

2016

ANNUAL REPORT





Photo Location: Pullman Square, Huntington, West Virginia

Your Company

"We are committed to increasing shareholder value by operating our community banking model with the core values of fairness, respect, and integrity."

-Mission Statement

A Successful Business Model

Community Trust Bancorp, Inc.'s business success is founded in our unwavering commitment to faithfully execute our business model of community banking with fairness, respect, and integrity toward all of our constituents.

We continue to operate a conservative, efficient model of traditional community banking which has been the foundation of our customer service for more than 113 years and has driven our strong history of earnings. Our business model has allowed us to successfully meet the challenges of a highly competitive business environment and an ever-changing economy.

Economic conditions in most of the communities we serve in Kentucky, West Virginia, and Tennessee have significantly improved, and we are optimistic that this trend will continue. However, some business sectors in our Eastern Region, particularly the energy industry, remain negatively impacted. We anticipate that most of our market areas will continue to experience moderately improving economic conditions.

Our organizational structure and operating philosophy are our tools for fulfilling our mission. Our history of investment returns continues to demonstrate the viability of our stock as a long-term core value investment. Having a firm foundation for our operations, a strong capital position, a highly skilled and dedicated workforce, and a business model of community banking allows us to operate successfully.

The directors, officers, and staff of Community Trust Bancorp, Inc. are committed to changing operational challenges into opportunities while remaining focused on our core banking business and increasing shareholder value.

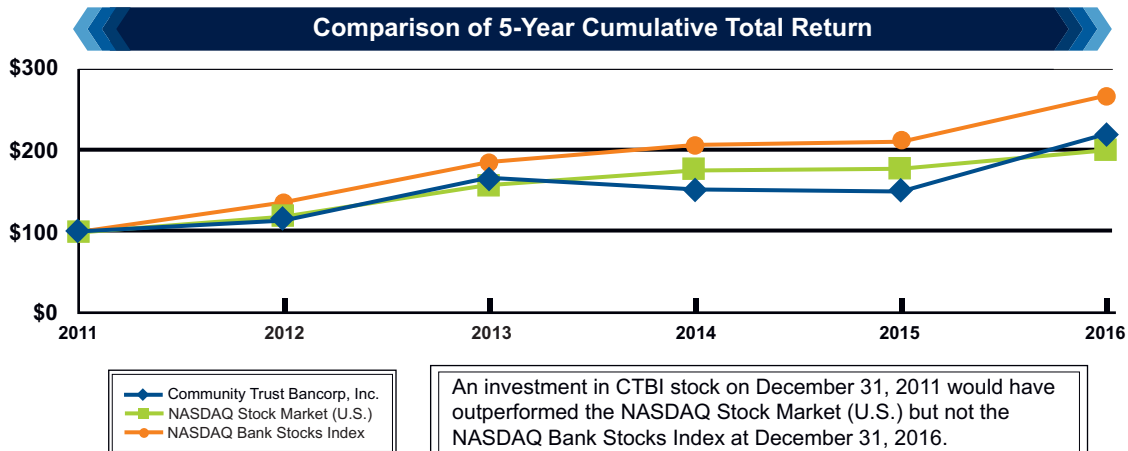




Photo Location: Pikeville, Kentucky Main Street
Photo Credit: Jordan M. Gibson

To Our Shareholders

Dear Shareholders

Your Company's financial performance continues to demonstrate why an investment in CTBI stock is considered a long-term core value investment. Your Company achieved its 2nd consecutive year of record earnings with net income of \$47.3 million and earnings per share at \$2.70. This performance represents a 1.21% return on average assets and a 9.58% return on average equity. Management believes cost control is a continuous action, not an event, and our ongoing focus on operational efficiencies has allowed us to consistently maintain an efficiency ratio less than 59.5% over the last five years. Our efficiency ratio at year-end 2016 was 58.5%.

We were pleased to continue our commitment to shareholders by sharing earnings with them in the form of quarterly cash dividends. The quarterly cash dividend to shareholders was increased to \$0.32 during 2016, representing the 36th consecutive year of increasing the cash dividend to shareholders. Our cash dividend yield at December 31, 2016 was 2.58%.

Economic Commentary

During 2016, improvement was seen in the national and regional economies of most of our service area. With the advent of increased optimism in the business community, the economy should be stronger in 2017. The expectation of regulatory relief for the business community, including regulatory changes which can have a positive impact on specific business sectors, combined with the probability of changes in tax structure may have a positive impact on business and the economy. Community Trust Bancorp, Inc. addressed the need for economic diversity many years ago with the expansion of your Company in Kentucky, West Virginia, and Tennessee. We have met the challenges of operating in varying economic conditions and continued our long history of profitability. The economic diversity of the geographic regions we serve allows continued growth, although economic growth may not occur in all regions. Our

financial strength allows us to seize the opportunities provided by an improving economy. For our national and regional economic conditions, 2017 is expected to be a year of change with significant changes proposed in health care and trade in addition to changes anticipated in the tax code and regulation.



Jean R. Hale
Chairman, President and CEO

Traditional Community Banking

Your Company is a traditional banking company which is dependent upon its net interest margin for most of our income. With the economy continuing to improve, there is an expectation of increasing interest rates which can have a positive impact on your Company's net interest margin. Your Company's interest rate gap is positioned to have our loans repriced quicker than our deposits during the first nine months of increasing rates. During 2016, we focused on growth of our largest earning asset, our loan portfolio. Loans grew \$64.4 million from prior year 2015. We are also pleased to report that all asset quality matrices showed improvement during 2016. To fund our loan growth, we grew our deposit base \$100.4 million year over year.

Management has been focused for several years on increasing our noninterest revenue through growth and increasing the profitability of our trust company, Community Trust and Investment Company. Our trust company provides a full menu of products and services to meet the needs of clients in managing their assets and planning for their future, including wealth and trust management, brokerage service, and life insurance. We believe with the pressure placed on traditional noninterest revenue sources, our trust company provides a good opportunity for the growth of our noninterest revenue in the future.

Investor Returns

Your management is focused on providing a strong, consistent return to our investors. The total return to our investors for the year 2016 was 45.5%. Management



believes an investment in Community Trust Bancorp, Inc. is a long-term core value investment. We believe in returning to our shareholders in several ways, including cash dividends, stock dividends, stock splits, and price appreciation. Our goal is to return between 45% and 50% of earnings to our shareholders in the form of cash dividends. Our dividend payout ratio was 46.7% for 2016. The balance of our earnings is retained as capital, funding the continued growth of your Company to increase its earning capacity long-term. During 2016, the shareholders' equity of your Company grew 5.3% to \$500.6 million. Prices of financial sector stocks increased significantly during the fourth quarter of 2016. CTBI experienced a 33.7% increase in the market price of our shares during the fourth quarter 2016 and a 41.9% increase year over year. The price of our stock to our tangible book value increased 34%, from 1.50x at year-end 2015 to 2.01x at year-end 2016. The increase experienced in the financial sector has been primarily driven by the expectation of interest rate increases and changes in the regulatory environment.

Strong Financial Performance

We believe that the consistently strong financial performance of your Company can be attributed to many things. Our decision to manage your Company using a community banking business model, the strength and dedicated service of our directors, a highly qualified

management team and their commitment to the execution of our strategic plan, and the hard work and dedication of our almost 1,000 employees. We believe challenges provide opportunities, and with our strong foundation and 113 years of experience, we have a long history of seizing opportunities for financial success. We are focused on the success of your Company.

We appreciate the opportunity to serve our constituents...Our Shareholders, Our Customers, Our Employees, and Our Communities. Your loyalty and support are invaluable to the success of your Company!

Jean R. Hale
Chairman, President and CEO

2016 Common Stock				
Sales Price (quarterly)	Mar 31	Jun 30	Sep 30	Dec 31
High	\$36.00	\$36.95	\$37.49	\$51.35
Low	\$30.89	\$32.98	\$33.71	\$35.85
Close	\$35.32	\$34.66	\$37.11	\$49.60

Financial Highlights

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

For the Year

	2016	2015	Percentage Change
Net income	\$ 47,346	\$ 46,432	2.0 %
Basic earnings per share	2.70	2.66	1.5
Diluted earnings per share	2.70	2.66	1.5
Cash dividends per share	1.26	1.22	3.3
Average shares outstanding	17,548	17,431	0.7 %

At Year End

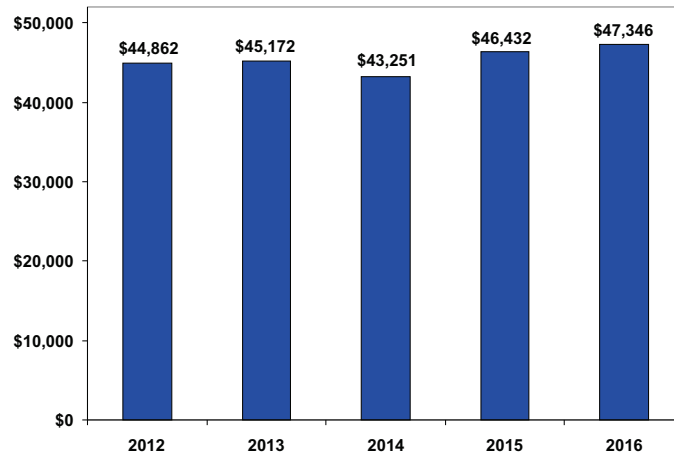
	2016	2015	Percentage Change
Assets	\$3,932,169	\$3,903,934	0.7 %
Earning assets	3,667,626	3,635,857	0.9
Deposits, incl. repurchase agreements	3,332,373	3,232,007	3.1
Loans	2,938,371	2,873,961	2.2
Allowance for loan and lease losses	35,933	36,094	(0.4)
Shareholders' equity	500,615	475,583	5.3
Book value per share	28.40	27.12	4.7
Market price per common share	49.60	34.96	41.9
Common shares outstanding	17,629	17,537	0.5 %
Full time equivalent employees	996	984	1.2

Significant Ratios

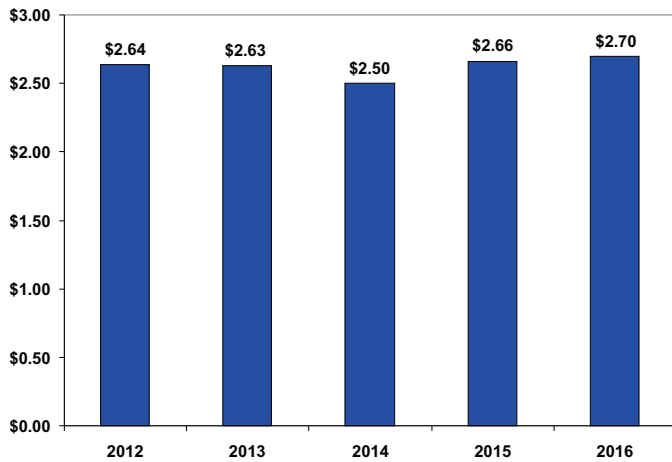
	2016	2015	Percentage Change
For the year			
Return on average assets	1.21 %	1.23 %	(1.6)%
Return on average common equity	9.58	9.97	(3.9)
Net interest margin	3.70	3.81	(2.9)
Net charge-offs to average loans	0.28	0.25	12.0
Efficiency ratio	58.54	58.20	0.6
At year end			
Capital ratios:			
Equity to assets	12.73 %	12.18 %	4.5 %
Tier 1 leverage	12.75	12.40	2.8
Common equity Tier 1	15.18	14.58	4.1
Tier 1 risk based	17.25	16.70	3.3
Total risk based	18.50	17.95	3.1
Allowance to net loans	1.22	1.26	(3.2)
Allowance to nonperforming loans	130.81	126.16	3.7

