

COMMUNITY TRUST BANCORP INC /KY/

Form 10-Q

November 08, 2016

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

FORM 10-Q

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

For the quarterly period ended September 30, 2016

or

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

For the transition period from _____ to _____

Commission file number 0-11129

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

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

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

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

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

Yes No

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

Yes No

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

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

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

Yes No

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

Common stock – 17,619,010 shares outstanding at October 31, 2016

CAUTIONARY STATEMENT
REGARDING FORWARD LOOKING STATEMENTS

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

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

The accompanying information has not been audited by our independent registered public accountants; however, in the opinion of management such information reflects all adjustments necessary for a fair presentation of the results for the interim period. All such adjustments are of a normal and recurring nature.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Registrant's annual report on Form 10-K. Accordingly, the reader of the Form 10-Q should refer to the Registrant's Form 10-K for the year ended December 31, 2015 for further information in this regard.

Community Trust Bancorp, Inc.
Condensed Consolidated Balance Sheets

	(unaudited)	
	September 30 2016	December 31 2015
(dollars in thousands)		
Assets:		
Cash and due from banks	\$49,584	\$51,974
Interest bearing deposits	66,425	134,846
Federal funds sold	5,169	791
Cash and cash equivalents	121,178	187,611
Certificates of deposit in other banks	980	3,832
Securities available-for-sale at fair value (amortized cost of \$624,418 and \$593,381, respectively)	631,201	594,936
Securities held-to-maturity at amortized cost (fair value of \$1,182 and \$1,651, respectively)	1,181	1,661
Loans held for sale	2,075	1,172
Loans	2,931,299	2,873,961
Allowance for loan and lease losses	(35,801)	(36,094)
Net loans	2,895,498	2,837,867
Premises and equipment, net	47,840	48,188
Federal Home Loan Bank stock	17,927	17,927
Federal Reserve Bank stock	4,887	4,887
Goodwill	65,490	65,490
Core deposit intangible (net of accumulated amortization of \$8,443 and \$8,324, respectively)	172	291
Bank owned life insurance	63,486	62,335
Mortgage servicing rights	2,964	3,236
Other real estate owned	37,665	40,674
Other assets	37,682	33,827
Total assets	\$3,930,226	\$3,903,934
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing	\$763,187	\$749,975
Interest bearing	2,290,798	2,230,807
Total deposits	3,053,985	2,980,782
Repurchase agreements	262,295	251,225
Federal funds purchased and other short-term borrowings	6,798	3,596
Advances from Federal Home Loan Bank	971	101,056
Long-term debt	61,341	61,341
Deferred taxes	11,269	8,920
Other liabilities	33,457	21,431
Total liabilities	3,430,116	3,428,351

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Shareholders' equity:

Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, \$5 par value, shares authorized 25,000,000; shares outstanding 2016 – 17,607,903; 2015 – 17,536,914	88,039	87,685
Capital surplus	218,819	217,032
Retained earnings	188,843	169,855
Accumulated other comprehensive income, net of tax	4,409	1,011
Total shareholders' equity	500,110	475,583
 Total liabilities and shareholders' equity	 \$3,930,226	 \$3,903,934

See notes to condensed consolidated financial statements.

Community Trust Bancorp, Inc.

Condensed Consolidated Statements of Income and Comprehensive Income (unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands except per share data)	2016	2015	2016	2015
Interest income:				
Interest and fees on loans, including loans held for sale	\$33,593	\$32,847	\$100,172	\$97,691
Interest and dividends on securities				
Taxable	2,030	2,044	6,188	7,007
Tax exempt	653	679	2,003	2,032
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock	251	252	757	756
Other, including interest on federal funds sold	152	90	460	234
Total interest income	36,679	35,912	109,580	107,720
Interest expense:				
Interest on deposits	2,799	2,412	8,047	7,077
Interest on repurchase agreements and other short-term borrowings	288	231	836	689
Interest on advances from Federal Home Loan Bank	3	9	51	33
Interest on long-term debt	362	295	1,036	869
Total interest expense	3,452	2,947	9,970	8,668
Net interest income	33,227	32,965	99,610	99,052
Provision for loan losses	2,191	2,520	5,829	6,740
Net interest income after provision for loan losses	31,036	30,445	93,781	92,312
Noninterest income:				
Service charges on deposit accounts	6,563	6,348	18,680	17,976
Gains on sales of loans, net	595	462	1,357	1,575
Trust and wealth management income	2,440	2,297	7,111	6,902
Loan related fees	1,260	641	2,610	2,747
Bank owned life insurance	560	581	1,628	1,623
Brokerage revenue	387	395	1,067	1,058
Securities gains	458	12	522	142
Other noninterest income	923	1,299	2,951	2,976
Total noninterest income	13,186	12,035	35,926	34,999
Noninterest expense:				
Officer salaries and employee benefits	3,090	3,288	9,147	9,179
Other salaries and employee benefits	11,126	10,687	33,524	32,063
Occupancy, net	2,012	1,942	6,035	5,937
Equipment	733	746	2,177	2,295
Data processing	1,601	1,577	4,729	5,204
Bank franchise tax	1,492	1,272	4,291	3,816
Legal fees	455	505	1,437	1,604
Professional fees	473	524	1,395	1,497
Advertising and marketing	674	649	1,883	1,861
FDIC insurance	469	606	1,628	1,798

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

See notes to condensed consolidated financial statements.

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

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

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

Community Trust Bancorp, Inc.
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1 - Summary of Significant Accounting Policies

In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (which consist of normal recurring adjustments) necessary, to present fairly the condensed consolidated financial position as of September 30, 2016, the results of operations for the three and nine months ended September 30, 2016 and 2015, and the cash flows for the nine months ended September 30, 2016 and 2015. In accordance with accounting principles generally accepted in the United States of America for interim financial information, these statements do not include certain information and footnote disclosures required by accounting principles generally accepted in the United States of America for complete annual financial statements. The results of operations for the three and nine months ended September 30, 2016 and 2015, and the cash flows for the nine months ended September 30, 2016 and 2015, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2015 has been derived from the audited consolidated financial statements of Community Trust Bancorp, Inc. ("CTBI") for that period. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2015, included in our annual report on Form 10-K.

Principles of Consolidation – The unaudited condensed consolidated financial statements include the accounts of CTBI and its separate and distinct, wholly owned subsidiaries Community Trust Bank, Inc. (the "Bank") and Community Trust and Investment Company. All significant intercompany transactions have been eliminated in consolidation.

Reclassifications – Certain reclassifications considered to be immaterial have been made in the prior year condensed consolidated financial statements to conform to current year classifications. These reclassifications had no effect on net income.

New Accounting Standards –

Ø Elimination of Extraordinary Reporting – In January 2015, the FASB issued ASU No. 2015-01, Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU No. 2015-01 eliminated from U.S. GAAP the concept of an extraordinary item. The FASB issued this ASU as part of its initiative to reduce complexity in accounting standards. The objective of the simplification initiative was to identify, evaluate, and improve areas of U.S. GAAP for which cost and complexity could be reduced while maintaining or improving the usefulness of the information provided to the users of financial statements. The amendments in this ASU were effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this ASU did not have an impact on CTBI's consolidated financial statements as no extraordinary items have been presented.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

their employees.

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

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

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

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

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

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

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

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

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

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

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

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

Critical Accounting Policies and Estimates

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

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

We have identified the following critical accounting policies:

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

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

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

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

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

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

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

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

Allowance for Loan and Lease Losses – We maintain an allowance for loan and lease losses ("ALLL") at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. Credit losses are charged and recoveries are credited to the ALLL.

We utilize an internal risk grading system for commercial credits. Those larger commercial credits that exhibit probable or observed credit weaknesses are subject to individual review. The borrower's cash flow, adequacy of collateral coverage, and other options available to CTBI, including legal remedies, are evaluated. The review of individual loans includes those loans that are impaired as defined by ASC 310-10-35, Impairment of a Loan. We

evaluate the collectability of both principal and interest when assessing the need for loss provision. Historical loss rates are analyzed and applied to other commercial loans not subject to specific allocations. The ALLL allocation for this pool of commercial loans is established based on the historical average, maximum, minimum, and median loss ratios.

