DIMON INC
Form 8-K
May 11, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

May 11, 2005

Date of Report (Date of earliest event reported)

DIMON INCORPORATED

(Exact name of registrant as specified in its charter)

Virginia	**001-13684**	**54-1746567**
(State or other jurisdiction of Incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

512 Bridge Street, Danville, Virginia	**24541**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (434) 792-7511

N/A

(Former name of former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 8.01 OTHER EVENTS

On May 11, 2005, DIMON Incorporated issued a press release announcing the pricing of its previously announced (1) cash tender offer for any and all of its outstanding (a) 9 ^{5}/8% Senior Notes due 2011 (the 9 ^{5}/8% Notes) and (b) 7 ^{3}/4% Senior Notes due 2013 (the 7 ^{3}/4% Notes and, collectively with the 9 ^{5}/8% Notes, the Notes), and (2) solicitation of consents to amend each of the indentures governing the Notes. The pricing is described in the press release, which is attached as Exhibit 99.1 to this Form 8-K and incorporated herein by reference.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

Exhibit No.	**Description**
99.1	DIMON Incorporated press release, issued on May 11, 2005, announcing the pricing of its previously announced (1) cash tender offer for any and all of the outstanding Notes and (2) solicitation of consents to amend each of the indentures governing the Notes.

SIGNATURES

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

DIMON INCORPORATED
(Registrant)

Date: May 11, 2005

BY: /s/ Thomas G. Reynolds

Thomas G. Reynolds
Vice President - Controller (Chief Accounting Officer)

EXHIBIT INDEX

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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 decreases of $15 thousand, $0.3 million, and $38 thousand for the quarters ended June 30, 2015, December 31, 2014, and June 30, 2014, respectively. Year-to-date adjustments were decreases of $0.5 million for the six months ended June 30, 2015 and $0.4 million for the year ended December 31, 2014 and an increase of $0.2 million for the six months ended June 30, 2014.

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 decreases of $0.3 million, $1.5 million, and $0.3 million for the quarters ended June 30, 2015, December 31, 2014, and June 30, 2014, respectively. Year-to-date adjustments were decreases of $0.4 million for the six months ended June 30, 2015, $1.7 million for the year ended December 31, 2014, and $1.2 million for the six months ended June 30, 2014.

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 June 30, 2015 and December 31, 2014.

(in thousands)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at June 30, 2015	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Mortgage servicing rights	$3,235	Discount cash flows, computer pricing model	Constant prepayment rate	6.0% - 22.3% (9.8%)
			Probability of default	0.0% - 100.0% (3.0%)
			Discount rate	10.0% - 11.0% (10.1%)
Impaired loans (collateral-dependent)	$2,677	Market comparable properties	Marketability discount	5.0% - 10.0% (7.0%)
Other real estate/assets owned	$1,070	Market comparable properties	Comparability adjustments	5.0% - 30.0% (12.1%)

(in thousands)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)

	December 31, 2014			
Mortgage servicing rights	$2,968	Discount cash flows, computer pricing model	Constant prepayment rate	4.6% - 25.1% (11.3%)
			Probability of default	0.0% - 100.0% (3.6%)
			Discount rate	10.0% - 11.5% (10.1%)
Impaired loans (collateral-dependent)	$4,665	Market comparable properties	Marketability discount	5.0% - 10.0% (7.0%)
Other real estate/assets owned	$6,472	Market comparable properties	Comparability adjustments	3.0% - 67.0% (18.0%)

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 June 30, 2015 and indicates the level within the fair value hierarchy of the valuation techniques.

		Fair Value Measurements at June 30, 2015 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	$145,031	$145,031	$0	$0
Certificates of deposit in other banks	6,665	0	6,675	0
Securities available-for-sale	581,236	25,294	555,942	0
Securities held-to-maturity	1,661	0	1,641	0
Loans held for sale	1,993	2,019	0	0
Loans, net	2,757,641	0	0	2,753,742
Federal Home Loan Bank stock	17,927	0	17,927	0
Federal Reserve Bank stock	4,887	0	4,887	0
Accrued interest receivable	12,801	0	12,801	0
Mortgage servicing rights	3,235	0	0	3,235
Financial liabilities:				
Deposits	$2,913,071	$701,958	$2,204,811	$0
Repurchase agreements	241,776	0	0	241,765
Federal funds purchased	12,220	0	12,220	0
Advances from Federal Home Loan Bank	51,112	0	51,037	0
Long-term debt	61,341	0	0	49,073
Accrued interest payable	1,336	0	1,336	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, 2014 and indicates the level within the fair value hierarchy of the valuation techniques.