Net Income

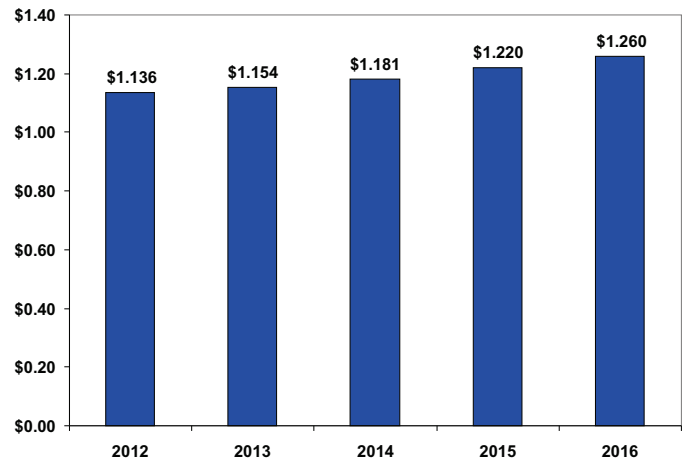
(in thousands)



Earnings Per Share

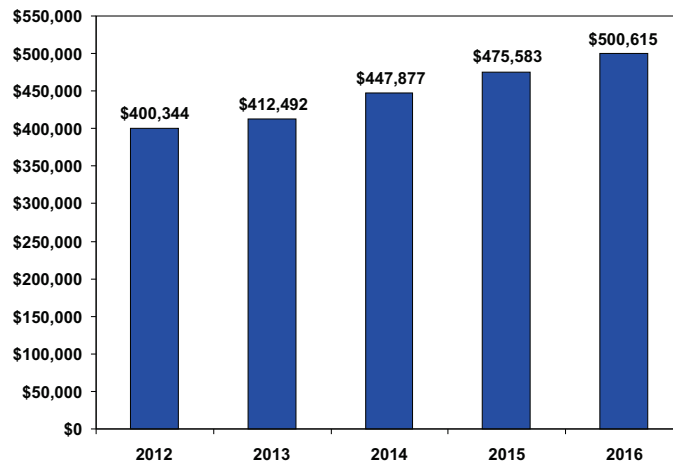


Dividends Per Share



Shareholders' Equity

(in thousands)



Financial Highlights

Consolidated Statements of Income

Year Ended December 31

(in thousands except per share data)

	2016	2015	Percentage Change
Interest income	\$ 146,576	\$ 144,020	1.8 %
Interest expense	13,555	11,773	15.1
Net interest income	133,021	132,247	0.6
Provision for loan losses	7,872	8,650	(9.0)
Noninterest income	48,441	46,809	3.5
Noninterest expense	107,126	105,443	1.6
Income before income taxes	66,464	64,963	2.3
Income tax expense	19,118	18,531	3.2
Net Income	\$ 47,346	\$ 46,432	2.0
Cash dividends per share	\$ 1.26	\$ 1.22	3.3 %
Book value per share	28.40	27.12	4.7
Average shares outstanding	17,548	17,431	0.7 %

Consolidated Balance Sheets

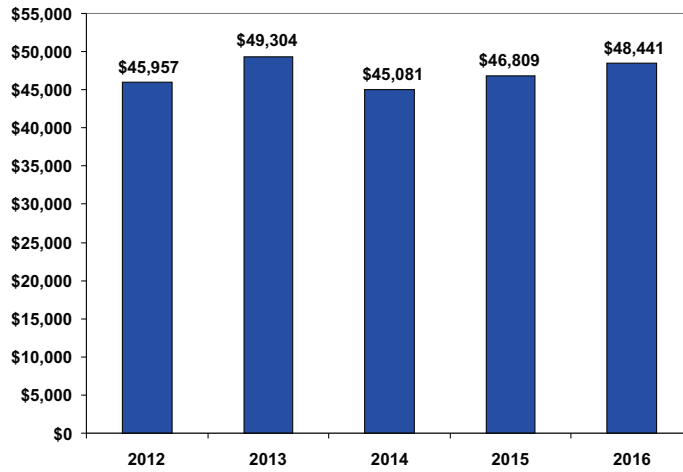
At December 31

(in thousands)

	2016	2015	Percentage Change
Assets			
Cash and deposits in other banks	\$ 145,169	\$ 190,652	(23.9)%
Federal funds sold	527	791	(33.4)
Securities	606,260	596,597	1.6
Loans, net of allowance	2,902,438	2,837,867	2.3
Other assets	277,775	278,027	(0.1)
Total Assets	\$3,932,169	\$3,903,934	0.7
Liabilities and Shareholders' Equity			
Deposits	\$3,081,308	\$2,980,782	3.4 %
Repurchase agreements	251,065	251,225	(0.1)
Federal funds purchased	4,816	3,596	33.9
Advances from Federal Home Loan Bank	944	101,056	(99.1)
Long-term debt	61,341	61,341	0.0
Other liabilities	32,080	30,351	5.7
Total Liabilities	3,431,554	3,428,351	0.1
Shareholders' Equity	500,615	475,583	5.3
Total Liabilities and Shareholders' Equity	\$3,932,169	\$3,903,934	0.7

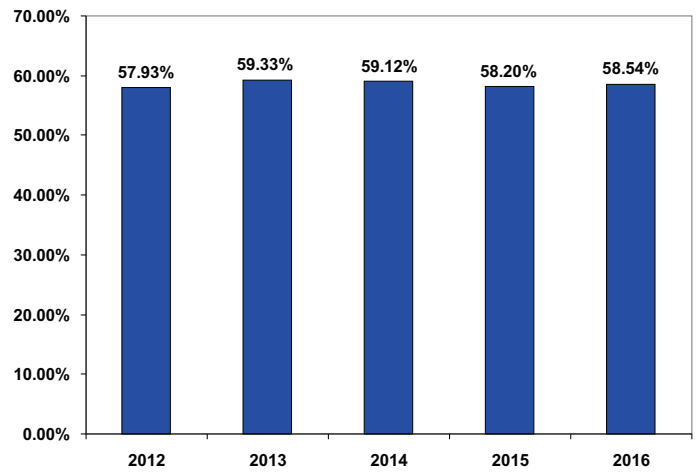
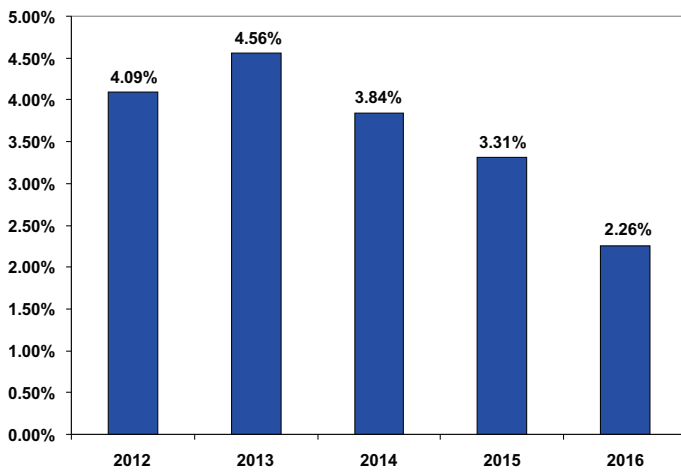
Noninterest Income

(in thousands)



5-Year Cumulative Average Asset Growth

Efficiency Ratio



Nonperforming Assets to Loans and Foreclosed Properties

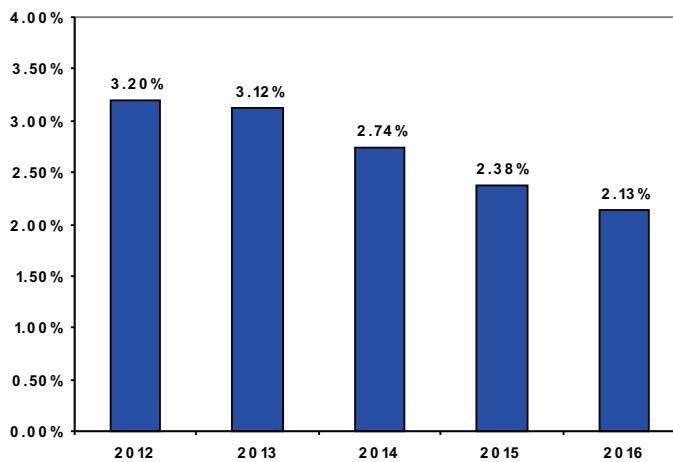




Photo Location: Danville, Kentucky Main Street
 Photo Credit: Rhonda Gilliam, Community Trust Bank

Shareholders

As a performance-driven team, our directors, officers, and staff focus on providing a stable and competitive return for our investors year after year. Our history of strong returns to investors continued during 2016, as we increased the cash dividend to our shareholders for the 36th consecutive year.

Community Trust achieved record earnings of \$47.3 million. Our stock experienced a 41.9% increase in its price in 2016. By comparison, the NASDAQ Bank Index of 347 companies rose 35.0%.

While increasing our cash dividend to our shareholders, we continued to grow our shareholders' equity to \$500.6 million at December 31, 2016, a 5.3% increase from December 31, 2015. At December 31, 2016, our cash dividend yield was 2.58%, and the five-year compound growth rate of cash dividends per share was 2.4%. The five-year compound growth rate of earnings per share was 3.2% at December 31, 2016.

CTBI continues to maintain a significantly higher level of capital than required by regulators. Our ratios as of December 31, 2016 all exceed the threshold for meeting the definition of "well-capitalized" as shown by the table below:

	Actual	For Capital Adequacy Purposes	To Be Well-Capitalized
Tier 1 capital (to average assets)	12.75%	4.00%	5.00%
Common equity Tier 1 capital (to risk weighted assets)	15.18%	4.50%	6.50%
Tier 1 capital (to risk weighted assets)	17.25%	6.00%	8.00%
Total capital (to risk weighted assets)	18.50%	8.00%	10.00%

Our tangible common equity/tangible assets ratio also remained strong at 11.25% at December 31, 2016.

Our stock is included in the Russell 2000 Index of small cap companies providing us with a good benchmark for comparing our stock's performance to other small cap investor opportunities. During the 10-year period ending December 31, 2016, CTBI produced an annualized return of 6.49%, while the Russell 2000 Index produced an annualized return of 6.99%.

CTBI stock is traded on the prestigious NASDAQ Global Select Market (a founding stock selection) and is also one of 50 founding stocks of the NASDAQ's Dividend Achievers Index. An investment in CTBI stock on December 31, 2011 would have provided an annualized return of 16.72% as of December 31, 2016.