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

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

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

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

Historical loss rates for loans are adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. We use twelve rolling quarters for our historical loss rate analysis. Factors that we consider include delinquency trends, current economic conditions and trends, strength of supervision and administration of the loan portfolio, levels of underperforming loans, level of recoveries to prior year's charge-offs, trends in loan losses, industry concentrations and their relative strengths, amount of unsecured loans, and underwriting exceptions. Management continually reevaluates the other subjective factors included in its ALLL analysis.

Other Real Estate Owned – When foreclosed properties are acquired, appraisals are obtained and the properties are booked at the current market value less expected sales costs. Additionally, periodic updated appraisals are obtained on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected sales costs. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market and is typically between 12 and 18 months but

generally not more than 24 months. All revenues and expenses related to the carrying of other real estate owned are recognized through the income statement.

Income Taxes – Income tax expense is based on the taxes due on the consolidated tax return plus deferred taxes based on the expected future tax benefits and consequences of temporary differences between carrying amounts and tax bases of assets and liabilities, using enacted tax rates. Any interest and penalties incurred in connection with income taxes are recorded as a component of income tax expense in the consolidated financial statements. During the nine months ended September 30, 2016 and 2015, CTBI has not recognized a significant amount of interest expense or penalties in connection with income taxes.

Note 2 – Stock-Based Compensation

CTBI's compensation expense related to stock option grants was \$15 thousand and \$10 thousand, respectively, for the three months ended September 30, 2016 and 2015, and \$42 thousand and \$29 thousand, respectively for the nine months ended September 30, 2016 and 2015. Restricted stock expense for the three months ended September 30, 2016 and 2015 was \$97 thousand and \$186 thousand, respectively, including \$9 thousand and \$20 thousand in dividends paid for each period. Restricted stock expense for the nine months ended September 30, 2016 and 2015 was \$305 thousand and \$554 thousand, respectively, including \$28 thousand and \$59 thousand in dividends. As of September 30, 2016, there was a total of \$0.2 million of unrecognized compensation expense related to unvested stock option awards that will be recognized as expense as the awards vest over a weighted average period of 3.5 years and a total of \$0.7 million of unrecognized compensation expense related to restricted stock grants that will be recognized as expense as the awards vest over a weighted average period of 2.8 years.

There were 18,069 and 10,582 shares of restricted stock granted during the nine months ended September 30, 2016 and 2015, respectively. No shares of restricted stock were granted during the three months ended September 30, 2016 and 2015. The restricted stock granted in 2016 was issued pursuant to the terms of CTBI's 2015 Stock Ownership Incentive Plan. The restrictions on the restricted stock granted in 2016 will lapse ratably over four years. However, in the event of certain participant employee termination events occurring within 24 months of a change in control of CTBI or the death of the participant, the restrictions will lapse, and in the event of the participant's disability, the restrictions will lapse on a pro rata basis. The Compensation Committee will have discretion to review and revise restrictions applicable to a participant's restricted stock in the event of the participant's retirement. The restricted stock granted in 2015 was issued pursuant to the terms of the 2006 Stock Ownership Incentive Plan. The restrictions on the restricted stock granted in 2015 lapse ratably over four years or in the event of a change in control of CTBI or the death of the participant. In the event of the disability of the participant, the restrictions will lapse on a pro rata basis. The Compensation Committee of the Board of Directors will have discretion to review and revise restrictions applicable to a participant's restricted stock in the event of the participant's retirement.

There were 10,000 and 20,000 stock options granted during the nine months ended September 30, 2016 and 2015. No stock options were granted during the three months ended September 30, 2016 and 2015. The fair value of stock options granted during the nine months ended September 30, 2016 and 2015 were established at the date of grant using a Black-Scholes option pricing model with the weighted average assumptions as follows:

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

Note 3 – Securities

Securities are classified into held-to-maturity and available-for-sale categories. Held-to-maturity (HTM) securities are those that CTBI has the positive intent and ability to hold to maturity and are reported at amortized cost.

Available-for-sale (AFS) securities are those that CTBI may decide to sell if needed for liquidity, asset-liability management or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains or losses included as a separate component of equity, net of tax.

The amortized cost and fair value of securities at September 30, 2016 are summarized as follows:

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$ 243,980	\$ 1,311	\$ (180)	) \$245,111
State and political subdivisions	128,644	4,646	(115)	) 133,175
U.S. government sponsored agency mortgage-backed securities	226,794	1,820	(843)	) 227,771
Total debt securities	599,418	7,777	(1,138)	) 606,057
CRA investment funds	25,000	293	(149)	) 25,144
Total available-for-sale securities	\$ 624,418	\$ 8,070	\$ (1,287)	) \$631,201

Held-to-Maturity

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

The amortized cost and fair value of securities at December 31, 2015 are summarized as follows:

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$ 240,434	\$ 311	\$ (1,351)	) \$239,394
State and political subdivisions	125,665	3,707	(157)	) 129,215
U.S. government sponsored agency mortgage-backed securities	202,282	1,564	(2,270)	) 201,576
Total debt securities	568,381	5,582	(3,778)	) 570,185
CRA investment funds	25,000	132	(381)	) 24,751
Total available-for-sale securities	\$ 593,381	\$ 5,714	\$ (4,159)	) \$594,936

Held-to-Maturity

(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and government agencies	\$ 480	\$ 0	\$ (12)) \$468

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State and political subdivisions	1,181	2	0	1,183
Total held-to-maturity securities	\$ 1,661	\$ 2	\$ (12) \$1,651

The amortized cost and fair value of securities at September 30, 2016 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

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

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

During the nine months ended September 30, 2016, there was a combined gain of \$522 thousand on sales and calls of AFS securities, consisting of a pre-tax gain of \$529 thousand and a pre-tax loss of \$7 thousand. During the nine months ended September 30, 2015, there was a combined gain of \$142 thousand on sales and calls of AFS securities, consisting of a pre-tax gain of \$840 thousand and a pre-tax loss of \$698 thousand.

The amortized cost of securities pledged as collateral, to secure public deposits and for other purposes, was \$203.4 million at September 30, 2016 and \$228.2 million at December 31, 2015.

The amortized cost of securities sold under agreements to repurchase amounted to \$297.4 million at September 30, 2016 and \$285.5 million at December 31, 2015.

CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of September 30, 2016 indicates that all impairment is considered temporary, market and interest rate driven, and not credit-related. The percentage of total investments with unrealized losses as of September 30, 2016 was 36.0% compared to 61.1% as of December 31, 2015. The following tables provide the amortized cost, gross unrealized losses, and fair market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of September 30, 2016 that are not deemed to be other-than-temporarily impaired.

Available-for-Sale

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

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CRA investment funds	10,000	(27)	9,973
Total <12 months temporarily impaired AFS securities	188,480	(595)	187,885

12 Months or More

U.S. Treasury and government agencies	1,927	(25	)	1,902
State and political subdivisions	753	(10	)	743
U.S. government sponsored agency mortgage-backed securities	32,712	(535	)	32,177
Total debt securities	35,392	(570	)	34,822
CRA investment funds	5,000	(122	)	4,878
Total ≥12 months temporarily impaired AFS securities	40,392	(692	)	39,700

Total

U.S. Treasury and government agencies	60,087	(180	)	59,907
State and political subdivisions	11,450	(115	)	11,335
U.S. government sponsored agency mortgage-backed securities	142,335	(843	)	141,492
Total debt securities	213,872	(1,138	)	212,734
CRA investment funds	15,000	(149	)	14,851
Total temporarily impaired AFS securities	\$ 228,872	\$ (1,287	)	\$ 227,585

The following tables provide the amortized cost, gross unrealized losses, and fair market value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of December 31, 2015 that are not deemed to be other-than-temporarily impaired. The analysis performed as of December 31, 2015 indicated that all impairment was considered temporary, market and interest rate driven, and not credit-related.