(in thousands)		Fair Value Measurements at December 31, 2014 Using		
	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	$105,517	$105,517	$0	$0
Certificates of deposit in other banks	8,197	0	8,213	0
Securities available-for-sale	640,186	25,381	614,805	0
Securities held-to-maturity	1,662	0	1,644	0
Loans held for sale	2,264	2,321	0	0
Loans, net	2,699,377	0	0	2,691,906
Federal Home Loan Bank stock	17,927	0	17,927	0
Federal Reserve Bank stock	4,869	0	4,869	0
Accrued interest receivable	13,548	0	13,548	0
Mortgage servicing rights	2,968	0	0	2,968
Financial liabilities:				

Deposits	$2,874,257	$677,626	$2,192,848	$ 0
Repurchase agreements	235,186	0	0	235,193
Federal funds purchased	11,041	0	11,041	0
Advances from Federal Home Loan Bank	61,170	0	61,106	0
Long-term debt	61,341	0	0	35,615
Accrued interest payable	908	0	908	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 June 30		Six Months Ended June 30	
(in thousands except per share data)	2015	2014	2015	2014
Numerator:				
Net income	$12,402	$12,195	$23,340	$22,335
Denominator:				
Basic earnings per share:				
Weighted average shares	17,421	17,318	17,411	17,313
Diluted earnings per share:				
Effect of dilutive stock options and restricted stock grants	44	75	47	80
Adjusted weighted average shares	17,465	17,393	17,458	17,393
Earnings per share:				
Basic earnings per share	$0.71	$0.70	$1.34	$1.29
Diluted earnings per share	0.71	0.70	1.34	1.28

Options to purchase 58,063 common shares at a weighted average price of $35.409 were excluded from the diluted calculations above for the three and six months ended June 30, 2015, 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. Options to purchase 65,519 common shares at a weighted average price of $35.409 were excluded from the diluted calculations above for the three months ended June 30, 2014. There were no options to purchase common shares that were excluded from the diluted calculations above for the six months ended June 30, 2014.

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 six months ended June 30, 2015 and 2014 were:

(in thousands)	Amounts Reclassified from AOCI Three Months Ended June 30 2015	2014	Six Months Ended June 30 2015	2014
Affected line item in the statements of income				
Securities gains (losses)	$(14)	$(51)	$130	$(111)
Tax expense (benefit)	(5)	(18)	45	(39)
Total reclassifications out of AOCI	$(9)	$(33)	$85	$(72)

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 June 30, 2015, we had total consolidated assets of $3.8 billion and total consolidated deposits, including repurchase agreements, of $3.2 billion. Total shareholders' equity at June 30, 2015 was $461.6 million. Trust assets under management, which are excluded from

CTBI's total consolidated assets, at June 30, 2015 were $1.9 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 registrars, transfer agents, and 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, 2014.

Results of Operations and Financial Condition

For the quarter ended June 30, 2015, we reported earnings of $12.4 million, or $0.71 per basic share, compared to $12.2 million, or $0.70 per basic share, earned during the second quarter 2014 and $10.9 million, or $0.63 per basic share, earned during the first quarter 2015. Earnings for the six months ended June 30, 2015 were $23.3 million, or $1.34 per basic share compared to $22.3 million, or $1.29 per basic share, for the six months ended June 30, 2014.