Book Value Per Share

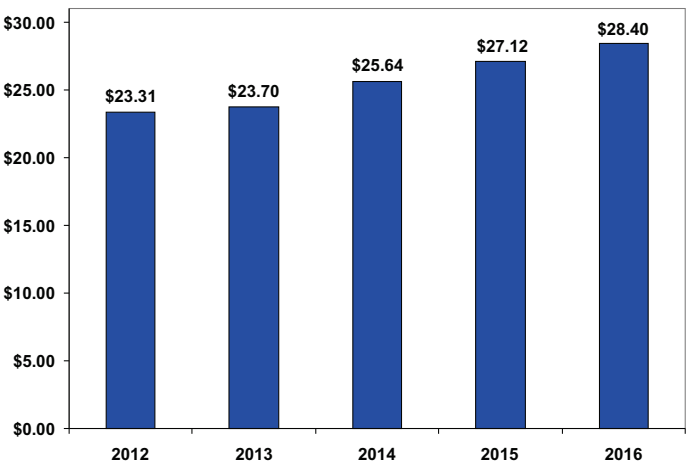




Photo Location: Ashland, Kentucky

Customers

Our customers – individuals, businesses, and organizations – know that they can turn to us, with confidence, for their many financial product and service needs. In 2016, Community Trust served more than 245,000 customers.

We offer our customers a wide variety of banking products and services. We are committed to serving our broad range of customers with products and services designed to fit each customer's needs. In 2016, for the eighth consecutive year, we were recognized by the Small Business Administration (SBA) as the top community bank SBA lender in the Commonwealth of Kentucky based on the total number of loans. We also offer USDA guaranteed loans and an entire suite of commercial loans and leases, mortgage loans, and consumer loans.

Our deposit related products and services include certificates of deposits, savings accounts, online banking and online bill payment (at www.ctbi.com), mobile banking, remote deposit capture, and commercial cash management services. This year we introduced a new product, the Carefree CD, which allows customers to increase the interest rate of their certificate of deposit once during its term. This should prove to be a popular product in a rising interest rate environment.

We offer our customers convenient access to their accounts through our network of 86 ATMs. The total number of ATMs to which our customers have free access is more than 160. Please visit our website at <https://www.ctbi.com/ctbi/about-us/atm-location-listing> for a complete listing of our ATM locations.

With our continuing focus on customer service, we were pleased in 2016 to expand our menu of mobile and online banking services to include mobile banking Check Remote Deposit Capture. Our customers can now make a deposit into their account by taking a picture of a check with their smartphone. The People Pay and External Transfers products were added to our services, allowing our customers to directly pay another person or transfer funds to an external account electronically from their Community Trust Bank account.

To enhance the product utilization experience, the features of Mobile Passcode and Touch ID were introduced. These are quick access methods that increase the speed of access to mobile banking by entering a short set of digits (Mobile Passcode) or a fingerprint (Touch ID) instead of a full user name and password. This increases convenience while still maintaining the security of financial information.

We continued expanding our product offering by making Apple Pay™ available to our customers, allowing them to use their favorite Visa® debit card to pay the easy, secure, and private way at hundreds of thousands of stores and through participating apps.

We offer customers a full line of wealth and trust management, estate planning, and retirement planning services, in addition to full service brokerage and life insurance products. Our trust and wealth management professionals are dedicated to helping individuals and businesses identify the right products and services to meet their unique needs.

We are pleased to have served our customers for 113 years. Our employees are focused on providing a rewarding banking experience to our customers, whether it is in one of our 80 banking offices, five trust offices, or through our online and mobile banking systems.



Photo Location: Lexington, Kentucky

Employees

We know that Community Trust's most valuable asset is our employees. Recognizing this, we have recruited, hired, and retained the finest hard-working and talented employees. Our nearly 1,000 employee team works together to provide each customer the best service each and every day. Our continued success would not be possible without the dedication of our employees to meet the financial needs of our customers.

We are committed to providing our employees with opportunities for personal and professional growth, whether it is by providing reimbursement of educational expenses, encouraging attendance at seminars and in-house training programs, or by sponsoring memberships in local civic organizations. Our employees participated in numerous coaching, training, and education programs throughout the year. Additionally, Community Trust makes online training available to employees; as a result, employees completed 33 different online courses through our Regulatory University program.

We actively support our employees with a wellness program. Since beginning the program in 2004, participating employees have experienced improvements in preventing cardiovascular disease, cancer, and diabetes. Many of our employees have experienced decreases in elevated medical risk factors, including alcohol consumption, tobacco usage, physical inactivity, high stress, high cholesterol, and high blood pressure.

We recognize that within our industry the products are basically the same from company to company; however, we believe that the difference we can make in our profitability

and growth is in the level of service we provide to our customers. We recognize the hard work and dedication of our employees. In February 2017, we held our 18th annual "Pinnacle of Success" awards banquet and recognized 56 employees for their outstanding performance in business development and service during the prior year. We have included the names of those employees, as well as the offices, markets, and regions recognized, following the Branch Locations listing on page 16.

We know that the success of our employees means success for your Company. Our employees' commitment to the mission of your Company and our constituents is evidenced by their ownership of the Company's stock. Through their 401(k) and ESOP plans, our employees collectively own 1.3 million shares, or 7.2%, of Community Trust Bancorp, Inc. stock, making them our largest shareholder. In 2016, Community Trust Bancorp, Inc. contributed \$2.5 million to these plans.



Photo Location: LaFollette, Tennessee
 Photo Credit: Charles Hutson

Communities

Our corporate motto is “building communities...built on trust®.” We believe in living our motto as we work to help our friends and neighbors fulfill their financial dreams.

We are actively involved in every community we serve. We dedicate our resources, both human and financial, to help make the places where we live and work better, not only for current generations, but also for generations yet to come.

Our continuing support of our communities, both financially and through the volunteer service of our employees, has helped build great places to live and work for both our customers and our employees. During 2016, we donated more than \$900,000 to community organizations involved in a wide variety of civic activities, including economic development, affordable housing, job creation, education, cultural enrichment, medical research, and health care.

Community Trust employees provide leadership, monetary support, and countless volunteer hours to many exceptional local community organizations in all of the communities we serve. Our employees are active in a wide variety of community organizations, including Chambers of Commerce, United Way, One East Kentucky, YMCA, American Cancer Society’s Relay For Life, Habitat for Humanity, Kentucky Blood Center, Diabetes Coalition, March of Dimes, little league sports programs, Boy and Girl Scouts of America, The Salvation Army, volunteer fire departments, home realtor and builder organizations, and independent and state supported colleges and universities. Our employees volunteer thousands of hours each year to these and other excellent local community organizations.

In 2016, Community Trust continued to actively support SOAR (Shaping Our Appalachian Region), an organization created to expand job opportunities; enhance the economy of the region; encourage innovation, entrepreneurship, geographic cooperation, and a diversified workforce; improve the quality of life of our citizens; and support all those working to achieve these goals. Community Trust has partnered with SOAR since its inception with support, including service in leadership positions and providing office space for its Pikeville, Kentucky headquarters.

Community Trust is dedicated to helping our communities grow and prosper now and in the future. We are proud to be a part of our hometowns across Kentucky, West Virginia, and Tennessee!

CTBI Cash Contributions

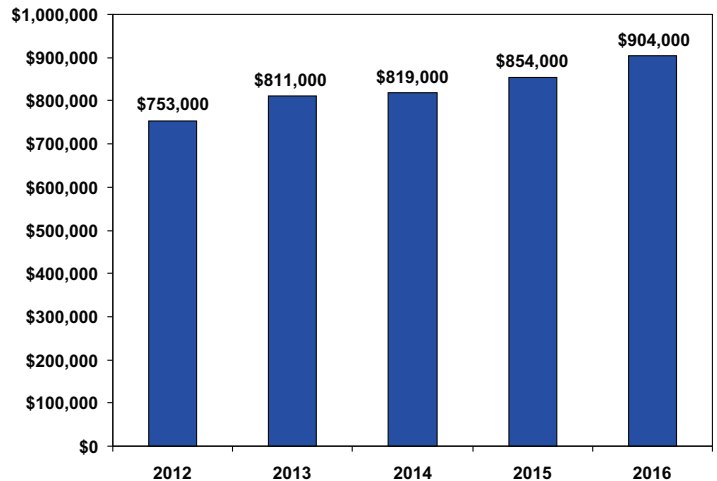




Photo Location: Somerset, Kentucky

Executive Committee



JEAN R. HALE
Chairman, President and CEO
Community Trust Bancorp, Inc.
Chairman
Community Trust Bank, Inc. and
Community Trust and Investment Company



MARK A. GOOCH
Executive Vice President and Secretary
Community Trust Bancorp, Inc.
Director, President and CEO
Community Trust Bank, Inc.
Director and Vice President
Community Trust and Investment Company



ANDY WATERS
Executive Vice President
Community Trust Bancorp, Inc.
Director, President and CEO
Community Trust and Investment Company



JAMES B. DRAUGHN
Executive Vice President
Community Trust Bancorp, Inc.
Executive Vice President/Operations
Community Trust Bank, Inc.



JAMES J. GARTNER
Executive Vice President
Community Trust Bancorp, Inc.
Executive Vice President/
Chief Credit Officer
Community Trust Bank, Inc.



C. WAYNE HANCOCK II
Executive Vice President
Community Trust Bancorp, Inc.
Executive Vice President/
Senior Staff Attorney
Community Trust Bank, Inc.



***STEVEN E. JAMESON**
Executive Vice President
Community Trust Bancorp, Inc.
Executive Vice President/Chief
Internal Audit & Risk Officer
Community Trust Bank, Inc.



ANDREW JONES
Executive Vice President
Community Trust Bancorp, Inc.
Executive Vice President/
Northeastern Region President
Community Trust Bank, Inc.



LARRY W. JONES
Executive Vice President
Community Trust Bancorp, Inc.
Executive Vice President/
Central Kentucky Region President
Community Trust Bank, Inc.



RICHARD W. NEWSOM
Executive Vice President
Community Trust Bancorp, Inc.
Executive Vice President/
Eastern Region President
Community Trust Bank, Inc.



RICKY D. SPARKMAN
Executive Vice President
Community Trust Bancorp, Inc.
Executive Vice President/South
Central Region President
Community Trust Bank, Inc.