Available-for-Sale

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

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CRA investment funds	15,000	(381)	14,619
Total temporarily impaired AFS securities	\$ 368,214	\$ (4,159)	\$ 364,055

Held-to-Maturity

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

U.S. Treasury and Government Agencies

The unrealized losses in U.S. Treasury and government agencies were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than amortized cost. CTBI does not consider those investments to be other-than-temporarily impaired at September 30, 2016, because CTBI does not intend to sell the investments and it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost, which may be at maturity.

State and Political Subdivisions

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

U.S. Government Sponsored Agency Mortgage-Backed Securities

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

CRA Investment Funds

CTBI's CRA investment funds consist of investments in fixed income mutual funds (\$25.1 million of the total fair value and \$0.1 million of the total gross unrealized losses in common stock investments). The severity of the impairment (fair value is approximately 0.6% less than cost) and the duration of the impairment correlates with the decline in long-term interest rates in 2016. CTBI evaluated the near-term prospects of these funds in relation to the severity and duration of the impairment. Based on that evaluation, CTBI does not consider those investments to be other-than-temporarily impaired at September 30, 2016.

Note 4 – Loans

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

	September	December
	30	31
(in thousands)	2016	2015
Commercial construction	\$68,275	\$78,020
Commercial secured by real estate	1,083,640	1,052,919
Equipment lease financing	6,242	8,514
Commercial other	354,984	358,898
Real estate construction	55,412	61,750
Real estate mortgage	706,028	707,874
Home equity	89,467	89,450
Consumer direct	131,815	126,406
Consumer indirect	435,436	390,130
Total loans	\$2,931,299	\$2,873,961

CTBI has segregated and evaluates its loan portfolio through nine portfolio segments. CTBI serves customers in small and mid-sized communities in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee. Therefore, CTBI's exposure to credit risk is significantly affected by changes in these communities.

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

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

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

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

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

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

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

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

Consumer indirect loans are fixed rate loans secured by automobiles, trucks, vans, and recreational vehicles originated at the selling dealership underwritten and purchased by CTBI's indirect lending department. Both new and used

products are financed. Only dealers who have executed dealer agreements with CTBI participate in the indirect lending program.

Not included in the loan balances above were loans held for sale in the amount of \$2.1 million at September 30, 2016 and \$1.2 million at December 31, 2015.

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

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

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

	September 30, 2016						
	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ and Accruing*
(in thousands)							
Commercial:							
Commercial construction	\$41	\$0	\$2,215	\$2,256	\$66,019	\$68,275	\$ 24
Commercial secured by real estate	3,720	2,850	9,196	15,766	1,067,874	1,083,640	5,001
Equipment lease financing	0	0	0	0	6,242	6,242	0
Commercial other	1,277	236	1,283	2,796	352,188	354,984	345
Residential:							
Real estate construction	1,386	286	478	2,150	53,262	55,412	478
Real estate mortgage	897	5,762	8,369	15,028	691,000	706,028	4,819
Home equity	947	320	641	1,908	87,559	89,467	405
Consumer:							
Consumer direct	901	250	109	1,260	130,555	131,815	109
Consumer indirect	2,406	977	317	3,700	431,736	435,436	317
Total	\$11,575	\$10,681	\$22,608	\$44,864	\$2,886,435	\$2,931,299	\$ 11,498

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

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

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

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

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

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

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

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

collect amounts due from its customers.

With respect to residential loans that are secured by 1-4 family residences and are generally owner occupied, CTBI generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences. Residential construction loans are handled through the home mortgage area of the bank. The repayment ability of the borrower and the maximum loan-to-value ratio are calculated using the normal mortgage lending criteria. Draws are processed based on percentage of completion stages including normal inspection procedures. Such loans generally convert to term loans after the completion of construction.

Consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Our determination of a borrower's ability to repay these loans is primarily dependent on the personal income and credit rating of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

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

Credit Quality Indicators:

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

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

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

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

Ø

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

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

The following tables present the credit risk profile of CTBI's commercial loan portfolio based on rating category and payment activity, segregated by class of loans, as of September 30, 2016 and December 31, 2015:

(in thousands)	Commercial Construction	Commercial Secured by Real Estate	Equipment Leases	Commercial Other	Total
September 30, 2016					
Pass	\$ 55,878	\$970,069	\$ 5,885	\$ 304,799	\$1,336,631
Watch	4,006	54,232	0	31,638	89,876
OAEM	2,330	27,688	357	6,675	37,050
Substandard	5,871	31,095	0	11,052	48,018
Doubtful	190	556	0	820	1,566
Total	\$ 68,275	\$1,083,640	\$ 6,242	\$ 354,984	\$1,513,141
December 31, 2015					
Pass	\$ 62,978	\$937,196	\$ 8,514	\$ 312,100	\$1,320,788
Watch	4,931	71,830	0	37,670	114,431
OAEM	2,206	13,765	0	963	16,934
Substandard	6,780	29,232	0	7,072	43,084
Doubtful	1,125	896	0	1,093	3,114
Total	\$ 78,020	\$1,052,919	\$ 8,514	\$ 358,898	\$1,498,351

The following tables present the credit risk profile of the CTBI's residential real estate and consumer loan portfolios based on performing or nonperforming status, segregated by class, as of September 30, 2016 and December 31, 2015:

(in thousands)	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
September 30, 2016						
Performing	\$ 54,923	\$695,734	\$88,740	\$131,706	\$435,119	\$1,406,222
Nonperforming (1)	489	10,294	727	109	317	11,936
Total	\$ 55,412	\$706,028	\$89,467	\$131,815	\$435,436	\$1,418,158
December 31, 2015						
Performing	\$ 61,446	\$695,743	\$88,819	\$126,170	\$389,735	\$1,361,913
Nonperforming (1)	304	12,131	631	236	395	13,697
Total	\$ 61,750	\$707,874	\$89,450	\$126,406	\$390,130	\$1,375,610

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

The total of consumer mortgage loans secured by real estate properties in formal foreclosure proceedings was \$3.3 million at September 30, 2016 compared to \$4.4 million at December 31, 2015.

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable CTBI will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance, or other actions intended to maximize collection.

The following table presents impaired loans, the average investment in impaired loans, and interest income recognized on impaired loans for the periods ended September 30, 2016, December 31, 2015, and September 30, 2015:

(in thousands)	September 30, 2016			
	Recorded	Unpaid Contractual	Specific	
	Balance	Balance	Allowance	
Loans without a specific valuation allowance:				
Commercial construction	\$4,270	\$ 4,293	\$ 0	
Commercial secured by real estate	32,311	33,004	0	
Commercial other	11,382	13,191	0	
Real estate mortgage	1,489	1,489	0	
Loans with a specific valuation allowance:				
Commercial construction	1,668	1,670	212	
Commercial secured by real estate	3,537	4,688	747	
Commercial other	388	408	190	
Totals:				
Commercial construction	5,938	5,963	212	
Commercial secured by real estate	35,848	37,692	747	
Commercial other	11,770	13,599	190	
Real estate mortgage	1,489	1,489	0	
Total	\$55,045	\$ 58,743	\$ 1,149	
(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2016		September 30, 2016	
	Average		Average	
	Investment		Investment	
	in	*Interest	in	*Interest
	Impaired	Income	Impaired	Income
	Loans	Recognized	Loans	Recognized
Loans without a specific valuation allowance:				
Commercial construction	\$4,299	\$ 63	\$4,450	\$ 168
Commercial secured by real estate	32,534	390	31,795	1,164
Commercial other	11,497	153	11,564	470
Real estate mortgage	1,492	15	1,759	45

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Loans with a specific valuation allowance:

Commercial construction	1,798	0	2,524	0
Commercial secured by real estate	3,547	1	3,957	19
Commercial other	405	0	597	0

Totals:

Commercial construction	6,097	63	6,974	168
Commercial secured by real estate	36,081	391	35,752	1,183
Commercial other	11,902	153	12,161	470
Real estate mortgage	1,492	15	1,759	45
Total	\$55,572	\$ 622	\$56,646	\$ 1,866