Quarterly Highlights

v Our loan portfolio increased $59.0 million from December 31, 2014 and $46.3 million during the quarter.

v Our investment portfolio decreased $59.0 million from December 31, 2014 and $45.1 million during the quarter.

v Deposits, including repurchase agreements, increased $45.4 million from December 31, 2014 but decreased $29.3 million during the quarter. Additional funding for loan growth was provided through an increase in short-term FHLB borrowings of $50 million during the quarter.

v Nonperforming loans at $33.4 million decreased $5.6 million from December 31, 2014 and $1.7 million from March 31, 2015. Nonperforming assets at $70.0 million decreased $5.9 million from December 31, 2014 and $4.0 million from March 31, 2015.

v Net loan charge-offs for the quarter ended June 30, 2015 were $1.7 million, or 0.25% of average loans annualized, compared to $0.7 million, or 0.11%, experienced for the second quarter 2014 and $1.7 million, or 0.26%, for the first quarter 2015.

v CTBI invests in limited partnerships that offer low income housing, new markets, and historic tax credits in exchange for investments in low income housing and other community related investments. Our investments in these partnerships increased by $7.2 million during the quarter and $9.3 million year-to-date. Our tax credits for the second quarter 2015, used to offset current income tax expense, totaled $0.9 million compared to $0.3 million in the second quarter 2014 and the first quarter 2015. Year-to-date credits used to offset current income tax expense totaled $1.2 million compared to $0.5 million for the first six months of 2014. The amortization of our investment in these partnerships increased as well. Amortization for the second quarter 2015 totaled $0.7 million compared to $0.2 million for the second quarter 2014 and $0.3 million for the first quarter 2015. Year-to-date amortization was $1.0 million compared to $0.4 million for the first six months of 2014.

Income Statement Review

(dollars in thousands)

Six Months Ended June 30	2015	2014	Change 2015 vs. 2014 Amount	Percent
Net interest income	$66,087	$65,583	$504	0.8 %
Provision for loan losses	4,220	2,080	2,140	102.9
Noninterest income	22,964	21,037	1,927	9.2
Noninterest expense	52,131	52,117	14	0.0
Income taxes	9,360	10,088	(728)	(7.2)
Net income	$23,340	$22,335	$1,005	4.5 %
Average earning assets	$3,497,279	$3,401,626	$95,653	2.8 %
Yield on average earnings assets	4.20 %	4.29 %	(0.09)%	(2.1)%
Cost of interest bearing funds	0.45 %	0.47 %	(0.02)%	(4.3)%
Net interest margin	3.87 %	3.94 %	(0.07)%	(1.8)%

Net Interest Income

Net interest income for the quarter increased $0.3 million, or 1.1%, from prior year second quarter and $0.3 million, or 0.8%, from prior quarter, while our net interest margin decreased 7 basis points and 4 basis points during the respective time periods. Average earning assets increased $100.1 million, or 2.9%, from second quarter 2014 and $33.2 million, or 1.0%, from prior quarter, while our yield on average earning assets decreased 8 basis points and 4 basis points, respectively, during these time periods. The cost of interest bearing funds decreased 2 basis points from prior year same quarter but remained flat to prior quarter. Our ratio of average loans to deposits, including repurchase agreements, for the quarter ended June 30, 2015 were 87.1% compared to 83.2% for the quarter ended June 30, 2014 and 86.6% for the quarter ended March 31, 2015. Year-to-date net interest income increased $0.5 million, or 0.8%, from prior year.

Provision for Loan Losses

The provision for loan losses that was added to the allowance for the second quarter 2015 was $2.3 million compared to $0.7 million in the second quarter 2014 and $1.9 million for the quarter ended March 31, 2015. Year-to-date allocations to the reserve were $4.2 million at June 30, 2015 compared to $2.1 million at June 30, 2014. 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 provision increased for the quarter due to higher loan growth. Our reserve coverage (allowance for loan and lease loss reserve to nonperforming loans) at June 30, 2015 was 105.4% compared to 75.5% at June 30, 2014 and 98.7% at March 31, 2015. Our loan loss reserve as a percentage of total loans outstanding decreased from the 1.28% at June 30, 2014 but remained at 1.26% from March 31, 2015 to June 30, 2015.