KEVIN J. STUMBO
Executive Vice President, CFO and Treasurer
Community Trust Bancorp, Inc.
Executive Vice President/CFO
Community Trust Bank, Inc.
Vice President
Community Trust and Investment Company

* Non-voting Member



Photo Location: Harrodsburg, Kentucky Main Street
 Photo Credit: Harrodsburg/Mercer County Tourist Commission

Boards of Directors



JEAN R. HALE
 *** Chairman, President and CEO
 Community Trust Bancorp, Inc.
 Chairman
 Community Trust Bank, Inc. and
 Community Trust and Investment
 Company



MARK A. GOOCH
 *** Executive Vice President and
 Secretary
 Community Trust Bancorp, Inc.
 Director, President and CEO
 Community Trust Bank, Inc.
 Director and Vice President
 Community Trust and Investment
 Company



ANDY WATERS
 *** Executive Vice President
 Community Trust Bancorp, Inc.
 Director, President and CEO
 Community Trust and Investment
 Company



CHARLES J. BAIRD
 *** President
 Baird & Baird, P.S.C.
 Pikeville, Kentucky



MARK CAMPBELL
 ** President
 Cambrian Coal, LLC
 Charleston, West Virginia



NICK CARTER
 * Private Investor
 Lexington, Kentucky



DAVID E. COLLINS
 ** Managing Partner
 Collins & Stone, LLP
 Pikeville, Kentucky



E.B. LOWMAN II
 *** Chairman and CEO
 Cardinal Management Ltd.
 Ashland, Kentucky



CRIT LUALLLEN
 ** Former Lt. Governor
 Commonwealth of Kentucky
 Frankfort, Kentucky



KRISHNA M. MALEMPATI
 *** Vice President
 OM Ventures Inc.
 Managing Partner
 Park Hills Shopping Center
 Tampa, Florida



JAMES E. MCGHEE II
 * President
 Three JC Investments, LLC
 Pikeville, Kentucky



FRANKY MINNIFIELD
 ** President
 Minnifield Enterprize, Inc.
 Lexington, Kentucky



M. LYNN PARRISH
 * President
 Marwood Land Company, Inc.
 Pikeville, Kentucky



DR. JAMES R. RAMSEY
 * Retired President and Professor
 of Economics
 University of Louisville
 Director
 Texas Roadhouse, Inc. and
 Aquila Municipal Trust
 Louisville, Kentucky



ANTHONY W. ST. CHARLES
 * Retired President and Chief Executive Officer
 The St. Charles Group, LLC
 Cincinnati, Ohio

Boards of Directors

* Community Trust Bancorp, Inc.
 ** Community Trust Bank, Inc.
 *** Community Trust and Investment Company



Photo Location: Versailles, Kentucky

Advisory Board Members

Central Region

Larry W. Jones
Regional President

Lexington

Larry W. Jones
Regional President

James C. Baughman, Jr.
Robert A. Branham
Linda A. Carroll
C. Glen Combs
Jenny Dulworth-Albert
James Keeton III
Robert Kelly
Todd Sallee
Daryl Smith

Danville/Harrodsburg

David Maynard
Market President

Bob Allen
Scott Burks
James Walker Cox
Bob Davis
Bruce Harper
James G. Ingram
Alvis Johnson
Myrna Miller
Larry Scott, M.D.
Walter "Skip" Stocker

Mt. Sterling

Bill McKenna
Market President

Byron Amburgey
Marcus Shane Back
Jeff Brother
Reid Evans
O. Keith Gannon
Angela Patrick
E. Dale Sorrell

Eastern Region

Richard Newsom
Regional President

Pikeville*

William Brett Keene
Market President

Floyd/Knott/Johnson*

David Tackett
Market President

Hazard

Janice Brafford-King
Market President

William Bettinazzi
Frances Feltner
Meriwether W. Hall
Charles Housley
Syamala H. K. Reddy, M.D.
Jeff Sandlin
Tim Short
Alan Dale Williams

Tug Valley

Duanne Thompson
Market President

William F. Blackburn III
James H. Caines
Harold Davis
Timothy A. Hatfield
Philip Haywood
John Mark Hubbard
Louie Junta
Paul E. Pinson

Whitesburg

Reed Caudill
Market President

Herbert Caudill
Bill Joe Collier
Sam W. Quillen, Jr., D.M.D.
Pauline C. Ritter-Combs

Northeastern Region

Andrew Jones
Regional President

Ashland

Andrew Jones
Regional President

Paul Daniels, Sr.
E. B. Lowman II
E. B. Lowman III
John McMeans
Ann Perkins
James C. Williams

Advantage Valley

Allen Burner
Market President

Randie Gail Lawson
Christopher J. Plybon
Julian Saad
Steve Smith
William Jack Stevens

Flemingsburg

Emery O. Clark
Market President

Michael A. Boyd, M.D.
Steve Humphries
Duane Lowe
T. Scott Perkins, D.M.D.
James Sauer
J. E. Smith, Jr.+
Frank Vice, D.V.M.

Summersville

Paul Buechler
Ellis S. Frame III
David Michael Hughes
Marshall Robinson

South Central Region

Ricky Sparkman
Regional President

Campbellsville

Ricky Sparkman
Regional President

Barry Bertram
Salem M. George, M.D.
Jerry Russell
John Waldrop
James Whitlock

LaFollette

Rhonda Longmire
Market President

George Ellison
James C. Farris, M.D.
Marvin Minton
Peggy Payne
Tom Robards
Conrad Troutman
Robert L. Woodson III

Middlesboro

Tim Helton
Market President

Marcum Brogan
Meredith J. Evans, M.D.
Keith A. Nagle
Richard H. Tamer

Mt. Vernon

Michael Blount
Market President

Martha Cox
Connie Hunt
Gary W. Mink
Tommy Mink

Williamsburg

Michael Blount
Interim Market President

R. Don Adkins++
E. L. Ballou, D.M.D.
Ray F. Bryant
Joseph E. Early, Sr.
Paul Estes
Vernon B. Faulkner+++
Dallas B. Steely
Mark S. Stephens
Lonnie D. Walden

+Retired 12/31/2016

++Deceased 2/13/2017

+++Deceased 12/28/2016

*These markets are served by the Community Trust Bank, Inc. Board of Directors.



Shareholder Information

Corporate Address

Community Trust Bancorp, Inc.
346 North Mayo Trail
P.O. Box 2947
Pikeville, KY 41502-2947
606.432.1414
www.ctbi.com

Notice of Annual Meeting

The annual meeting of the shareholders will be held at 10:00 a.m. on April 25, 2017 at:

Community Trust Bancorp, Inc.
346 North Mayo Trail
Pikeville, Kentucky

Transfer Agent

Inquiries relating to shareholder records, stock transfers, changes of ownership, changes of address, and dividend payments should be sent to the transfer agent at:

Broadridge Corporate Issuer Solutions, Inc.
P.O. Box 1342
Brentwood, NY 11717-0718
866.232.3034
720.358.3637 (International)
shareholder@broadridge.com

Inquiries may also be directed to Community Trust Bancorp, Inc.'s Stock Transfer Administrator, Marilyn Justice, at:

Community Trust Bank, Inc.
P.O. Box 2947
Pikeville, KY 41502-2947
606.437.3279
800.422.1090, ext. 3279 (Toll Free)
justicma@ctbi.com

Dividend Reinvestment

Community Trust Bancorp, Inc. offers its shareholders an automatic dividend reinvestment program. The program enables shareholders to reinvest their dividends in shares at the prevailing market price. For more information, contact us at:

Community Trust Bancorp, Inc.
c/o Broadridge Corporate Issuer Solutions, Inc.
P.O. Box 1342
Brentwood, NY 11717-0718
866.232.3034
shareholder@broadridge.com

Form 10-K

CTBI's annual report on Form 10-K filed with the Securities and Exchange Commission is available without charge on our website at www.ctbi.com or by writing:

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

Current Analyst Coverage

J.J.B. Hilliard, W.L. Lyons, LLC
Keefe, Bruyette & Woods, Inc.
Raymond James and Associates, Inc.
Sandler O'Neill & Partners, LP
Stephens, Inc.

Branch Locations

Central Region

Danville

Danville Main Street	462 W. Main St.	859-239-9200
Danville Manor	1560 Hustonville Rd.	859-239-9460
Harrodsburg	570 Chestnut St.	859-734-4354

Lexington

*Lexington Vine	100 E. Vine St.	859-389-5350
Beaumont	901 Beaumont Centre Pkwy.	859-223-1111
Hamburg	2417 Sir Barton Way	859-264-1938
Leestown	109 Louie Place	859-258-2659
Pasadena	185 Pasadena Dr., Suite 100	859-313-5425
Richmond Road	3090 Richmond Rd.	859-269-0164

Mt. Sterling

Mt. Sterling Main	110 N. Maysville St.	859-497-6900
Mt. Sterling North	196 Evans Dr.	859-497-6970

Richmond

Eastern ByPass	860 Eastern ByPass	859-624-4622
Richmond Main	128 W. Main St.	859-623-2747
Berea North	525 Walnut Meadow Rd.	859-985-0561

Versailles

* Versailles Main	101 N. Main St.	859-879-5400
Woodford Plaza	470 Lexington Rd.	859-879-5480
Frankfort East	427 Versailles Rd.	502-848-0913
Frankfort West	1205 S. Hwy. 127	502-696-0720
Georgetown Wal-Mart	112 Osbourne Way	502-863-4693

Winchester

Winchester Main	120 S. Main St.	859-745-7200
Winchester Plaza	125 Winchester Plaza	859-745-7200

Eastern Region

Floyd/Knott/Johnson

Allen	6424 Ky Rt. 1428	606-874-0408
Floyd County	161 S. Lake Dr.	606-886-2382
Paintsville	470 N. Mayo Trl.	606-788-9934
Knott County	107 W. Main St.	606-785-5095

Hazard

Airport Gardens	1665 Combs Rd.	606-487-2160
Black Gold	100 Citizens Ln.	606-436-2157
Hazard Village	101 Village Ln.	606-487-2152

Tug Valley

Williamson	101 E. 2nd Ave.	304-235-5454
Tug Valley	28160 US Hwy. 119	606-237-6051

Pikeville

Elkhorn City	211 W. Russell St.	606-754-5589
Marrowbone	10579 Regina Belcher Hwy.	606-754-4462
Mouthcard	32 N. Levisa Rd.	606-835-4907
Phelps	38720 State Hwy. 194 E.	606-456-8701
* Pikeville Main	346 N. Mayo Trl.	606-432-1414
Pikeville Main Street	137 Main St. # 4	606-437-3326
Pikeville Wal-Mart	254 Cassidy Blvd.	606-437-0048
Town Mountain	105 Northgate Dr.	606-437-3323
Virgie	1056 KY Hwy. 610 W.	606-639-4451
Weddington Plaza	4205 North Mayo Trl.	606-432-4529

Whitesburg

Whitesburg Main	155 Main St.	606-633-0161
West Whitesburg	24 Pkwy. Plaza Loop	606-633-4532
Jenkins	9505 Hwy. 805, Suite A	606-832-2477
Isom	56 Isom Plaza	606-633-5995
Neon	1001 Hwy. 317	606-855-4435

Northeastern Region

Advantage Valley

Alum Creek	315 Midway Rd.	304-756-3317
Hamlin	8049 Lynn Ave.	304-824-7223
Fort Gay	735 Court St.	304-648-7200
Pullman Square	952 3rd Ave.	304-697-0272

Flemingsburg

Ewing	1527 Ewing Rd.	606-267-2061
Flemingsburg Main	36 Brookhaven Dr.	606-845-3551
South Ridge	108 Clark St.	606-849-2304

Ashland

* Ashland Main	1544 Winchester Ave.	606-329-6000
South Ashland	2101 29th St.	606-329-6600
Summit	7100 US Route 60	606-928-9555
Westwood	721 Wheatley Rd.	606-329-6610
Russell	970 Diederich Blvd.	606-329-6680

Summersville

Summersville	507 Main St.	304-872-2711
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South Central Region

Campbellsville

Campbellsville Main	1218 E. Broadway	270-789-5900
Campbellsville Bypass	402 Campbellsville Bypass	270-789-5900
Columbia	1005 Jamestown St.	270-384-4771
Greensburg	205 S. Main St.	270-932-7464
Lebanon	521 W. Main St.	270-692-0064
Somerset North	239 N. Hwy. 27	606-679-8826
Somerset South	3809 S. Hwy. 27	606-679-8446
Jamestown	752 N. Main St.	270-343-2556

Williamsburg

Williamsburg Main	201 N. 3rd St.	606-549-5000
Convenience Center	895 S. Hwy. 25 W.	606-539-2251
Corbin	678 US Hwy. 25 W.	606-526-8777
London South	1706 Hwy. 192 W.	606-877-2644
London North	38 Shiloh Dr.	606-864-2439