December 31, 2015

	Recorded	Unpaid Contractual Principal	Specific	Average Investment in Impaired Loans	*Interest Income Recognized
(in thousands)	Balance	Balance	Allowance		
Loans without a specific valuation allowance:					
Commercial construction	\$2,861	\$ 2,862	\$ 0	\$ 4,574	\$ 200
Commercial secured by real estate	30,761	32,166	0	30,605	1,378
Commercial other	7,500	9,148	0	8,802	316
Real estate mortgage	1,744	1,744	0	1,179	50

Loans with a specific valuation allowance:

Commercial construction	3,402	3,402	831	3,631	0
Commercial secured by real estate	2,660	2,768	1,227	2,349	7
Commercial other	960	1,153	403	836	1

Totals:

Commercial construction	6,263	6,264	831	8,205	200
Commercial secured by real estate	33,421	34,934	1,227	32,954	1,385
Commercial other	8,460	10,301	403	9,638	317
Real estate mortgage	1,744	1,744	0	1,179	50
Total	\$49,888	\$ 53,243	\$ 2,461	\$ 51,976	\$ 1,952

September 30, 2015

	Recorded	Unpaid Contractual Principal	Specific
(in thousands)	Balance	Balance	Allowance
Loans without a specific valuation allowance:			
Commercial construction	\$4,669	\$ 4,669	\$ 0
Commercial secured by real estate	30,318	31,551	0
Commercial other	7,163	8,804	0
Real estate mortgage	1,189	1,189	0

Loans with a specific valuation allowance:

Commercial construction	3,411	3,412	719
Commercial secured by real estate	835	1,075	317
Commercial other	754	935	312

Totals:

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

	Three Months Ended September 30, 2015 Average Investment in *Interest Impaired Income Loans Recognized		Nine Months Ended September 30, 2015 Average Investment in *Interest Impaired Income Loans Recognized	
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(in thousands)

Loans without a specific valuation allowance:

Commercial construction	\$4,864	\$ 41	\$5,142	\$ 160
Commercial secured by real estate	30,713	316	30,357	985
Commercial other	7,312	73	9,182	201
Real estate mortgage	1,183	13	1,090	37

Loans with a specific valuation allowance:

Commercial construction	3,445	0	3,712	0
Commercial secured by real estate	841	6	2,244	7
Commercial other	776	1	788	1

Totals:

Commercial construction	8,309	41	8,854	160
Commercial secured by real estate	31,554	322	32,601	992
Commercial other	8,088	74	9,970	202
Real estate mortgage	1,183	13	1,090	37
Total	\$49,134	\$ 450	\$52,515	\$ 1,391

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

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

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

recognized through an allowance estimate or a charge-off to the allowance. In periods subsequent to modification, we evaluate all troubled debt restructuring, including those that have payment defaults, for possible impairment and recognize impairment through the allowance.

During 2016, certain loans were modified in troubled debt restructurings, where economic concessions were granted to borrowers consisting of reductions in the interest rates, payment extensions, forgiveness of principal, and forbearances. Presented below, segregated by class of loans, are troubled debt restructurings that occurred during the three and nine months ended September 30, 2016 and 2015 and the year ended December 31, 2015:

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

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

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

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

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Total troubled debt restructurings	18	\$ 2,146	\$ 0	\$ 455	\$ 2,601
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	Year Ended December 31, 2015				
(in thousands)	Number of Term Loans	Rate Modification	Rate Modification	Combination	Post-Modification Outstanding Balance
Commercial:					
Commercial construction	3	\$ 428	\$ 0	\$ 0	\$ 428
Commercial secured by real estate	21	4,244	0	1,760	6,004
Commercial other	7	3,847	0	0	3,847
Residential:					
Real estate mortgage	3	0	0	848	848
Total troubled debt restructurings	34	\$ 8,519	\$ 0	\$ 2,608	\$ 11,127

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

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

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

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

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Total defaulted restructured loans 2 \$ 31 5 \$ 680

Note 5 – Allowance for Loan and Lease Losses

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

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

Nine Months Ended

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September 30, 2016										
(in thousands)	Commercial Construction	Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	\$2,199	\$14,434	\$79	\$4,225	\$550	\$6,678	\$839	\$1,594	\$5,496	\$36,094
Provision charged to expense	(701)	1,726	(13)	1,156	144	440	(1)	669	2,409	5,829
Losses charged off	(94)	(1,505)	0	(1,667)	(192)	(849)	(21)	(893)	(3,508)	(8,729)
Recoveries	26	127	0	371	7	75	7	341	1,653	2,607
Ending balance	\$1,430	\$14,782	\$66	\$4,085	\$509	\$6,344	\$824	\$1,711	\$6,050	\$35,801
Ending balance:										
Individually evaluated for impairment	\$212	\$747	\$0	\$190	\$0	\$0	\$0	\$0	\$0	\$1,149
Collectively evaluated for impairment	\$1,218	\$14,035	\$66	\$3,895	\$509	\$6,344	\$824	\$1,711	\$6,050	\$34,652
Loans										
Ending balance:										
Individually evaluated for impairment	\$5,938	\$35,848	\$0	\$11,770	\$0	\$1,489	\$0	\$0	\$0	\$55,045
Collectively evaluated for impairment	\$62,337	\$1,047,792	\$6,242	\$343,214	\$55,412	\$704,539	\$89,467	\$131,815	\$435,436	\$2,876,254
Three Months Ended September 30, 2015										
(in thousands)	Commercial Construction	Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	\$2,622	\$13,022	\$113	\$4,414	\$570	\$6,965	\$867	\$1,541	\$5,076	\$35,190

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Beginning balance										
Provision charged to expense	151	293	(9)	153	61	564	(38)	382	963	2,520
Losses charged off	0	(364)	0	(431)	(20)	(647)	0	(436)	(1,001)	(2,899)
Recoveries	3	2	0	149	0	52	41	113	369	729
Ending balance	\$2,776	\$12,953	\$104	\$4,285	\$611	\$6,934	\$870	\$1,600	\$5,407	\$35,540
Ending balance:										
Individually evaluated for impairment	\$719	\$317	\$0	\$312	\$0	\$0	\$0	\$0	\$0	\$1,348
Collectively evaluated for impairment	\$2,057	\$12,636	\$104	\$3,973	\$611	\$6,934	\$870	\$1,600	\$5,407	\$34,192
Loans										
Ending balance:										
Individually evaluated for impairment	\$8,080	\$31,153	\$0	\$7,917	\$0	\$1,189	\$0	\$0	\$0	\$48,339
Collectively evaluated for impairment	\$98,775	\$966,501	\$9,146	\$338,401	\$62,226	\$704,998	\$88,624	\$125,847	\$377,603	\$2,772,121
Nine Months Ended September 30, 2015										
Commercial										
(in thousands)	Commercial Construction	Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Allowance for loan losses										
Beginning balance	\$2,896	\$13,618	\$119	\$4,263	\$534	\$6,094	\$756	\$1,574	\$4,593	\$34,447
Provision charged to expense	(127)	577	(15)	1,054	184	2,023	128	804	2,112	6,740
Losses charged off	(2)	(1,290)	0	(1,495)	(110)	(1,260)	(67)	(1,101)	(2,494)	(7,819)
Recoveries	9	48	0	463	3	77	53	323	1,196	2,172

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Ending balance	\$2,776	\$12,953	\$104	\$4,285	\$611	\$6,934	\$870	\$1,600	\$5,407	\$35,540
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Ending balance: Individually evaluated for impairment	\$719	\$317	\$0	\$312	\$0	\$0	\$0	\$0	\$0	\$1,348
Collectively evaluated for impairment	\$2,057	\$12,636	\$104	\$3,973	\$611	\$6,934	\$870	\$1,600	\$5,407	\$34,192

Loans Ending balance: Individually evaluated for impairment	\$8,080	\$31,153	\$0	\$7,917	\$0	\$1,189	\$0	\$0	\$0	\$48,339
Collectively evaluated for impairment	\$98,775	\$966,501	\$9,146	\$338,401	\$62,226	\$704,998	\$88,624	\$125,847	\$377,603	\$2,772,121