Noninterest Income

Noninterest income for the quarter ended June 30, 2015 increased $1.3 million, or 11.4%, from prior year same quarter and $1.5 million, or 13.9%, from prior quarter. We experienced increases in gains on sales of loans, deposit service charges, trust revenue, and loan related fees year over year and quarter over quarter. Year-to-date noninterest income increased $1.9 million, or 9.2% from prior year. Gains on sales of loans increased $0.6 million, loan related fees increased $0.7 million, trust revenue increased $0.3 million, and deposit service charges increased $0.2 million. The increase in loan related fees resulted primarily from the $0.5 million fluctuation in the fair value adjustments of our mortgage servicing rights.

Noninterest Expense

Noninterest expense for the quarter ended June 30, 2015 increased $1.1 million, or 4.2%, from prior year second quarter and $0.5 million, or 1.9%, from prior quarter. Occupancy and equipment expense and data processing expense for the second quarter 2015 both decreased $0.2 million from same period last year and prior quarter. However, these decreases were offset year over year by a $0.5 million increase in amortization expense related to tax credits and a $0.3 million increase in personnel expense and quarter over quarter by a $0.4 million increase in amortization expense and a $0.3 million increase in net other real estate owned expense. Year-to-date noninterest expense remained relatively flat to prior year as a $0.6 million increase in amortization expense related to tax credits and a $0.6 million increase in personnel expense due to an increase in group medical and life insurance were offset by a $1.0 million decrease in net other real estate owned expense.

Balance Sheet Review

CTBI's total assets at $3.8 billion increased $46.3 million, or an annualized 2.5%, from December 31, 2014 and $10.7 million, or an annualized 1.1%, during the quarter. Loans outstanding at June 30, 2015 were $2.8 billion, increasing $59.0 million, or an annualized 4.4%, from December 31, 2014 and $46.3 million, or an annualized 6.8%, during the quarter. We experienced growth during the quarter of $25.5 million in the commercial loan portfolio, $21.7 million in the indirect loan portfolio, and $1.6 million in the consumer direct loan portfolio, partially offset by a decrease of $2.5 million in the residential loan portfolio. CTBI's investment portfolio decreased $59.0 million, or an annualized 18.5%, from December 31, 2014 and $45.1 million, or an annualized 28.8%, during the quarter. The decline in the investment portfolio was utilized to provide additional liquidity through an increase in our deposits with the Federal Reserve and to support loan growth. Deposits, including repurchase agreements, at $3.2 billion increased $45.4 million, or an annualized 2.9%, from December 31, 2014 but decreased $29.3 million, or an annualized 3.7%, during the quarter. Additional funding for loan growth was provided through an increase in short-term FHLB borrowings of $50 million during the quarter.

Shareholders' equity at June 30, 2015 was $461.6 million compared to $447.9 million at December 31, 2014 and $457.4 million at March 31, 2015. Our tangible common equity/tangible assets ratio increased to 10.68%.

Loans

(in thousands)	June 30, 2015				
Loan Category	Balance	Variance from Prior Year-End	Net Charge-Offs	Nonperforming	ALLL
Commercial:					
Construction	$111,218	(8.8)%	$ (4)	$ 5,391	$2,622
Secured by real estate	978,412	3.1	880	9,231	13,022
Equipment lease financing	9,859	(4.7)	0	0	113
Commercial other	363,909	3.4	750	4,200	4,414
Total commercial	1,463,398	2.1	1,626	18,822	20,171
Residential:					
Real estate construction	57,914	(7.2)	87	590	570
Real estate mortgage	707,582	(0.7)	588	13,002	6,965
Home equity	88,113	(0.3)	55	608	867
Total residential	853,609	(1.1)	730	14,200	8,402
Consumer:					
Consumer direct	121,620	(0.4)	455	120	1,541

Consumer indirect	354,204	12.3	666	259	5,076
Total consumer	475,824	8.7	1,121	379	6,617
Total loans	$2,792,831	2.2 %	$ 3,477	$ 33,401	$35,190