Middlesboro

Middlesboro Main	1918 Cumberland Ave.	606-248-9600
Middlesboro East	1206 E. Cumberland Ave.	606-248-9642
Pineville	11792 US Hwy. 25 E.	606-337-6122

Mt. Vernon

Mt. Vernon Main	2134 Lake Cumberland Rd.	606-256-5141
Mt. Vernon Downtown	120 Main St.	606-256-5142

LaFollette

* LaFollette Main	106 S. Tennessee Ave.	423-562-3364
LaFollette Mall	2205 Jacksboro Pike	423-562-9918
Jacksboro	2603 Jacksboro Pike	423-566-7800
Clinton	2106 Charles G. Seivers Blvd.	865-457-8684

*Community Trust and Investment Company has offices in these locations.



salutes our

2017

*Pinnacle
Award
Winners*

for their

**2016 Sales
& Service**



Individual Success

David Akers
 Donna Angel
 Steve Belcher
 Cindy Blanton
 Michael Blount
 Mike Bonfield
 Steven Booth
 Allen Burner
 John R. Caldwell
 Ryan Charles
 Gerrie Clark
 Kellan Clark
 Delena Clevinger
 Kim Copley
 Wendy Corder
 Tina M. Davis
 Sherry Dotson
 Dorothy Franklin
 Melissa Hatfield

Tim Houck
 Stephanie Hudson
 Andrew Jarvis
 Brett Keene
 Robert Kelly
 Bill Klier
 Savi Kumar
 Brent Lee
 Jenny Maggard
 Elizabeth Maynard-Johnson
 Bobby Terrell Medley
 Charlene Miller
 Gaylon D. Neat
 Tracy Osborne
 Tina Parsons
 Barry Pennington
 Shellie Phipps
 Donna Ray
 Ty Reynolds

Melissa Rhodes
 Jeremy Rigney
 Charlene Ritz
 Amy Selvage
 Erin Serrate
 Mike Shepherd
 Daryl Slone
 Roger Smith
 Willie T. Swatzell
 Helena Syck
 Charles Tackett
 David Tackett
 Bob Watson
 Kevin Way
 Tammy Wheeler
 David Wills
 Jimmy Workman
 Trina Yack

Team Success

Ashland Main Office
 Ashland Market
 Berea North Office
 Central Region
 Eastern Region

Floyd/Knott Market
 Knott County Office
 LaFollette Market
 Northeastern Region
 Pikeville Main Office

Pikeville Market
 Richmond Main Office
 Versailles Market
 Williamsburg Market





Miner Bear
Damon Farmer, Artist
Bear Of Fun Project
Presented to Jenkin Avenue
Historical District
City of Phoenix
Association, West Center
Square Market Park
East of Grand Avenue
Fig. 17
Please do not feed the bear.



Financial Information

Financial Statements and Supplementary Data

Community Trust Bancorp, Inc.
Consolidated Balance Sheets

(dollars in thousands)

December 31	<u>2016</u>	<u>2015</u>
Assets:		
Cash and due from banks	\$ 48,603	\$ 51,974
Interest bearing deposits	95,586	134,846
Federal funds sold	527	791
Cash and cash equivalents	144,716	187,611
Certificates of deposit in other banks	980	3,832
Securities available-for-sale at fair value (amortized cost of \$608,939 and \$593,381, respectively)	605,394	594,936
Securities held-to-maturity at amortized cost (fair value of \$867 and \$1,651, respectively)	866	1,661
Loans held for sale	1,244	1,172
Loans	2,938,371	2,873,961
Allowance for loan and lease losses	(35,933)	(36,094)
Net loans	2,902,438	2,837,867
Premises and equipment, net	47,940	48,188
Federal Home Loan Bank stock	17,927	17,927
Federal Reserve Bank stock	4,887	4,887
Goodwill	65,490	65,490
Core deposit intangible (net of accumulated amortization of \$8,483 and \$8,324, respectively)	133	291
Bank owned life insurance	63,881	62,335
Mortgage servicing rights	3,433	3,236
Other real estate owned	35,856	40,674
Other assets	36,984	33,827
Total assets	\$ 3,932,169	\$ 3,903,934
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing	\$ 767,918	\$ 749,975
Interest bearing	2,313,390	2,230,807
Total deposits	3,081,308	2,980,782
Repurchase agreements	251,065	251,225
Federal funds purchased	4,816	3,596
Advances from Federal Home Loan Bank	944	101,056
Long-term debt	61,341	61,341
Deferred taxes	7,836	8,920
Other liabilities	24,244	21,431
Total liabilities	3,431,554	3,428,351
Commitments and contingencies (notes 18 and 20)		
Shareholders' equity:		
Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, \$5 par value, shares authorized 25,000,000; shares outstanding 2016 – 17,628,695; 2015 – 17,536,914	88,144	87,685
Capital surplus	219,697	217,032
Retained earnings	195,078	169,855
Accumulated other comprehensive income (loss), net of tax	(2,304)	1,011
Total shareholders' equity	500,615	475,583
Total liabilities and shareholders' equity	\$ 3,932,169	\$ 3,903,934

See notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

(in thousands except per share data)

Year Ended December 31

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Interest income:			
Interest and fees on loans, including loans held for sale	\$ 133,965	\$ 130,829	\$ 128,457
Interest and dividends on securities:			
Taxable	8,265	9,153	11,314
Tax exempt	2,718	2,705	2,576
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock	1,011	1,010	1,136
Other, including interest on federal funds sold	617	323	384
Total interest income	<u>146,576</u>	<u>144,020</u>	<u>143,867</u>
Interest expense:			
Interest on deposits	10,921	9,616	9,798
Interest on repurchase agreements	1,155	938	841
Interest on advances from Federal Home Loan Bank	62	49	27
Interest on long-term debt	1,417	1,170	1,131
Total interest expense	<u>13,555</u>	<u>11,773</u>	<u>11,797</u>
Net interest income	133,021	132,247	132,070
Provision for loan losses	7,872	8,650	8,755
Net interest income after provision for loan losses	125,149	123,597	123,315
Noninterest income:			
Service charges on deposit accounts	24,966	24,282	23,892
Gains on sales of loans, net	1,831	1,978	1,468
Trust and wealth management income	9,585	9,286	9,011
Loan related fees	4,107	3,821	3,531
Bank owned life insurance	2,199	2,158	1,996
Brokerage revenue	1,314	1,426	2,454
Securities gains (losses)	522	(106)	(211)
Other noninterest income	3,917	3,964	2,940
Total noninterest income	<u>48,441</u>	<u>46,809</u>	<u>45,081</u>
Noninterest expense:			
Officer salaries and employee benefits	12,198	11,652	11,076
Other salaries and employee benefits	44,877	42,911	43,417
Occupancy, net	7,999	7,826	8,017
Equipment	2,950	3,049	3,414
Data processing	6,497	6,743	7,877
Bank franchise tax	5,671	5,174	4,857
Legal fees	1,906	2,236	2,444
Professional fees	1,890	1,884	1,832
Advertising and marketing	2,614	2,428	2,421
FDIC insurance	1,789	2,382	2,400
Other real estate owned provision and expense	2,879	3,533	3,897
Repossession expense	1,156	1,265	1,508
Amortization of limited partnership investments	2,623	2,580	859
Other noninterest expense	12,077	11,780	11,980
Total noninterest expense	<u>107,126</u>	<u>105,443</u>	<u>105,999</u>
Income before income taxes	66,464	64,963	62,397
Income taxes	19,118	18,531	19,146
Net income	<u>\$ 47,346</u>	<u>\$ 46,432</u>	<u>\$ 43,251</u>
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities available-for-sale:			
Unrealized holding gains (losses) arising during the period	(4,578)	(342)	13,928
Less: Reclassification adjustments for realized gains (losses) included in net income	522	(106)	(211)
Tax expense (benefit)	(1,785)	(83)	4,949
Other comprehensive income (loss), net of tax	(3,315)	(153)	9,190
Comprehensive income	<u>\$ 44,031</u>	<u>\$ 46,279</u>	<u>\$ 52,441</u>
Basic earnings per share	\$ 2.70	\$ 2.66	\$ 2.50
Diluted earnings per share	<u>\$ 2.70</u>	<u>\$ 2.66</u>	<u>\$ 2.49</u>
Weighted average shares outstanding-basic	17,548	17,431	17,326
Weighted average shares outstanding-diluted	17,566	17,483	17,397
Dividends declared per share	\$ 1.260	\$ 1.220	\$ 1.181

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

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

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)

Year Ended December 31

Cash flows from operating activities:

	2016	2015	2014
Net income	\$ 47,346	\$ 46,432	\$ 43,251
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,904	3,932	4,314
Deferred taxes	701	115	(1,048)
Stock-based compensation	458	783	852
Excess tax benefits of stock-based compensation	100	104	760
Provision for loan losses	7,872	8,650	8,755
Write-downs of other real estate owned and other repossessed assets	1,214	1,656	1,730
Gains on sale of mortgage loans held for sale	(1,831)	(1,978)	(1,468)
Securities (gains) losses	(522)	106	211
Gains on sale of assets, net	46	(321)	(73)
Proceeds from sale of mortgage loans held for sale	81,441	80,571	51,181
Funding of mortgage loans held for sale	(79,682)	(77,501)	(51,149)
Amortization of securities premiums and discounts, net	2,452	3,098	2,661
Change in cash surrender value of bank owned life insurance	(1,546)	(1,638)	(1,506)
Mortgage servicing rights:			
Fair value adjustments	324	289	830
New servicing assets created	(521)	(557)	(374)
Changes in:			
Other assets	(3,205)	(6,274)	(60)
Other liabilities	2,874	(2,488)	(1,339)
Net cash provided by operating activities	61,425	54,979	57,528

Cash flows from investing activities:

Certificates of deposit in other banks:			
Purchase of certificates of deposit	0	0	(245)
Maturity of certificates of deposit	2,852	4,365	1,616
Securities available-for-sale (AFS):			
Purchase of AFS securities	(176,236)	(81,456)	(217,949)
Proceeds from sales of AFS securities	54,446	44,198	135,411
Proceeds from prepayments, calls, and maturities of AFS securities	104,302	79,068	63,023
Securities held-to-maturity (HTM):			
Proceeds from prepayments and maturities of HTM securities	795	1	0
Change in loans, net	(74,379)	(161,702)	(132,906)
Purchase of premises and equipment	(3,498)	(2,246)	(2,081)
Proceeds from sale of premises and equipment	10	239	82
Redemption of stock by FHLB	0	0	7,746
Additional investment in Federal Reserve Bank stock	0	(18)	(1)
Cancellation of Federal Reserve Bank stock	0	0	18
Proceeds from sale of other real estate owned and repossessed assets	5,601	9,287	6,714
Additional investment in other real estate owned and repossessed assets	0	(85)	0
Additional investment in bank owned life insurance	0	0	(5,504)
Net cash used in investing activities	(86,107)	(108,349)	(144,076)

Cash flows from financing activities:

Change in deposits, net	100,526	106,525	19,183
Change in repurchase agreements and federal funds purchased, net	1,060	8,594	25,695
Advances from Federal Home Loan Bank	50,000	170,000	60,000
Payments on advances from Federal Home Loan Bank	(150,112)	(130,114)	(116)
Issuance of common stock	2,985	2,082	1,992
Repurchase of common stock	(382)	(189)	0
Excess tax benefits of stock-based compensation	(100)	(104)	(760)
Dividends paid	(22,190)	(21,330)	(20,570)
Net cash provided by (used in) financing activities	(18,213)	135,464	85,424
Net increase (decrease) in cash and cash equivalents	(42,895)	82,094	(1,124)
Cash and cash equivalents at beginning of year	187,611	105,517	106,641
Cash and cash equivalents at end of year	\$ 144,716	\$ 187,611	\$ 105,517

Supplemental disclosures:

Income taxes paid	\$ 19,244	\$ 20,527	\$ 15,818
Interest paid	13,426	11,609	11,922
Non-cash activities:			
Loans to facilitate the sale of other real estate owned and repossessed assets	3,964	4,343	6,168
Common stock dividends accrued, paid in subsequent quarter	209	239	216
Real estate acquired in settlement of loans	5,900	18,557	12,199

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Federal Home Loan Bank and Federal Reserve Stock – CTB is a member of the Federal Home Loan Bank ("FHLB") system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on the ultimate recovery par value. Both cash and stock dividends are reported as income.