December 31, 2015

(in thousands)	Commercial Construction	Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
Beginning balance	\$2,896	\$13,618	\$119	\$4,263	\$534	\$6,094	\$756	\$1,574	\$4,593	\$34,447
Provision charged to expense	(707)	2,135	(40)	1,338	147	1,888	158	891	2,840	8,650
Losses charged off	(3)	(1,379)	0	(1,961)	(135)	(1,421)	(129)	(1,306)	(3,536)	(9,870)
Recoveries	13	60	0	585	4	117	54	435	1,599	2,867
Ending balance	\$2,199	\$14,434	\$79	\$4,225	\$550	\$6,678	\$839	\$1,594	\$5,496	\$36,094

Ending balance: Individually evaluated for impairment	\$831	\$1,227	\$0	\$403	\$0	\$0	\$0	\$0	\$0	\$2,461
	\$1,368	\$13,207	\$79	\$3,822	\$550	\$6,678	\$839	\$1,594	\$5,496	\$33,633

Collectively
evaluated
for
impairment

Loans

Ending
balance:

Individually
evaluated
for

impairment	\$6,263	\$33,421	\$0	\$8,460	\$0	\$1,744	\$0	\$0	\$0	\$49,888
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Collectively
evaluated
for

impairment	\$71,757	\$1,019,498	\$8,514	\$350,438	\$61,750	\$706,130	\$89,450	\$126,406	\$390,130	\$2,824,073
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Note 6 – Other Real Estate Owned

Activity for other real estate owned was as follows:

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

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

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

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

Note 7 – Repurchase Agreements

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

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

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

September 30, 2016					
Remaining Contractual Maturity of the Agreements					
(in thousands)	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions:					
U.S. Treasury and government agencies	\$21,892	\$30,072	\$261	\$52,930	\$105,155
State and political subdivisions	56,895	5,008	2,255	5,955	70,113
U.S. government sponsored agency mortgage-backed securities	27,992	28,920	204	29,911	87,027
Total	\$106,779	\$64,000	\$2,720	\$88,796	\$262,295
December 31, 2015					
Remaining Contractual Maturity of the Agreements					
(in thousands)	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions:					
U.S. Treasury and government agencies	\$19,184	\$0	\$10,401	\$48,695	\$78,280
State and political subdivisions	58,676	494	1,656	9,159	69,985
U.S. government sponsored agency mortgage-backed securities	27,810	6	12,278	62,866	102,960
Total	\$105,670	\$500	\$24,335	\$120,720	\$251,225

Note 8 – Fair Market Value of Financial Assets and Liabilities

Fair Value Measurements

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

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

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

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

Recurring Measurements

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

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

		Fair Value Measurements at December 31, 2015 Using Quoted Prices in Active Markets for Identical Assets (Level 1)			Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(in thousands)		Fair Value				

Markets (Level 2)
for
Identical
Assets
(Level
1)

Assets measured – recurring basis

Available-for-sale securities:

U.S. Treasury and government agencies	\$239,394	\$44,702	\$ 194,692	\$ 0
State and political subdivisions	129,215	0	129,215	0
U.S. government sponsored agency mortgage-backed securities	201,576	0	201,576	0
CRA investment funds	24,751	24,751	0	0
Mortgage servicing rights	3,236	0	0	3,236

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

Available-for-Sale Securities

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

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

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

Mortgage Servicing Rights

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

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

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

Transfers between Levels

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

Level 3 Reconciliation

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

Mortgage Servicing Rights

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

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

Noninterest Income

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

Nonrecurring Measurements

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

Fair Value Measurements at

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

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

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

Impaired Loans (Collateral Dependent)

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

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

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

Other Real Estate Owned

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

Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market and is typically between 12 and 18 months but generally not more than 24 months. Appraisers are selected from the list of approved appraisers maintained by management.

Unobservable (Level 3) Inputs

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

(in thousands)		Quantitative Information about Level 3 Fair Value Measurements		
		Fair Value at September 30, 2016	Valuation Technique(s)	Unobservable Input
			Discount cash flows, computer pricing model	Constant prepayment rate
Mortgage servicing rights	\$2,964			
				Probability of default
				Discount rate
				Range (Weighted Average)
				6.1% - 26.2% (12.1%)
				0.0% - 100.0%
				(2.6%)
				10.0% - 11.0%
				(10.1%)
Impaired loans (collateral-dependent)	\$4,824		Market comparable properties	Marketability discount
				0.0% - 82.5% (25.7%)

			Comparability adjustments	10.0% - 100.0% (18.1%)
Other real estate/assets owned	\$2,687	Market comparable properties		
(in thousands)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at December 31, 2015	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
		Discount cash flows, computer pricing model	Constant prepayment rate	6.1% - 22.4% (10.0%)
Mortgage servicing rights	\$3,236		Probability of default	0.0% - 100.0% (2.6%)
			Discount rate	10.0% - 11.5% (10.1%)
Impaired loans (collateral-dependent)	\$3,192	Market comparable properties	Marketability discount	0.0% - 76.7% (26.8%)
Other real estate/assets owned	\$6,798	Market comparable properties	Comparability adjustments	5.0% - 51.8% (11.7%)

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Mortgage Servicing Rights

Market value for mortgage servicing rights is derived based on unobservable inputs, such as 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. Significant increases (decreases) in either of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for prepayment speeds is accompanied by a directionally opposite change in the assumption for interest rates.

Fair Value of Financial Instruments

The following table presents estimated fair value of CTBI's financial instruments as of September 30, 2016 and indicates the level within the fair value hierarchy of the valuation techniques.

Fair Value Measurements
at September 30, 2016 Using

(in thousands)	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash and cash equivalents	\$ 121,178	\$ 121,178	\$ 0	\$ 0
Certificates of deposit in other banks	980	0	983	0
Securities available-for-sale	631,201	70,125	561,076	0
Securities held-to-maturity	1,181	0	1,182	0
Loans held for sale	2,075	2,119	0	0
Loans, net	2,895,498	0	0	2,897,616
Federal Home Loan Bank stock	17,927	0	17,927	0
Federal Reserve Bank stock	4,887	0	4,887	0
Accrued interest receivable	11,912	0	11,912	0
Mortgage servicing rights	2,964	0	0	2,964
Financial liabilities:				
Deposits	\$ 3,053,985	\$ 763,187	\$ 2,299,370	\$ 0
Repurchase agreements	262,295	0	0	262,208
Federal funds purchased	6,798	0	6,798	0
Advances from Federal Home Loan Bank	971	0	1,044	0
Long-term debt	61,341	0	0	49,073
Accrued interest payable	2,245	0	2,245	0
Unrecognized financial instruments:				
Letters of credit	\$ 0	\$ 0	\$ 0	\$ 0
Commitments to extend credit	0	0	0	0
Forward sale commitments	0	0	0	0

The following table presents estimated fair value of CTBI's financial instruments as of December 31, 2015 and indicates the level within the fair value hierarchy of the valuation techniques.

(in thousands)	Carrying Amount	Fair Value Measurements at December 31, 2015 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash and cash equivalents	\$ 187,611	\$ 187,611	\$ 0	\$ 0
Certificates of deposit in other banks	3,832	0	3,836	0
Securities available-for-sale	594,936	69,453	525,483	0
Securities held-to-maturity	1,661	0	1,651	0

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Loans held for sale	1,172	1,196	0	0
Loans, net	2,837,867	0	0	2,833,267
Federal Home Loan Bank stock	17,927	0	17,927	0
Federal Reserve Bank stock	4,887	0	4,887	0
Accrued interest receivable	12,194	0	12,194	0
Mortgage servicing rights	3,236	0	0	3,236

Financial liabilities:

Deposits	\$2,980,782	\$749,975	\$2,208,120	\$0
Repurchase agreements	251,225	0	0	250,873
Federal funds purchased	3,596	0	3,596	0
Advances from Federal Home Loan Bank	101,056	0	100,905	0
Long-term debt	61,341	0	0	49,073
Accrued interest payable	1,071	0	1,071	0

Unrecognized financial instruments:

Letters of credit	\$0	\$0	\$0	\$0
Commitments to extend credit	0	0	0	0
Forward sale commitments	0	0	0	0

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and cash equivalents – The carrying amount approximates fair value.

