

COMMUNITY TRUST BANCORP INC /KY/  
Form 10-Q  
November 08, 2013

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, 2013

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 <input checked="" type="checkbox"/>	No <input type="checkbox"/>
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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes

No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes

No

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

Common stock – 15,803,331 shares outstanding at October 31, 2013

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**CAUTIONARY STATEMENT  
REGARDING FORWARD LOOKING STATEMENTS**

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

**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, 2012 for further information in this regard.

Community Trust Bancorp, Inc.  
Condensed Consolidated Balance Sheets

	(unaudited)	
	September 30 2013	December 31 2012
(dollars in thousands)		
Assets:		
Cash and due from banks	\$74,252	\$73,451
Interest bearing deposits	27,681	127,438
Federal funds sold	7,063	6,671
Cash and cash equivalents	108,996	207,560
Certificates of deposit in other banks	9,568	5,336
Securities available-for-sale at fair value (amortized cost of \$669,304 and \$583,858, respectively)	663,916	603,343
Securities held-to-maturity at amortized cost (fair value of \$1,614 and \$1,659, respectively)	1,662	1,662
Loans held for sale	768	22,486
Loans	2,616,365	2,550,573
Allowance for loan losses	(34,013 )	(33,245 )
Net loans	2,582,352	2,517,328
Premises and equipment, net	51,898	54,321
Federal Home Loan Bank stock	25,673	25,673
Federal Reserve Bank stock	4,886	4,885
Goodwill	65,490	65,490
Core deposit intangible (net of accumulated amortization of \$7,872 and \$7,712, respectively)	744	904
Bank owned life insurance	53,317	44,893
Mortgage servicing rights	3,305	2,364
Other real estate owned	43,078	47,537
Other assets	28,201	31,882
Total assets	\$3,643,854	\$3,635,664
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing	\$616,796	\$606,448
Interest bearing	2,257,488	2,297,400
Total deposits	2,874,284	2,903,848
Repurchase agreements	214,755	210,120
Federal funds purchased and other short-term borrowings	13,933	12,314
Advances from Federal Home Loan Bank	31,316	1,429
Long-term debt	61,341	61,341
Other liabilities	39,548	46,268
Total liabilities	3,235,177	3,235,320
Shareholders' equity:		

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Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, \$5 par value, shares authorized 25,000,000; shares outstanding 2013 – 15,697,593; 2012 – 15,612,935	78,488	78,065
Capital surplus	163,128	160,670
Retained earnings	170,563	148,944
Accumulated other comprehensive income (loss), net of tax	(3,502 )	12,665
Total shareholders' equity	408,677	400,344
Total liabilities and shareholders' equity	\$3,643,854	\$3,635,664

See notes to condensed consolidated financial statements.

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

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
(in thousands except per share data)	2013	2012	2013	2012
<b>Interest income:</b>				
Interest and fees on loans, including loans held for sale	\$33,290	\$34,298	\$98,810	\$103,628
Interest and dividends on securities				
Taxable	3,196	3,148	9,220	9,001
Tax exempt	561	534	1,676	1,525
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock				
Other, including interest on federal funds sold	63	125	273	423
<b>Total interest income</b>	<b>37,455</b>	<b>38,450</b>	<b>111,014</b>	<b>115,631</b>
<b>Interest expense:</b>				
Interest on deposits	2,778	4,777	8,699	14,178
Interest on repurchase agreements and other short-term borrowings	232	294	729	953
Interest on advances from Federal Home Loan Bank	7	8	20	27
Interest on long-term debt	288	325	877	2,102
<b>Total interest expense</b>	<b>3,305</b>	<b>5,404</b>	<b>10,325</b>	<b>17,260</b>
Net interest income	34,150	33,046	100,689	98,371
Provision for loan losses	2,129	2,919	7,349	6,504
<b>Net interest income after provision for loan losses</b>	<b>32,021</b>	<b>30,127</b>	<b>93,340</b>	<b>91,867</b>
<b>Noninterest income:</b>				
Service charges on deposit accounts	6,349	6,038	18,298	17,865
Gains on sales of loans, net	653	660	2,805	1,982
Trust income	2,005	1,734	6,028	5,169
Loan related fees	1,088	631	3,532	2,528
Bank owned life insurance	517	462	2,265	1,321
Securities gains (losses)	(23 )	0	(31 )	819
Other noninterest income	1,482	1,313	4,368	4,330
<b>Total noninterest income</b>	<b>12,071</b>	<b>10,838</b>	<b>37,265</b>	<b>34,014</b>
<b>Noninterest expense:</b>				
Officer salaries and employee benefits	2,705	3,048	7,891	7,727
Other salaries and employee benefits	10,543	10,237	31,553	30,773
Occupancy, net	1,945	1,969	5,844	5,681
Equipment	920	957	2,886	2,870
Data processing	1,850	1,644	5,438	4,771
Bank franchise tax	1,124	1,130	3,370	3,413
Legal fees	585	522	1,747	1,619
Professional fees	491	411	1,305	1,056
FDIC insurance	624	643	1,863	1,913
Other real estate owned provision and expense	905	1,123	3,914	2,672
Other noninterest expense	3,899	4,129	12,066	13,216