Asset Quality

CTBI's total nonperforming loans were $33.4 million at June 30, 2015, a 14.3% decrease from the $39.0 million at December 31, 2014 and a 4.7% decrease from the $35.1 million at March 31, 2015. Nonaccrual loans decreased $0.8 million for the quarter and loans 90+ days past due decreased $0.9 million. Loans 30-89 days past due at $16.0 million was a decrease of $1.8 million from March 31, 2015. Our loan portfolio management processes focus on the immediate identification, management, and resolution of problem loans to maximize recovery and minimize loss. Our loan 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 June 30, 2015 totaled $50.2 million, a $8.9 million decline from the $59.1 million at December 31, 2014 and a $6.3 million decline from the $56.5 million at March 31, 2015. Included in certain loan categories of impaired loans are troubled debt restructurings that were classified as impaired. At June 30, 2015, CTBI had $23.6 million in commercial loans secured by real estate, $6.6 million in commercial real estate construction loans, $4.0 million in commercial other loans, and $1.2 million in real estate mortgage loans that were modified in troubled debt restructurings and impaired. Management evaluates all impaired loans for impairment and records a direct charge-off or provides specific reserves when necessary.

For further information regarding nonperforming and impaired loans, see note 4 to the 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 June 30, 2015 were $1.7 million, or 0.25% of average loans annualized, compared to $0.7 million, or 0.11%, experienced for the second quarter 2014 and $1.7 million, or 0.26%, for the first quarter 2015. Of the net charge-offs for the quarter, $1.0 million were in commercial loans, $0.3 million were in indirect auto loans, $0.2 million were in residential real estate mortgage loans, and $0.2 million were in consumer direct loans. Net loan charge-offs for the six months ended June 30, 2015 were $3.5 million, or 0.25% of average loans, compared to $2.5 million, or 0.19% of average loans, experienced for the six months ended June 30, 2014.

Our level of foreclosed properties at $36.4 million at June 30, 2015 was a decrease from $36.8 million at December 31, 2014 and $38.7 million at March 31, 2015. Sales of foreclosed properties for the quarter ended June 30, 2015 totaled $2.4 million while new foreclosed properties totaled $0.4 million. At June 30, 2015, the book value of properties under contracts to sell was $2.3 million; however, the closings had not occurred at quarter-end. Also included in other real estate owned at June 30, 2015 is a $0.3 million property which was not acquired through foreclosure.

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 second quarter 2015 to reflect the decrease in current market values of foreclosed properties totaled $0.3 million. There were fifty properties appraised during the second quarter 2015. Of these, sixteen properties were written down by a total of $0.3 million. Charges during the quarters ended June 30, 2014 and March 31, 2015 were $0.3 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 forty-four 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 major classifications of foreclosed properties are shown in the following table:

(in thousands)	June 30, 2015	December 31, 2014
1-4 family	$8,188	$ 10,337
Agricultural/farmland	116	116
Construction/land development/other	18,599	18,735
Multifamily	1,127	1,289
Non-farm/non-residential	8,375	6,299
Total foreclosed properties	$36,405	$ 36,776

The appraisal aging analysis of foreclosed properties, as well as the holding period, at June 30, 2015 is shown below:

(in thousands)

Appraisal Aging Analysis		Holding Period Analysis	
Days Since Last Appraisal	Current Book Value	Holding Period	Current Book Value
Up to 3 months	$3,521	Less than one year	$10,581
3 to 6 months	3,553	1 to 2 years	2,886
6 to 9 months	4,882	2 to 3 years	1,204
9 to 12 months	3,890	3 to 4 years	11,055
12 to 24 months	19,247	4 to 5 years	3,160
Over 24 months	1,312	Over 5 years*	7,519
Total	$36,405	Total	$36,405

*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.

Dividends

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

Pay Date	Record Date	Amount Per Share

July 1, 2015	June 15, 2015	$ 0.300
April 1, 2015	March 15, 2015	0.300
January 1, 2015	December 15, 2014	0.300
October 1, 2014	September 15, 2014	0.300
July 1, 2014	June 15, 2014	0.290
April 1, 2014	March 15, 2014	0.291

On July 28, 2015, the Board of Directors of CTBI declared a quarterly cash dividend of $0.31 per share to be paid on October 1, 2015 to shareholders of record on September 15, 2015. This represents an increase of 3.3% in the quarterly cash dividend.