Certificates of deposit in other banks – Fair values are based on quoted market prices or dealer quotes for similar instruments.

Securities held-to-maturity – Fair values are based on quoted market prices, if available. If a quoted price is not available, fair value is estimated using quoted prices for similar securities. The fair value estimate is provided to management from a third party using modeling assumptions specific to each type of security that are reviewed and approved by management. Quarterly sampling of fair values provided by additional third parties supplement the fair value review process.

Loans held for sale – The fair value is predetermined at origination based on sale price.

Loans (net of the allowance for loan and lease losses) – The fair value of fixed rate loans and variable rate mortgage loans is estimated by discounting the future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. For other variable rate loans, the carrying amount approximates fair value.

Federal Home Loan Bank stock – The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Federal Reserve Bank stock – The carrying value of Federal Reserve Bank stock approximates fair value based on the redemption provisions of the Federal Reserve Bank.

Accrued interest receivable – The carrying amount approximates fair value.

Deposits – The fair value of fixed maturity time deposits is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. For deposits including demand deposits, savings

accounts, NOW accounts, and certain money market accounts, the carrying value approximates fair value.

Repurchase agreements – The fair value is estimated by discounting future cash flows using current rates.

Federal funds purchased – The carrying amount approximates fair value.

Advances from Federal Home Loan Bank – The fair value of these fixed-maturity advances is estimated by discounting future cash flows using rates currently offered for advances of similar remaining maturities.

Long-term debt – The fair value is estimated by discounting future cash flows using current rates.

Accrued interest payable – The carrying amount approximates fair value.

Commitments to originate loans, forward sale commitments, letters of credit, and lines of credit – The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of forward sale commitments is estimated based on current market prices for loans of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair values of these commitments are not material.

Note 9 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended September 30 2016		Nine Months Ended September 30 2016	
	2015		2015	
(in thousands except per share data)				
Numerator:				
Net income	\$12,312	\$11,222	\$35,480	\$34,562
Denominator:				
Basic earnings per share:				
Weighted average shares	17,554	17,440	17,532	17,420
Diluted earnings per share:				
Effect of dilutive stock options and restricted stock grants	15	51	16	52
Adjusted weighted average shares	17,569	17,491	17,548	17,472
Earnings per share:				
Basic earnings per share	\$0.70	\$0.64	\$2.02	\$1.98
Diluted earnings per share	0.70	0.64	2.02	1.98

There were no options to purchase common shares that were excluded from the diluted calculations above for the three months ended September 30, 2016, but options to purchase 15,730 common shares at a weighted average price of \$35.409 were excluded for the nine months ended September 30, 2016, because the exercise prices on the options were greater than the average market price for the period. In addition to in-the-money stock options, unvested restricted stock grants were also used in the calculation of diluted earnings per share based on the treasury method. There were no options to purchase common shares that were excluded from the diluted calculations above for the three and nine months ended September 30, 2015.

Note 10 – Accumulated Other Comprehensive Income

Unrealized gains (losses) on AFS securities

Amounts reclassified from accumulated other comprehensive income (AOCI) and the affected line items in the statements of income during the three and nine months ended September 30, 2016 and 2015 were:

	Amounts Reclassified from AOCI			
	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	2016	2015	2016	2015
Affected line item in the statements of income				
Securities gains	\$458	\$ 12	\$522	\$142
Tax expense	160	4	183	50
Total reclassifications out of AOCI	\$298	\$ 8	\$339	\$92

Item 2. 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 condensed consolidated financial statements and the accompanying notes contained in this quarterly report. The MD&A includes the following sections:

v Our Business

v Results of Operations and Financial Condition

v Dividends

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, Inc. 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 September 30, 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 September 30, 2016 was \$500.1 million. Trust assets under management, which are excluded from CTBI's total consolidated assets, at September 30, 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. For further information, see Item 1 of our annual report on Form 10-K for the year ended December 31, 2015.

Results of Operations and Financial Condition

For the quarter ended September 30, 2016, we reported earnings of \$12.3 million, or \$0.70 per basic share, compared to \$11.2 million, or \$0.64 per basic share, earned during the third quarter 2015 and \$11.6 million, or \$0.66 per basic share, earned during the second quarter 2016. Earnings for the nine months ended September 30, 2016 were \$35.5 million, or \$2.02 per basic share, compared to \$34.6 million, or \$1.98 per basic share earned for the nine months ended September 30, 2015.

Quarterly Highlights

v Our loan portfolio increased \$57.3 million from December 31, 2015 but decreased \$0.1 million during the quarter.

v Our investment portfolio increased \$35.8 million from December 31, 2015 and \$51.6 million during the quarter.

v Deposits, including repurchase agreements, increased \$84.3 million from December 31, 2015 and \$13.0 million during the quarter.

v Nonperforming loans at \$28.3 million decreased \$0.3 million from December 31, 2015 but increased \$3.6 million from June 30, 2016. Nonperforming assets at \$66.1 million decreased \$3.4 million from December 31, 2015 but increased \$3.5 million from June 30, 2016.

v Net loan charge-offs for the quarter ended September 30, 2016 were \$2.1 million, or 0.28% of average loans annualized, compared to \$2.2 million, or 0.31%, experienced for the third quarter 2015 and \$2.5 million, or 0.35%, for the second quarter 2016.

Income Statement Review

(dollars in thousands)

			Change 2016 vs. 2015			
Nine Months Ended September 30	2016	2015	Amount		Percent	
Net interest income	\$99,610	\$99,052	\$558		0.6	%
Provision for loan losses	5,829	6,740	(911)		(13.5)	
Noninterest income	35,926	34,999	927		2.7	
Noninterest expense	80,121	79,665	456		0.6	
Income taxes	14,106	13,084	1,022		7.8	
Net income	\$35,480	\$34,562	\$918		2.7	%
Average earning assets	\$3,640,043	\$3,506,303	\$133,740		3.8	%
Yield on average earnings assets	4.08	%	4.17	%	(0.09)%	(2.1)%
Cost of interest bearing funds	0.51	%	0.45	%	0.06	% 12.2
Net interest margin	3.71	%	3.84	%	(0.13)%	(3.2)%

Net Interest Income

Net interest income for the quarter of \$33.2 million was an increase of \$0.3 million, or 0.8%, from prior year third quarter and \$0.2 million, or 0.5%, from prior quarter as we grew our earning assets. Our net interest margin decreased 11 basis points and 5 basis points during the respective time periods. The extended low rate environment continues to have a negative impact on our net interest margin as the yield on average earning assets continued to decline while our cost of funds increased slightly. Average earning assets increased \$140.5 million, or 4.0%, from third quarter 2015 and \$29.7 million, or 3.2%, annualized, from prior quarter, while our yield on average earning assets decreased 6 basis points and 4 basis points, respectively, during these time periods. The cost of interest bearing funds increased 6 basis points from prior year third quarter and 1 basis point from prior quarter. Our ratio of average loans to deposits, including repurchase agreements, for the quarter ended September 30, 2016 was 88.3% compared to 87.5% for the quarter ended September 30, 2015 and 88.1% for the quarter ended June 30, 2016. Net interest income for the nine months ended September 30, 2016 of \$99.6 million was an increase of \$0.6 million, or 0.6%, over the first nine months of 2015, although we experienced a 13 basis point decline in our net interest margin.

Provision for Loan Losses

The provision for loan losses that was added to the allowance for the third quarter 2016 was \$2.2 million compared to \$2.5 million for the quarter ended September 30, 2015 and \$1.9 million for the quarter ended June 30, 2016. 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. Our reserve coverage (allowance for loan and lease loss reserve to nonperforming loans) at September 30, 2016 was 126.5% compared to 108.6% at September 30, 2015 and 144.6% at June 30, 2016. Our loan loss reserve as a percentage of total loans outstanding at September 30, 2016 remained at 1.22% compared to prior quarter, down from the 1.26% at September 30, 2015.