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

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

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

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

Core Deposit Intangible:

(in thousands)

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

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

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

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

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

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

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

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

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

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

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

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

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

New Accounting Standards –

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

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

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

Ø **Financial Instruments – Overall** – In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*. The amendments in this Update require all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this Update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. In addition, the amendments in this Update eliminate the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. Public business entities will be required to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. This Update is the final version of Proposed ASU 2013-220—Financial Instruments—Overall (Subtopic 825-10) and Proposed ASU 2013-221—Financial Instruments—Overall (Subtopic 825-10). For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amendments should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption. Management does not expect an impact on CTBI’s accounting for equity investments as a result of this ASU. At this time, we cannot quantify the change in the fair value disclosures since we are currently evaluating the full impact of this ASU and are in the planning stages of developing appropriate procedures and processes to comply with the disclosure requirements of such amendments.

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

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

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

The amendments require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method.

The amendments became effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 and will not have a material impact on CTBI’s consolidated financial statements.

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

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

For public companies, the amendments are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. CTBI adopted this ASU effective January 1, 2017, and it will not have a material impact on our consolidated financial statements.

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

Ø **Accounting for Credit Losses** – In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The provisions of ASU 2016-13 were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. This ASU requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets.

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

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

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

Ø **Statement of Cash Flows** – In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. Stakeholders indicated that there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This ASU addresses the following eight specific cash flow issues: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments in this Update apply to all entities that are required to present a statement of cash flows under Topic 230. This Update is the final version of Proposed Accounting Standards Update EITF-15F—*Statement of Cash Flows—Classification of Certain Cash Receipts and Cash Payments (Topic 230)*, which has been deleted. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments in this Update should be applied using a retrospective transition method to each period presented. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. Management intends to adopt this ASU effective January 1, 2018, and we do not expect a material impact on CTBI's consolidated financial statements.

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

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

2. Cash and Due from Banks and Interest Bearing Deposits

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

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

3. Securities

Securities are classified into held-to-maturity and available-for-sale categories. Held-to-maturity (HTM) securities are those that CTBI has the positive intent and ability to hold to maturity and are reported at amortized cost. Available-for-sale (AFS) securities are those that CTBI may decide to sell if needed for liquidity, asset-liability management or other reasons. Available-for-sale securities are reported at fair value, with unrealized gains or losses included as a separate component of equity, net of tax.

The amortized cost and fair value of securities at December 31, 2016 are summarized as follows:

Available-for-Sale

<i>(in thousands)</i>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Treasury and government agencies	\$ 223,014	\$ 193	\$ (743)	\$ 222,464
State and political subdivisions	133,351	1,957	(1,792)	133,516
U.S. government sponsored agency mortgage-backed securities	227,574	1,008	(3,526)	225,056
Total debt securities	583,939	3,158	(6,061)	581,036
CRA investment funds	25,000	76	(718)	24,358
Total available-for-sale securities	<u>\$ 608,939</u>	<u>\$ 3,234</u>	<u>\$ (6,779)</u>	<u>\$ 605,394</u>

Held-to-Maturity

<i>(in thousands)</i>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Treasury and government agencies	\$ 0	\$ 0	\$ 0	\$ 0
State and political subdivisions	866	1	0	867
Total held-to-maturity securities	<u>\$ 866</u>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 867</u>

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

Available-for-Sale

<i>(in thousands)</i>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
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	<u>\$ 593,381</u>	<u>\$ 5,714</u>	<u>\$ (4,159)</u>	<u>\$ 594,936</u>

Held-to-Maturity

<i>(in thousands)</i>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
U.S. Treasury and government agencies	\$ 480	\$ 0	\$ (12)	\$ 468
State and political subdivisions	1,181	2	0	1,183
Total held-to-maturity securities	<u>\$ 1,661</u>	<u>\$ 2</u>	<u>\$ (12)</u>	<u>\$ 1,651</u>

The amortized cost and fair value of securities at December 31, 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.

<i>(in thousands)</i>	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 104,396	\$ 104,383	\$ 0	\$ 0
Due after one through five years	101,799	102,135	866	867
Due after five through ten years	60,047	60,358	0	0
Due after ten years	90,123	89,104	0	0
U.S. government sponsored agency mortgage-backed securities	227,574	225,056	0	0
Total debt securities	583,939	581,036	866	867
CRA investment funds	25,000	24,358	0	0
Total securities	\$ 608,939	\$ 605,394	\$ 866	\$ 867

In 2016, there was a net gain of \$522 thousand realized on sales and calls of AFS securities, consisting of a pre-tax gain of \$529 thousand and a pre-tax loss of \$7 thousand. There was a net loss of \$106 thousand realized in 2015 and a net loss of \$211 thousand realized in 2014.

The amortized cost of securities pledged as collateral, to secure public deposits and for other purposes, was \$221.2 million at December 31, 2016 and \$228.2 million at December 31, 2015.

The amortized cost of securities sold under agreements to repurchase amounted to \$303.5 million at December 31, 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 December 31, 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 December 31, 2016 was 65.6% 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 December 31, 2016 that are not deemed to be other-than-temporarily impaired.

Available-for-Sale

<i>(in thousands)</i>	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	\$ 158,732	\$ (716)	\$ 158,016
State and political subdivisions	53,491	(1,780)	51,711
U.S. government sponsored agency mortgage-backed securities	135,939	(2,646)	133,293
Total debt securities	348,162	(5,142)	343,020
CRA investment funds	17,500	(444)	17,056
Total <12 months temporarily impaired AFS securities	365,662	(5,586)	360,076
12 Months or More			
U.S. Treasury and government agencies	1,880	(27)	1,853
State and political subdivisions	751	(12)	739
U.S. government sponsored agency mortgage-backed securities	31,132	(880)	30,252
Total debt securities	33,763	(919)	32,844
CRA investment funds	5,000	(274)	4,726
Total ≥12 months temporarily impaired AFS securities	38,763	(1,193)	37,570
Total			
U.S. Treasury and government agencies	160,612	(743)	159,869
State and political subdivisions	54,242	(1,792)	52,450
U.S. government sponsored agency mortgage-backed securities	167,071	(3,526)	163,545
Total debt securities	381,925	(6,061)	375,864
CRA investment funds	22,500	(718)	21,782
Total temporarily impaired AFS securities	\$ 404,425	\$ (6,779)	\$ 397,646

Held-to-Maturity

<i>(in thousands)</i>	Amortized Cost	Gross Unrealized Losses	Fair Value
12 Months or More			
U.S. Treasury and government agencies	\$ 0	\$ 0	\$ 0
Total temporarily impaired HTM securities	\$ 0	\$ 0	\$ 0

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 par which will equal amortized cost at maturity. CTBI does not consider those investments to be other-than-temporarily impaired at December 31, 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 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 par which will equal amortized cost at maturity. CTBI does not consider those investments to be other-than-temporarily impaired at December 31, 2016, because CTBI does not intend to sell the investments before recovery of their amortized cost 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 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 December 31, 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 maturity.

CRA Investment Funds

CTBI's CRA investment funds consist of investments in fixed income mutual funds (\$24.4 million of the total fair value and \$718 thousand of the total unrealized losses in common stock investments). The severity of the impairment (fair value is approximately 2.9% 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 December 31, 2016.

The analysis performed as of December 31, 2015 indicated that all impairment was considered temporary, market and interest rate driven, and not credit-related. 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.

Available-for-Sale

<i>(in thousands)</i>	<u>Amortized Cost</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
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	<u>92,009</u>	<u>(899)</u>	<u>91,110</u>
Total debt securities	245,346	(1,492)	243,854
CRA investment funds	<u>10,000</u>	<u>(183)</u>	<u>9,817</u>
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	<u>49,908</u>	<u>(1,371)</u>	<u>48,537</u>
Total debt securities	107,868	(2,286)	105,582
CRA investment funds	<u>5,000</u>	<u>(198)</u>	<u>4,802</u>
Total ≥12 months temporarily impaired AFS securities	<u>112,868</u>	<u>(2,484)</u>	<u>110,384</u>
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	<u>141,917</u>	<u>(2,270)</u>	<u>139,647</u>
Total debt securities	353,214	(3,778)	349,436
CRA investment funds	<u>15,000</u>	<u>(381)</u>	<u>14,619</u>
Total temporarily impaired AFS securities	<u>\$ 368,214</u>	<u>\$ (4,159)</u>	<u>\$ 364,055</u>

Held-to-Maturity

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

4. Loans

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

<i>(in thousands)</i>	December 31 2016	December 31 2015
Commercial construction	\$ 66,998	\$ 78,020
Commercial secured by real estate	1,085,428	1,052,919
Equipment lease financing	5,512	8,514
Commercial other	350,159	358,898
Real estate construction	57,966	61,750
Real estate mortgage	702,969	707,874
Home equity	91,511	89,450
Consumer direct	133,093	126,406
Consumer indirect	444,735	390,130
Total loans	\$ 2,938,371	\$ 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 fixed 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 \$1.2 million at December 31, 2016 and 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:

<i>(in thousands)</i>	December 31 2016	December 31 2015
Commercial:		
Commercial construction	\$ 1,912	\$ 3,402
Commercial secured by real estate	6,326	5,928
Commercial other	1,559	1,485
Residential:		
Real estate construction	11	249
Real estate mortgage	6,260	5,206
Home equity	555	183
Consumer:		
Consumer direct	0	110
Total nonaccrual loans	\$ 16,623	\$ 16,563

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

		December 31, 2016						
<i>(in thousands)</i>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90+ Days Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>90+ and Accruing*</u>	
Commercial:								
Commercial construction	\$ 22	\$ 0	\$ 1,940	\$ 1,962	\$ 65,036	\$ 66,998	\$ 28	
Commercial secured by real estate	2,033	478	8,847	11,358	1,074,070	1,085,428	3,015	
Equipment lease financing	0	0	0	0	5,512	5,512	0	
Commercial other	997	122	1,235	2,354	347,805	350,159	141	
Residential:								
Real estate construction	707	42	152	901	57,065	57,966	152	
Real estate mortgage	1,493	5,278	10,695	17,466	685,503	702,969	6,295	
Home equity	829	288	905	2,022	89,489	91,511	467	
Consumer:								
Consumer direct	873	265	68	1,206	131,887	133,093	68	
Consumer indirect	3,288	851	681	4,820	439,915	444,735	681	
Total	<u>\$ 10,242</u>	<u>\$ 7,324</u>	<u>\$ 24,523</u>	<u>\$ 42,089</u>	<u>\$ 2,896,282</u>	<u>\$ 2,938,371</u>	<u>\$ 10,847</u>	

		December 31, 2015						
<i>(in thousands)</i>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90+ Days Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>	<u>90+ and Accruing*</u>	
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	<u>\$ 9,010</u>	<u>\$ 6,140</u>	<u>\$ 25,129</u>	<u>\$ 40,279</u>	<u>\$ 2,833,682</u>	<u>\$ 2,873,961</u>	<u>\$ 12,046</u>	

*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 CTB.