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Total noninterest expense	25,591	25,813	77,877	75,711
Income before income taxes	18,501	15,152	52,728	50,170
Income taxes	5,848	4,943	16,313	15,860
Net income	12,653	10,209	36,415	34,310
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available-for-sale:				
Unrealized holding gains (losses) arising during the period	(981 )	3,337	(24,904 )	7,505
Less: Reclassification adjustments for realized (gains) losses included in net income	23	0	31	(819 )
Tax (benefit) expense	(336 )	1,168	(8,706 )	2,340
Other comprehensive income (loss), net of tax	(622 )	2,169	(16,167 )	4,346
Comprehensive income	\$12,031	\$12,378	\$20,248	\$38,656
Basic earnings per share	\$0.81	\$0.66	\$2.34	\$2.22
Diluted earnings per share	\$0.81	\$0.66	\$2.33	\$2.21
Weighted average shares outstanding-basic	15,594	15,491	15,566	15,450
Weighted average shares outstanding-diluted	15,688	15,555	15,647	15,501
Dividends declared per share	\$0.320	\$0.315	\$0.950	\$0.935

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)	2013	2012
Cash flows from operating activities:		
Net income	\$36,415	\$34,310
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,440	3,212
Deferred taxes	570	(2,340 )
Stock-based compensation	498	443
Excess tax benefits of stock-based compensation	100	495
Provision for loan losses	7,349	6,504
Write-downs of other real estate owned and other repossessed assets	1,958	899
Gains on sale of mortgage loans held for sale	(2,805 )	(1,982 )
(Gains)/losses on sales of securities	31	(819 )
Losses on sale of assets, net	160	101
Proceeds from sale of mortgage loans held for sale	122,764	89,015
Funding of mortgage loans held for sale	(98,240 )	(87,268 )
Amortization of securities premiums and discounts, net	3,221	4,143
Change in cash surrender value of bank owned life insurance	(1,119 )	(1,063 )
Mortgage servicing rights:		
Fair value adjustments	(173 )	511
New servicing assets created	(768 )	(510 )
Changes in:		
Other assets	3,674	456
Other liabilities	1,316	11,088
Net cash provided by operating activities	78,391	57,195
Cash flows from investing activities:		
Certificates of deposit in other banks:		
Maturity of certificates of deposit	(4,472 )	0
Purchase of certificates of deposit	240	3,117
Securities available-for-sale (AFS):		
Purchase of AFS securities	(197,263 )	(216,143 )
Proceeds from prepayments and maturities of AFS securities	94,211	113,648
Proceeds from the sales of AFS securities	14,354	12,025
Change in loans, net	(76,276 )	(9,118 )
Purchase of premises and equipment	(933 )	(3,823 )
Proceeds from sale of premises and equipment	93	103
Additional investment in Federal Reserve Bank stock	(1 )	(2 )
Proceeds from sale of other real estate and other repossessed assets	6,408	7,915
Additional investment in other real estate and other repossessed assets	(173 )	(527 )
Additional investment in bank owned life insurance	(7,950 )	0
Proceeds from bank owned life insurance	644	0
Net cash used in investing activities	(171,118 )	(92,805 )
Cash flows from financing activities:		



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Change in deposits, net	(29,564 )	33,485
Change in repurchase agreements, federal funds purchased, and other short-term borrowings, net	6,254	(2,949 )
Proceeds from Federal Home Loan Bank advances	30,000	0
Payments on advances from Federal Home Loan Bank	(113 )	(20,137 )
Issuance of common stock	2,376	4,099
Excess tax benefits of stock-based compensation	(100 )	(495 )
Dividends paid	(14,690 )	(14,333 )
Net cash used in financing activities	(5,837 )	(330 )
Net decrease in cash and cash equivalents	(98,564 )	(35,940 )
Cash and cash equivalents at beginning of period	207,560	238,481
Cash and cash equivalents at end of period	\$108,996	\$202,541
Supplemental disclosures:		
Income taxes paid	\$14,250	\$11,325
Interest paid	9,426	14,303
Non-cash activities:		
Loans to facilitate the sale of other real estate and other repossessed assets	2,231	2,897
Common stock dividends accrued, paid in subsequent quarter	4,992	4,882
Real estate acquired in settlement of loans	6,135	10,540

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 accruals) necessary, to present fairly the condensed consolidated financial position as of September 30, 2013, the results of operations for the three and nine months ended September 30, 2013 and 2012, and the cash flows for the nine months ended September 30, 2013 and 2012. 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, 2013 and 2012, and the cash flows for the nine months ended September 30, 2013 and 2012, are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2012 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, 2012, 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 Amounts Reclassified Out of Other Comprehensive Income** – In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in the ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. The new amendments will require an organization to:

- Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period; and
- Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). The

amendments are effective for reporting periods beginning after December 15, 2012, for public companies. The adoption of ASU No. 2013-02 did not have a material impact on CTBI's consolidated financial statements.

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 month periods ended September 30, 2013 and 2012 were:

	Amounts Reclassified from AOCI	
(in thousands)	Three Months Ended September 30	Nine Months Ended September 30