Noninterest Income

Noninterest income for the quarter ended September 30, 2016 of \$13.2 million was an increase of \$1.2 million, or 9.6%, from prior year same quarter and \$1.4 million, or 12.0%, from prior quarter. The increase for the quarter was primarily due to increases in gains on sales of loans, deposit service charges, trust revenue, loan related fees, and securities gains. Loan related fees were affected by fluctuations in the fair value adjustments of our mortgage servicing rights with an increase of \$0.4 million from the same quarter last year and an increase of \$0.2 million quarter over quarter. Noninterest income for the nine months ended September 30, 2016 of \$35.9 million was an

increase of \$0.9 million, or 2.7%, from the first nine months of 2015. The year-to-date increase in noninterest income was primarily due to a \$0.7 million increase in deposit services charges, a \$0.2 million increase in trust revenue, and a \$0.4 million increase in securities gains, partially offset by declines in gains on sales of loans (\$0.2 million) and loan related fees (\$0.1 million). Loan related fees decreased year-to-date as a result of the \$0.2 million decline in the fair value of mortgage servicing rights.

Noninterest Expense

Noninterest expense for the quarter ended September 30, 2016 of \$26.7 million was a decrease of \$0.8 million, or 3.1%, from prior year third quarter and \$0.5 million, or 1.9%, from prior quarter. The decrease in noninterest expense from prior year same quarter was primarily due to decreases in FDIC insurance premiums, net other real estate owned expense, and operating losses, partially offset by an increase in personnel expense. The decrease from prior quarter in FDIC insurance premiums and operating losses was combined with a decrease in personnel expense, but was partially offset by an increase in our net other real estate owned expense. The fluctuation 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 nine months ended September 30, 2016 of \$80.1 million was an increase of \$0.5 million, or 0.6%, compared to the first nine months of 2015, primarily due to the \$1.4 million increase in personnel expense which included a \$0.8 million increase in salaries, a \$1.1 million increase in the cost of group medical and life insurance, and a \$0.4 million decrease in bonuses. The increase in personnel expense was partially offset by declines in data processing expense (\$0.5 million) and net other real estate owned expense (\$0.6 million).

Balance Sheet Review

CTBI's total assets at \$3.9 billion increased \$26.3 million, or an annualized 0.9%, from December 31, 2015 and \$34.9 million, or an annualized 3.6%, during the quarter. Loans outstanding at September 30, 2016 were \$2.9 billion, increasing \$57.3 million, or an annualized 2.7%, from December 31, 2015 but decreasing \$0.1 million during the quarter. We experienced a decline during the quarter of \$9.5 million in the commercial loan portfolio and \$5.7 million in the residential loan portfolio, offset by increases of \$12.6 million in the indirect loan portfolio, and \$2.5 million in the consumer direct loan portfolio. CTBI's investment portfolio increased \$35.8 million, or an annualized 8.0%, from December 31, 2015 and \$51.6 million, or an annualized 35.3%, during the quarter. Excess cash on deposit at the Federal Reserve was redeployed into short term investments offering higher yields while maintaining the short duration position of our investment portfolio. Deposits, including repurchase agreements, at \$3.3 billion increased \$84.3 million, or an annualized 3.5%, from December 31, 2015 and \$13.0 million, or an annualized 1.6%, from prior quarter.

Shareholders' equity at September 30, 2016 was \$500.1 million compared to \$475.6 million at December 31, 2015 and \$493.6 million at June 30, 2016. Our tangible common equity/tangible assets ratio increased to 11.24%.

Loans

(in thousands)	September 30, 2016					
		Variance		YTD		
Loan Category	Balance	from Prior		Net	Nonperforming	ALLL
Commercial:		Year-End		Charge-Offs		
Construction	\$68,275	(12.5)%		\$ 68	\$ 2,240	\$1,430
Secured by real estate	1,083,640	2.9		1,378	12,329	14,782
Equipment lease financing	6,242	(26.7)		0	0	66
Commercial other	354,984	(1.1)		1,296	1,791	4,085
Total commercial	1,513,141	1.0		2,742	16,360	20,363

Residential:

Real estate construction	55,412	(10.3)	185	489	509
Real estate mortgage	706,028	(0.3)	774	10,294	6,344
Home equity	89,467	0.0	14	727	824
Total residential	850,907	(1.0)	973	11,510	7,677

Consumer:

Consumer direct	131,815	4.3	552	109	1,711
Consumer indirect	435,436	11.6	1,855	317	6,050
Total consumer	567,251	9.8	2,407	426	7,761

Total loans	\$2,931,299	2.0	%	\$ 6,122	\$ 28,296	\$35,801
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Asset Quality

CTBI's total nonperforming loans were \$28.3 million at September 30, 2016, a 1.1% decrease from the \$28.6 million at December 31, 2015 but a 14.6% increase from the \$24.7 million at June 30, 2016. Loans 90+ days past due increased \$3.3 million during the quarter while nonaccrual loans increased \$0.4 million. Loans 30-89 days past due on accrual status at \$19.8 million was an increase of \$0.8 million from June 30, 2016. Our loan portfolio management processes focus on the immediate identification, management, and resolution of problem loans to maximize recovery and minimize loss. Our loan 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.

Impaired loans, loans not expected to meet contractual principal and interest payments other than insignificant delays, at September 30, 2016 totaled \$55.0 million, a \$5.1 million increase from the \$49.9 million at December 31, 2015 and \$1.7 million from the \$53.3 million at June 30, 2016. While nonperforming loans and impaired loans increased during the quarter, the increase was primarily in loans 90+ days past due and still accruing. These loans are considered to be well secured and in the process of collection. Management analyzes all loans that are 90+ days past due or otherwise impaired to determine the amount of impairment that should be recognized. During the quarter, the amount of impairment recognized decreased by \$0.2 million. At September 30, 2016, CTBI had \$35.8 million in commercial loans secured by real estate, \$5.9 million in commercial real estate construction loans, \$11.8 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 the amount of impairment, if any, 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 condensed 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.

Net loan charge-offs for the quarter ended September 30, 2016 were \$2.1 million, or 0.28% of average loans annualized, compared to \$2.2 million, or 0.31%, experienced for the third quarter 2015 and \$2.5 million, or 0.35%, for

the second quarter 2016. Of the net charge-offs for the quarter, \$0.8 million were in commercial loans, \$0.8 million were in indirect auto loans, \$0.4 million were in residential real estate mortgage loans, and \$0.1 million were in consumer direct loans. Net loan charge-offs for the nine months ended September 30, 2016 were \$6.1 million, or 0.28% of average loans, compared to \$5.6 million, or 0.27% of average loans, experienced for the nine months ended September 30, 2015.

Our level of foreclosed properties at \$37.7 million at September 30, 2016 was a \$3.0 million decrease from the \$40.7 million at December 31, 2015 but was relatively flat to June 30, 2016. Sales of foreclosed properties for the nine months ended September 30, 2016 totaled \$6.7 million while new foreclosed properties totaled \$4.3 million. At September 30, 2016, the book value of properties under contracts to sell was \$4.7 million; however, the closings had not occurred at quarter-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 the third quarter 2016 to reflect the decrease in current market values of foreclosed properties totaled \$0.4 million. There were forty-four properties reappraised during the third quarter 2016. Of these, thirty properties were written down by a total of \$0.4 million. Charges during the quarters ended September 30, 2015 and June 30, 2016 were \$0.8 million and \$0.1 million, respectively. 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 sixty-one percent of our OREO properties have been reappraised within the past 12 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 September 30, 2016 is shown below:

(in thousands)

Appraisal Aging Analysis		Holding Period Analysis	
	Current Book Value		Current Book Value
Days Since Last Appraisal		Holding Period	
Up to 3 months	\$3,920	Less than one year	\$10,997
3 to 6 months	1,749	1 to 2 years	5,582
6 to 9 months	3,573	2 to 3 years	2,342
9 to 12 months	13,708	3 to 4 years	736
12 to 24 months	14,675	4 to 5 years	2,555
Over 24 months	40	Over 5 years*	15,453
Total	\$37,665	Total	\$37,665

*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.