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:

- Ø *Pass* grades include investment grade, low risk, moderate risk, and acceptable risk loans. The loans range from 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.
- Ø *Watch* graded loans are loans that warrant extra management attention but are not currently criticized. Loans on the 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.
- Ø *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 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.
- Ø *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 December 31, 2016 and 2015:

<i>(in thousands)</i>	<u>Commercial Construction</u>	<u>Commercial Secured by Real Estate</u>	<u>Equipment Leases</u>	<u>Commercial Other</u>	<u>Total</u>
December 31, 2016					
Pass	\$ 55,315	\$ 975,383	\$ 5,206	\$ 299,301	\$ 1,335,205
Watch	3,366	51,932	137	32,780	88,215
OAEM	2,535	25,772	169	7,913	36,389
Substandard	5,592	31,945	0	9,599	47,136
Doubtful	190	396	0	566	1,152
Total	<u>\$ 66,998</u>	<u>\$ 1,085,428</u>	<u>\$ 5,512</u>	<u>\$ 350,159</u>	<u>\$ 1,508,097</u>
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	<u>\$ 78,020</u>	<u>\$ 1,052,919</u>	<u>\$ 8,514</u>	<u>\$ 358,898</u>	<u>\$ 1,498,351</u>

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

<i>(in thousands)</i>	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
December 31, 2016						
Performing	\$ 57,803	\$ 690,414	\$ 90,489	\$ 133,025	\$ 444,054	\$ 1,415,785
Nonperforming (1)	163	12,555	1,022	68	681	14,489
Total	\$ 57,966	\$ 702,969	\$ 91,511	\$ 133,093	\$ 444,735	\$ 1,430,274
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 or on nonaccrual.

The total of consumer mortgage loans secured by real estate properties for which formal foreclosure proceedings are in process totaled \$3.5 million at December 31, 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 years ended December 31, 2016, 2015, and 2014:

<i>(in thousands)</i>	December 31, 2016				
	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial construction	\$ 4,102	\$ 4,123	\$ 0	\$ 4,367	\$ 218
Commercial secured by real estate	29,025	29,594	0	31,136	1,609
Commercial other	11,215	13,155	0	11,561	632
Real estate mortgage	1,483	1,483	0	1,691	52
Loans with a specific valuation allowance:					
Commercial construction	1,507	1,509	213	2,290	0
Commercial secured by real estate	4,731	5,885	1,035	4,151	19
Commercial other	139	139	65	483	0
Totals:					
Commercial construction	5,609	5,632	213	6,657	218
Commercial secured by real estate	33,756	35,479	1,035	35,287	1,628
Commercial other	11,354	13,294	65	12,044	632
Real estate mortgage	1,483	1,483	0	1,691	52
Total	\$ 52,202	\$ 55,888	\$ 1,313	\$ 55,679	\$ 2,530

December 31, 2015

<i>(in thousands)</i>	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance	Average Investment in Impaired Loans	*Interest Income Recognized
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

December 31, 2014

<i>(in thousands)</i>	Recorded Balance	Unpaid Contractual Principal Balance	Specific Allowance	Average Investment in Impaired Loans	*Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial construction	\$ 5,653	\$ 5,654	\$ 0	\$ 5,415	\$ 205
Commercial secured by real estate	31,639	33,268	0	34,650	1,180
Commercial other	13,069	14,597	0	15,663	783
Real estate mortgage	1,277	1,277	0	1,507	53
Loans with a specific valuation allowance:					
Commercial construction	3,974	3,974	734	4,216	0
Commercial secured by real estate	2,718	2,876	827	4,376	11
Commercial other	738	862	181	531	1
Totals:					
Commercial construction	9,627	9,628	734	9,631	205
Commercial secured by real estate	34,357	36,144	827	39,026	1,191
Commercial other	13,807	15,459	181	16,194	784
Real estate mortgage	1,277	1,277	0	1,507	53
Total	\$ 59,068	\$ 62,508	\$ 1,742	\$ 66,358	\$ 2,233

*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 with 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 years ended December 31, 2016 and 2015:

	Year Ended December 31, 2016				Post-Modification Outstanding Balance
	Number of Loans	Term Modification	Rate Modification	Combination	
<i>(in thousands)</i>					
Commercial:					
Commercial construction	1	\$ 1,288	\$ 0	\$ 0	\$ 1,288
Commercial secured by real estate	27	8,827	0	581	9,408
Commercial other	14	5,088	0	87	5,175
Residential:					
Real estate mortgage	1	0	0	281	281
Total troubled debt restructurings	43	\$ 15,203	\$ 0	\$ 949	\$ 16,152

	Year Ended December 31, 2015				Post-Modification Outstanding Balance
	Number of Loans	Term Modification	Rate Modification	Combination	
<i>(in thousands)</i>					
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. We have commitments to extend additional credit in the amount of \$0.1 million on loans that are considered troubled debt restructurings.

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 and lease 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.

	Year Ended December 31, 2016	
	Number of Loans	Recorded Balance
<i>(in thousands)</i>		
Commercial:		
Commercial secured by real estate	1	\$ 67
Commercial other	1	12
Total defaulted restructured loans	2	\$ 79

	Year Ended December 31, 2015	
	Number of Loans	Recorded Balance
<i>(in thousands)</i>		
Commercial:		
Commercial secured by real estate	3	\$ 114
Total defaulted restructured loans	3	\$ 114

5. Mortgage Banking and Servicing Rights

Mortgage banking activities primarily include residential mortgage originations and servicing. As discussed in note 1 above, mortgage servicing rights ("MSRs") are carried at fair market value. The fair value is determined quarterly based on an independent third-party valuation using a discounted cash flow analysis and calculated using a computer pricing model. The system used in this evaluation, Compass Point, attempts to quantify loan level idiosyncratic risk by calculating a risk derived value. As a result, each loan's unique characteristics determine the valuation assumptions ascribed to that loan. Additionally, the computer valuation is based on key economic assumptions including the prepayment speeds of the underlying loans generated using the Andrew Davidson Prepayment Model, FHLMC/FNMA guidelines, the weighted average life of the loan, the discount rate, the weighted average coupon, and the weighted-average default rate, as applicable. Along with the gains received from the sale of loans, fees are received for servicing loans. These fees include late fees, which are recorded in interest income, and ancillary fees and monthly servicing fees, which are recorded in noninterest income. Costs of servicing loans are charged to expense as incurred. Changes in fair market value of the MSRs are reported as an increase or decrease to mortgage banking income.

The following table presents the components of mortgage banking income:

(in thousands)

Year Ended December 31	2016	2015	2014
Net gain on sale of loans held for sale	\$ 1,831	\$ 1,978	\$ 1,468
Net loan servicing income (expense)			
Servicing fees	1,239	1,197	1,129
Late fees	78	88	112
Ancillary fees	322	212	149
Fair value adjustments	(324)	(289)	(830)
Net loan servicing income	1,315	1,208	560
Mortgage banking income	\$ 3,146	\$ 3,186	\$ 2,028

Mortgage loans serviced for others are not included in the accompanying balance sheets. Loans serviced for the benefit of others (primarily FHLMC) totaled \$466 million, \$458 million, and \$441 million at December 31, 2016, 2015 and 2014, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and processing foreclosures. Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$1.0 million, \$1.0 million, and \$0.9 million at December 31, 2016, 2015, and 2014, respectively.

Activity for capitalized mortgage servicing rights using the fair value method is as follows:

(in thousands)

	2016	2015	2014
Fair value of MSRs, beginning of period	\$ 3,236	\$ 2,968	\$ 3,424
New servicing assets created	521	557	374
Change in fair value during the period due to:			
Time decay (1)	(175)	(168)	(162)
Payoffs (2)	(313)	(247)	(202)
Changes in valuation inputs or assumptions (3)	164	126	(466)
Fair value of MSRs, end of period	\$ 3,433	\$ 3,236	\$ 2,968

- (1) Represents decrease in value due to regularly scheduled loan principal payments and partial loan paydowns.
- (2) Represents decrease in value due to loans that paid off during the period.
- (3) Represents change in value resulting from market-driven changes in interest rates.

The fair values of capitalized mortgage servicing rights were \$3.4 million, \$3.2 million, and \$3.0 million at December 31, 2016, 2015, and 2014, respectively. Fair values for the years ended December 31, 2016, 2015, and 2014 were determined by third-party valuations with a resulting 10.1% average discount rate over the last three years, respectively, and weighted average default rates of 3.02%, 2.64%, and 3.61%, respectively. Prepayment speeds generated using the Andrew Davidson Prepayment Model averaged 9.5%, 10.0%, and 11.3% at December 31, 2016, 2015, and 2014, respectively. MSR values are very sensitive to movement in interest rates as expected future net servicing income depends on the projected balance of the underlying loans, which can be greatly impacted by the level of prepayments. CTBI does not currently hedge against changes in the fair value of its MSR portfolio.

6. Related Party Transactions

In the ordinary course of business, CTB has made extensions of credit and had transactions with certain directors and executive officers of CTBI or our subsidiaries, including their associates (as defined by the Securities and Exchange Commission). We believe such extensions of credit and transactions were made on substantially the same terms, including interest rate and collateral, as those prevailing at the same time for comparable transactions with other persons.

Activity for related party extensions of credit during 2016 and 2015 is as follows:

(in thousands)

	2016	2015
Related party extensions of credit, beginning of period	\$ 29,224	\$ 37,473
New loans and advances on lines of credit	2,456	867
Repayments	(4,599)	(9,116)
Related party extensions of credit, end of period	\$ 27,081	\$ 29,224

The aggregate balances of related party deposits at December 31, 2016 and 2015 were \$15.5 million and \$12.5 million, respectively.

A director of CTBI is a shareholder in a law firm that provided services to CTBI and its subsidiaries during the years 2016, 2015, and 2014. Approximately \$1.0 million in legal fees and \$0.1 million in expenses paid on behalf of CTBI, \$1.1 million total, were paid to this law firm during 2016. Approximately \$1.2 million in legal fees and \$0.1 million in expenses, \$1.3 million total, were paid during 2015, and approximately \$1.0 million in legal fees and \$0.1 million in expenses, \$1.1 million in total, were paid during 2014.