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 June 30, 2015, we had approximately $145.0 million in cash and cash equivalents and approximately $581.2 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 $105.5 million and $640.2 million at December 31, 2014. 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 $51.1 million at June 30, 2015 compared to $61.2 million at December 31, 2014. As of June 30, 2015, we had a $332 million available borrowing position with the Federal Home Loan Bank compared to $312.3 million at December 31, 2014. 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 June 30, 2015 and December 31, 2014, we had $44 million in lines of credit with various correspondent banks available to meet any future cash needs. 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 June 30, 2015 were federal funds sold of $8.1 million compared to $4.9 million at December 31, 2014, and deposits with the Federal Reserve were $75.1 million compared to $40.9 million at December 31, 2014. 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 June 30, 2015, available-for-sale ("AFS") securities comprised approximately 99.7% of the total investment portfolio, and the AFS portfolio was approximately 126% of equity capital. Ninety-two percent of the pledge eligible portfolio was pledged.

Interest Rate Risk

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

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

Capital Resources

Shareholders' equity was $461.6 million at June 30, 2015 and $447.9 million at December 31, 2014. CTBI's annualized dividend yield to shareholders as of June 30, 2015 was 3.44%. Our primary source of capital growth is the retention of earnings. Cash dividends were $0.600 per share and $0.581 per share for the six months ended June 30, 2015 and 2014, respectively. We retained 55.2% of our earnings for the first six months of 2015 compared to 55.0% for the first six months of 2014.

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 would be: (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 will be 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 current rules); and (iv) a Tier 1 leverage ratio of 5% (unchanged from current 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. 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, 2014.

As of June 30, 2015, following implementation of the new rules, CTBI had a Common Equity Tier 1 capital ratio of 14.35%, a Tier 1 capital ratio of 16.51%, a total capital ratio of 17.76%, and a Tier 1 leverage ratio of 12.24%, all above the required levels to be considered "well-capitalized."

As of June 30, 2015, we are not aware of any other 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, except as provided for in Basel III and the Dodd-Frank Act, which is discussed in the Supervision and Regulation section of Item 1. Business in our annual report on Form 10-K for the year ended December 31, 2014.

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.

Since 2008 the U.S. economy has 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 increased unemployment in the markets we serve where coal is a major contributor to the economy. In addition, ongoing federal budget negotiations, the implementation of the Patient Protection and Affordable Care Act, the Federal Open Market Committee's plan for economic easing, and the level of U.S. debt may have a destabilizing effect on financial markets.

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. 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. 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. Since arriving at an appropriate ALLL involves a high degree of management judgment, we use an ongoing quarterly analysis to develop a range of estimated losses. In accordance with accounting principles generally accepted in the United States, we use our best estimate within the range of potential credit loss to determine the appropriate ALLL. 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 310-35, 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 non-accrual 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. Based upon management's judgment, "best case," "worst case," and "most likely" scenarios are determined. The total of each of these weighted factors is then applied against the applicable portion of the portfolio and the ALLL is adjusted accordingly to approximate the most likely scenario. 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 by a charge to income.

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 six months ended June 30, 2015 and 2014, CTBI did not recognize a significant amount of interest expense or penalties in connection with income taxes.

CTBI is currently under IRS examination of its 2013 corporate income tax return. Management does not expect that the results of the examination will have a material effect on our financial condition. While management believes our tax positions are appropriate, the IRS could challenge our positions as a part of this examination.

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 2.02 percent over one year and increase by 3.85 percent over two years. A 25 basis point decrease in the yield curve would decrease net interest income by an estimated 0.15 percent over one year and decrease by 0.23 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, 2014.

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 June 30, 2015 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 June 30, 2015 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
	Mine Safety Disclosure	

Item 4.		Not applicable
Item 5.	Other Information:	
	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	
Item 6.	a. Exhibits:	
	(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
	(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
	(3) XBRL Instance Document	Exhibit 101.INS
	(4) XBRL Taxonomy Extension Schema	Exhibit 101.SCH
	(5) XBRL Taxonomy Extension Calculation Linkbase	Exhibit 101.CAL
	(6) XBRL Taxonomy Extension Definition Linkbase	Exhibit 101.DEF
	(7) XBRL Taxonomy Extension Label Linkbase	Exhibit 101.LAB
	(8) XBRL Taxonomy Extension Presentation Linkbase	Exhibit 101.PRE

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: August 7, 2015 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