Dividends

The following schedule shows the quarterly cash dividends paid for the past six quarters:

Pay Date	Record Date	Amount Per
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		Share
October 1, 2016	September 15, 2016	\$0.320
July 1, 2016	June 15, 2016	\$0.310
April 1, 2016	March 15, 2016	\$0.310
January 1, 2016	December 15, 2015	\$0.310
October 1, 2015	September 15, 2015	\$0.310
July 1, 2015	June 15, 2015	\$0.300

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 September 30, 2016, we had approximately \$121.2 million in cash and cash equivalents and approximately \$631.2 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 \$1.0 million at September 30, 2016 compared to \$101.1 million at December 31, 2015. As of September 30, 2016, we had a \$292.0 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 September 30, 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 September 30, 2016 were federal funds sold of \$5.2 million compared to \$0.8 million at December 31, 2015, and deposits with the Federal Reserve were \$64.5 million 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 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 September 30, 2016, available-for-sale ("AFS") securities comprised approximately 99.8% of the total investment portfolio, and the AFS portfolio was approximately 126% of equity capital. Eighty-six 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.

Capital Resources

Shareholders' equity was \$500.1 million at September 30, 2016 and \$475.6 million at December 31, 2015. CTBI's annualized dividend yield to shareholders as of September 30, 2016 was 3.45%. Our primary source of capital growth is the retention of earnings. Cash dividends were \$0.94 per share and \$0.91 per share for the nine months ended September 30, 2016 and 2015, respectively. We retained 53.5% of our earnings for the first nine months of 2016 compared to 54.0% for the first nine months of 2015.

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 is being phased-in over four years beginning on January 1, 2016.

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 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. For more information regarding Basel III, please refer to the Supervision and Regulation section of Item 1. Business in our annual report on Form 10-K for the year ended December 31, 2015.

As of September 30, 2016, following implementation of the new rules, CTBI had a common equity Tier 1 capital ratio of 14.97%, a Tier 1 capital ratio of 17.05%, a total capital ratio of 18.30%, and a Tier 1 leverage ratio of 12.69%, all above the required levels to be considered “well-capitalized.” Our capital conservation buffer at September 30, 2016 was 10.30%.

As of September 30, 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.

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 slowly recovering. Commerce and business growth across a wide range of industries and regions in the U.S. remains reduced and local governments and many businesses continue to experience financial difficulty. While reflecting some improvement in many parts of the country and in parts of our own service area, unemployment levels remain elevated. There can be no assurance that these conditions will continue to improve and these conditions could worsen. Regionally, recent economic conditions in the coal industry could result in additional unemployment in the markets we serve where coal is a major contributor to the economy. In addition, future federal budget negotiations, the implementation of the Patient Protection and Affordable Care Act, the level of U.S. debt, the Federal Open Market Committee’s plan for economic easing, and volatility in oil prices 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 has not acquired any shares of common stock through the stock repurchase program since February 2008. There are 67,371 shares remaining under CTBI's current repurchase authorization.

Critical Accounting Policies and Estimates

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

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

We have identified the following critical accounting policies:

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

- a. Trading securities. Securities that are bought and held principally for the purpose of selling them in the near term (thus held for only a short period of time) shall be classified as trading securities. Trading generally reflects active and frequent buying and selling, and trading securities are generally used with the objective of generating profits on short-term differences in price.
- b. Available-for-sale securities. Investments not classified as trading securities (nor as held-to-maturity securities) shall be classified as available-for-sale securities.

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

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

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

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

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

Allowance for Loan and Lease Losses – We maintain an allowance for loan and lease losses ("ALLL") at a level that is appropriate to cover estimated credit losses on individually evaluated loans determined to be impaired, as well as estimated credit losses inherent in the remainder of the loan and lease portfolio. Credit losses are charged and recoveries are credited to the ALLL.

We utilize an internal risk grading system for commercial credits. Those larger commercial credits that exhibit probable or observed credit weaknesses are subject to individual review. The borrower's cash flow, adequacy of collateral coverage, and other options available to CTBI, including legal remedies, are evaluated. The review of individual loans includes those loans that are impaired as defined by ASC 310-10-35, Impairment of a Loan. We evaluate the collectability of both principal and interest when assessing the need for loss provision. Historical loss rates are analyzed and applied to other commercial loans not subject to specific allocations. The ALLL allocation for this pool of commercial loans is established based on the historical average, maximum, minimum, and median loss ratios.

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

value of the collateral if the loan is collateral dependent.

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

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

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

Historical loss rates for loans are adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. We use twelve rolling quarters for our historical loss rate analysis. Factors that we consider include delinquency trends, current economic conditions and trends, strength of supervision and administration of the loan portfolio, levels of underperforming loans, level of recoveries to prior year's charge-offs, trends in loan losses, industry concentrations and their relative strengths, amount of unsecured loans, and underwriting exceptions. Management continually reevaluates the other subjective factors included in its ALLL analysis.

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

Income Taxes – Income tax expense is based on the taxes due on the consolidated tax return plus deferred taxes based on the expected future tax benefits and consequences of temporary differences between carrying amounts and tax bases of assets and liabilities, using enacted tax rates. Any interest and penalties incurred in connection with income taxes are recorded as a component of income tax expense in the consolidated financial statements. During the nine months ended September 30, 2016 and 2015, CTBI has not recognized a significant amount of interest expense or penalties in connection with income taxes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk management focuses on maintaining consistent growth in net interest income within Board-approved policy limits. CTBI uses an earnings simulation model to analyze net interest income sensitivity to movements in interest rates. Given a 200 basis point increase to the yield curve used in the simulation model, it is estimated net

interest income for CTBI would increase by 2.78 percent over one year and increase by 4.52 percent over two years. A 25 basis point decrease in the yield curve would decrease net interest income by an estimated 0.22 percent over one year and decrease by 0.01 percent over two years. For further discussion of CTBI's market risk, see the Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Market Risk included in the annual report on Form 10-K for the year ended December 31, 2015.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

CTBI's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. As of the end of the period covered by this report, an evaluation was carried out by CTBI's management, with the participation of our Chief Executive Officer and the Executive Vice President, Chief Financial Officer, and Treasurer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, management concluded that disclosure controls and procedures as of September 30, 2016 were effective in ensuring material information required to be disclosed in this quarterly report on Form 10-Q was recorded, processed, summarized, and reported on a timely basis.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in CTBI's internal control over financial reporting that occurred during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, CTBI's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1.	Legal Proceedings	None
Item 1A.	Risk Factors	None
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	None
Item 3.	Defaults Upon Senior Securities	None
Item 4.	Mine Safety Disclosure	Not applicable
Item 5.	<p>Other Information:</p> <p>CTBI's Principal Executive Officer and Principal Financial Officer have furnished to the SEC the certifications with respect to this Form 10-Q that are required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002</p>	
Item 6.	<p>Exhibits:</p> <p>(1) Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Exhibit 31.1 Exhibit 31.2</p> <p>(2) Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Exhibit 32.1 Exhibit 32.2</p> <p>(3) XBRL Instance Document Exhibit 101.INS</p> <p>(4) XBRL Taxonomy Extension Schema Exhibit 101.SCH</p> <p>(5) XBRL Taxonomy Extension Calculation Linkbase Exhibit 101.CAL</p> <p>(6) XBRL Taxonomy Extension Definition Linkbase Exhibit 101.DEF</p> <p>(7) XBRL Taxonomy Extension Label Linkbase Exhibit 101.LAB</p> <p>(8) XBRL Taxonomy Extension Presentation Linkbase Exhibit 101.PRE</p>	

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, CTBI has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

COMMUNITY TRUST BANCORP, INC.

Date: November 8, 2016 By: /s/ Jean R. Hale

Jean R. Hale

Chairman, President, and Chief Executive Officer

/s/ Kevin J. Stumbo

Kevin J. Stumbo

Executive Vice President, Chief Financial Officer, and Treasurer