including the prepayment speeds of the underlying loans generated using the Andrew Davidson Prepayment Model, FHLMC/FNMA guidelines, the weighted-average life of the loan, the discount rate, the weighted-average coupon, and the weighted-average default rate, as applicable. Along with the gains received from the sale of loans, fees are received for servicing loans. These fees include late fees, which are recorded in interest income, and ancillary fees and monthly servicing fees, which are recorded in noninterest income. Costs of servicing loans are charged to expense as incurred. Changes in fair market value of the MSRs are reported as an increase or decrease to mortgage banking income.

Share-Based Compensation – CTBI has a share-based employee compensation plan, which is described more fully in note 15 to the consolidated financial statements. CTBI accounts for this plan under the recognition and measurement principles of ASC 718, Share-Based Payment.

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities and unrealized appreciation (depreciation) on available-for-sale securities for which a portion of an other than temporary impairment has been recognized in income.

Transfers between Fair Value Hierarchy Levels – Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs), and Level 3 (significant unobservable inputs) are recognized on the period ending date.

Reclassifications – Certain reclassifications considered to be immaterial have been made in the prior year 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 Accounting Standards Update (“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 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 been implemented with 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 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. Public business entities will be required to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 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. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. Management does not expect an impact on CTBI's accounting for equity investments as a result of this ASU. At this time, we cannot quantify the change in the fair value disclosures since we are currently evaluating the full impact of this ASU and are in the planning stages of developing appropriate procedures and processes to comply with the disclosure requirements

of such amendments.

Ø Leases – In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU 2016-02 establishes a right of use model that requires a lessee to record a right of use asset and a lease liability for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. A lease will be treated as a sale if it transfers all of the risks and rewards, as well as control of the underlying asset, to the lessee. If risks and rewards are conveyed without the transfer of control, the lease is treated as a financing. If the lessor does not convey risks and rewards or control, an operating lease results. The amendments are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years for public business entities. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, with certain practical expedients available. Early adoption is permitted. CTBI has an implementation team working through the provisions of ASU 2016-02 including reviewing all leases to assess the impact on its accounting and disclosures. CTBI does not anticipate a significant increase in leasing activity between now and the date of adoption. While we expect the impact of this ASU to be significant, we have not finalized our calculation of the estimated amounts as we are currently evaluating certain significant variables within the calculation including the impact of individual renewal options and applicable discount rates for each individual lease.

Ø Investments—Equity Method and Joint Ventures: Simplifying the Transition to the Equity Method of Accounting – In March 2016, the FASB issued 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 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.

The amendments became effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 and will not 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. CTBI adopted this ASU effective January 1, 2017, and it will not have a material impact on our consolidated financial statements.

Ø Revenue from Contracts with Customers – In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer, as well as enhanced disclosure requirements. In August 2015, the FASB issued ASU 2015-14 which deferred the effective date of ASU 2014-09 to fiscal years, and interim reporting periods within those fiscal years, beginning after December 15, 2017. In March 2016, the FASB issued ASU 2016-08 which clarified the revenue recognition implementation guidance on principal versus agent considerations and is effective during the same period as ASU 2014-09. In April 2016, the FASB issued ASU 2016-10 which clarified the revenue recognition guidance regarding the identification of performance obligations and the licensing implementation and is effective during the same period as ASU 2014-09. In May 2016, the FASB issued ASU 2016-12 which narrowly amended the revenue recognition guidance regarding collectability, noncash consideration, presentation of sales tax, and transition. ASU 2016-12 is effective during the same period as ASU 2014-09. Management is currently evaluating the effects of these ASUs on its financial statements and disclosures but does not expect a material impact on CTBI's consolidated financial statements, as we have determined the majority of the revenues earned by CTBI are not within the scope of ASU 2014-09.

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 provisions of ASU 2016-13 were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. This ASU requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

For purchased financial assets with a more-than-insignificant amount of credit deterioration since origination ("PCD assets") that are measured at amortized cost, the initial allowance for credit losses is added to the purchase price rather than being reported as a credit loss expense. Subsequent changes in the allowance for credit losses on PCD assets are recognized through the statement of income as a credit loss expense.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security.

ASU 2016-13 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. CTBI has an implementation team working through the provisions of ASU 2016-13 including assessing the impact on its accounting and disclosures.

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 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. Management intends to adopt this ASU effective January 1, 2018, and we do not expect a material impact on CTBI's consolidated financial statements.

Ø Simplifying the Test for Goodwill Impairment – In January 2017, the FASB issued ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment. These amendments eliminate Step 2 from the goodwill impairment test. The amendments also eliminate the requirements from any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The guidance is effective for fiscal years beginning after December 15, 2019, and interim periods with those fiscal years. ASU 2017-04 should be implemented on a prospective basis. Management does not expect ASU 2017-04 to have an impact on CTBI's consolidated financial statements.

Ø Accounting Changes and Error Correction and Investments – Equity Method and Joint Ventures – In January 2017, the FASB issued ASU No. 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments -Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings. ASU 2017-03 provides amendments that add paragraph 250-10-S99-6 which includes the text of "SEC Staff Announcement: Disclosure of the Impact That Recently Issued Accounting Standards Will Have on the Financial Statements of a Registrant When Such Standards Are Adopted in a Future Period (in accordance with Staff Accounting Bulletin (SAB) Topic 11.M). This announcement applies to ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606); ASU No. 2016-02, Leases (Topic 842); and ASU 2016-03, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, and subsequent amendments. CTBI has enhanced its disclosures regarding the impact of recently issued accounting standards adopted in a future period will have on its accounting and disclosures in this footnote.

2. Cash and Due from Banks and Interest Bearing Deposits

Included in cash and due from banks and interest bearing deposits are amounts required to be held at the Federal Reserve or maintained in vault cash in accordance with regulatory reserve requirements. The balance requirements were \$74.1 million and \$69.4 million at December 31, 2016 and 2015, respectively.

At December 31, 2016, CTBI had cash accounts which exceeded federally insured limits, and therefore are not subject to FDIC insurance, with \$93.4 million in deposits with the Federal Reserve, \$23.3 million in deposits with Fifth Third Bank, and \$2.2 million in deposits with the Federal Home Loan Bank.

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 December 31, 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	\$ 223,014	\$ 193	\$ (743)	\$ 222,464
State and political subdivisions	133,351	1,957	(1,792)	133,516
U.S. government sponsored agency mortgage-backed securities	227,574	1,008	(3,526)	225,056
Total debt securities	583,939	3,158	(6,061)	581,036
CRA investment funds	25,000	76	(718)	24,358
Total available-for-sale securities	\$ 608,939	\$ 3,234	\$ (6,779)	\$ 605,394

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$ 0	\$ 0	\$ 0	\$ 0
State and political subdivisions	866			