7. 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 December 31, 2016, 2015, and 2014:

2016

<i>(in thousands)</i>	Commercial Construction	Commercial Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
ALLL										
Balance, beginning of year	\$ 2,199	\$ 14,434	\$ 79	\$ 4,225	\$ 550	\$ 6,678	\$ 839	\$ 1,594	\$ 5,496	\$ 36,094
Provision charged to expense	(1,035)	1,220	(37)	2,128	264	291	(20)	912	4,149	7,872
Losses charged off	(316)	(1,641)	0	(2,136)	(192)	(1,043)	(54)	(1,236)	(5,050)	(11,668)
Recoveries	36	178	0	439	7	101	9	615	2,250	3,635
Balance, end of year	<u>\$ 884</u>	<u>\$ 14,191</u>	<u>\$ 42</u>	<u>\$ 4,656</u>	<u>\$ 629</u>	<u>\$ 6,027</u>	<u>\$ 774</u>	<u>\$ 1,885</u>	<u>\$ 6,845</u>	<u>\$ 35,933</u>
Ending balance:										
Individually evaluated for impairment	\$ 213	\$ 1,035	\$ 0	\$ 65	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,313
Collectively evaluated for impairment	<u>\$ 671</u>	<u>\$ 13,156</u>	<u>\$ 42</u>	<u>\$ 4,591</u>	<u>\$ 629</u>	<u>\$ 6,027</u>	<u>\$ 774</u>	<u>\$ 1,885</u>	<u>\$ 6,845</u>	<u>\$ 34,620</u>

Loans

Ending balance:										
Individually evaluated for impairment	\$ 5,609	\$ 33,756	\$ 0	\$ 11,354	\$ 0	\$ 1,483	\$ 0	\$ 0	\$ 0	\$ 52,202
Collectively evaluated for impairment	<u>\$ 61,389</u>	<u>\$ 1,051,672</u>	<u>\$ 5,512</u>	<u>\$ 338,805</u>	<u>\$ 57,966</u>	<u>\$ 701,486</u>	<u>\$ 91,511</u>	<u>\$ 133,093</u>	<u>\$ 444,735</u>	<u>\$ 2,886,169</u>

2015

<i>(in thousands)</i>	Commercial Construction	Commercial Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
ALLL										
Balance, beginning of year	\$ 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
Balance, end of year	<u>\$ 2,199</u>	<u>\$ 14,434</u>	<u>\$ 79</u>	<u>\$ 4,225</u>	<u>\$ 550</u>	<u>\$ 6,678</u>	<u>\$ 839</u>	<u>\$ 1,594</u>	<u>\$ 5,496</u>	<u>\$ 36,094</u>
Ending balance:										
Individually evaluated for impairment	\$ 831	\$ 1,227	\$ 0	\$ 403	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,461
Collectively evaluated for impairment	<u>\$ 1,368</u>	<u>\$ 13,207</u>	<u>\$ 79</u>	<u>\$ 3,822</u>	<u>\$ 550</u>	<u>\$ 6,678</u>	<u>\$ 839</u>	<u>\$ 1,594</u>	<u>\$ 5,496</u>	<u>\$ 33,633</u>

Loans

Ending balance:										
Individually evaluated for impairment	\$ 6,263	\$ 33,421	\$ 0	\$ 8,460	\$ 0	\$ 1,744	\$ 0	\$ 0	\$ 0	\$ 49,888
Collectively evaluated for impairment	<u>\$ 71,757</u>	<u>\$ 1,019,498</u>	<u>\$ 8,514</u>	<u>\$ 350,438</u>	<u>\$ 61,750</u>	<u>\$ 706,130</u>	<u>\$ 89,450</u>	<u>\$ 126,406</u>	<u>\$ 390,130</u>	<u>\$ 2,824,073</u>

2014

<i>(in thousands)</i>	Commercial Construction	Commercial Secured by Real Estate	Equipment Lease Financing	Commercial Other	Real Estate Construction	Real Estate Mortgage	Home Equity	Consumer Direct	Consumer Indirect	Total
ALLL										
Balance, beginning of year	\$ 3,396	\$ 14,535	\$ 121	\$ 5,238	\$ 397	\$ 4,939	\$ 601	\$ 1,127	\$ 3,654	\$ 34,008
Provision charged to expense	(513)	941	(2)	1,545	258	2,173	265	1,207	2,881	8,755
Losses charged off	(15)	(2,163)	0	(3,141)	(123)	(1,058)	(115)	(1,326)	(3,495)	(11,436)
Recoveries	28	305	0	621	2	40	5	566	1,553	3,120
Balance, end of year	<u>\$ 2,896</u>	<u>\$ 13,618</u>	<u>\$ 119</u>	<u>\$ 4,263</u>	<u>\$ 534</u>	<u>\$ 6,094</u>	<u>\$ 756</u>	<u>\$ 1,574</u>	<u>\$ 4,593</u>	<u>\$ 34,447</u>
Ending balance:										
Individually evaluated for impairment	\$ 734	\$ 827	\$ 0	\$ 181	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,742
Collectively evaluated for impairment	<u>\$ 2,162</u>	<u>\$ 12,791</u>	<u>\$ 119</u>	<u>\$ 4,082</u>	<u>\$ 534</u>	<u>\$ 6,094</u>	<u>\$ 756</u>	<u>\$ 1,574</u>	<u>\$ 4,593</u>	<u>\$ 32,705</u>

Loans

Ending balance:										
Individually evaluated for impairment	\$ 9,627	\$ 34,357	\$ 0	\$ 13,807	\$ 0	\$ 1,277	\$ 0	\$ 0	\$ 0	\$ 59,068
Collectively evaluated for impairment	<u>\$ 112,315</u>	<u>\$ 914,269</u>	<u>\$ 10,344</u>	<u>\$ 338,241</u>	<u>\$ 62,412</u>	<u>\$ 711,188</u>	<u>\$ 88,335</u>	<u>\$ 122,136</u>	<u>\$ 315,516</u>	<u>\$ 2,674,756</u>

8. Premises and Equipment

Premises and equipment are summarized as follows:

<i>(in thousands)</i>		
December 31		
	2016	2015
Land and buildings	\$ 78,086	\$ 76,709
Leasehold improvements	4,886	4,793
Furniture, fixtures, and equipment	36,831	35,382
Construction in progress	769	196
Total premises and equipment	120,572	117,080
Less accumulated depreciation and amortization	(72,632)	(68,892)
Premises and equipment, net	\$ 47,940	\$ 48,188

Depreciation and amortization of premises and equipment for 2016, 2015, and 2014 was \$3.7 million, \$3.7 million, and \$4.1 million, respectively.

9. Other Real Estate Owned

Activity for other real estate owned was as follows:

<i>(in thousands)</i>		
	2016	2015
Beginning balance of other real estate owned	\$ 40,674	\$ 36,776
New assets acquired	5,900	18,850
Capitalized costs	0	85
Fair value adjustments	(1,214)	(1,656)
Sale of assets	(9,504)	(13,381)
Ending balance of other real estate owned	\$ 35,856	\$ 40,674

Carrying costs and fair value adjustments associated with foreclosed properties were \$2.9 million, \$3.5 million, and \$3.9 million for 2016, 2015, and 2014, respectively. See note 1 for a description of our accounting policies relative to foreclosed properties and other real estate owned.

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

<i>(in thousands)</i>		
December 31		
	2016	2015
1-4 family	\$ 6,210	\$ 7,493
Agricultural/farmland	93	116
Construction/land development/other	20,778	22,570
Multifamily	270	833
Non-farm/non-residential	8,505	9,662
Total foreclosed properties	\$ 35,856	\$ 40,674

10. Deposits

Major classifications of deposits are categorized as follows:

<i>(in thousands)</i>		
December 31		
	2016	2015
Noninterest bearing deposits	\$ 767,918	\$ 749,975
NOW accounts	45,872	44,567
Money market deposits	649,917	614,911
Savings	404,558	382,131
Certificates of deposit and other time deposits of \$100,000 or more	651,882	606,859
Certificates of deposit and other time deposits less than \$100,000	561,161	582,339
Total deposits	\$ 3,081,308	\$ 2,980,782

Certificates of deposit and other time deposits of \$250,000 or more at December 31, 2016 and 2015 were \$228.6 million and \$190.6 million, respectively.

Maturities of certificates of deposits and other time deposits are presented below:

Maturities by Period at December 31, 2016							
<i>(in thousands)</i>	Total	Within 1 Year	2 Years	3 Years	4 Years	5 Years	After 5 Years
Certificates of deposit and other time deposits of \$100,000 or more	\$ 651,882	\$ 516,384	\$ 56,494	\$ 23,180	\$ 24,074	\$ 31,750	\$ 0
Certificates of deposit and other time deposits less than \$100,000	561,161	471,912	38,109	17,628	13,354	19,830	328
Total maturities	\$ 1,213,043	\$ 988,296	\$ 94,603	\$ 40,808	\$ 37,428	\$ 51,580	\$ 328

11. Borrowings

Short-term debt is categorized as follows:

<i>(in thousands)</i> December 31	2016	2015
Repurchase agreements	\$ 251,065	\$ 251,225
Federal funds purchased	4,816	3,596
Total short-term debt	\$ 255,881	\$ 254,821

All federal funds purchased mature and reprice daily. See note 12 for information regarding the maturities of our repurchase agreements. The average rates paid for federal funds purchased and repurchase agreements on December 31, 2016 were 0.54% and 0.51%, respectively.

The maximum balance for repurchase agreements at any month-end during 2016 occurred at October 31, 2016, with a month-end balance of \$264.5 million. The average balance of repurchase agreements for the year was \$256.6 million.

On October 5, 2016, Community Trust Bancorp, Inc. entered into a revolving credit promissory note for a line of credit in the amount of \$12 million at a floating interest rate of 2.00% in excess of the one-month LIBOR Rate, with an unused commitment fee of 0.15%. Currently, all \$12 million remain available for general corporate purposes. The agreement, which was effective October 5, 2016, replaced the agreement dated November 2, 2015, and will mature on October 31, 2017.

Long-term debt is categorized as follows:

<i>(in thousands)</i> December 31	2016	2015
Junior subordinated debentures, 2.52%, due 6/1/37	\$ 61,341	\$ 61,341

On March 31, 2007, CTBI issued \$61.3 million in junior subordinated debentures to a newly formed unconsolidated Delaware statutory trust subsidiary which in turn issued \$59.5 million of capital securities in a private placement to institutional investors. The debentures, which mature in 30 years but are redeemable at par at CTBI's option after five years, were issued at a rate of 6.52% until June 1, 2012, and thereafter at a floating rate based on the three-month LIBOR plus 1.59%. The underlying capital securities were issued at the equivalent rates and terms. The proceeds of the debentures were used to fund the redemption on April 2, 2007 of all CTBI's outstanding 9.0% and 8.25% junior subordinated debentures in the total amount of \$61.3 million.

On November 29, 2016, the coupon rate was set at 2.52% for the March 1, 2017 distribution date, which was based on the three-month LIBOR rate as of November 29, 2016 of 0.93% plus 1.59%.

12. 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 \$302.3 million and \$288.1 million at December 31, 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 December 31, 2016 and December 31, 2015 is presented in the following tables:

<i>(in thousands)</i>	December 31, 2016				
	Remaining Contractual Maturity of the Agreements				
	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	\$ 17,249	\$ 0	\$ 14,349	\$ 73,076	\$ 104,674
State and political subdivisions	55,354	0	1,998	10,272	67,624
U.S. government sponsored agency mortgage-backed securities	23,386	0	8,003	47,378	78,767
Total	\$ 95,989	\$ 0	\$ 24,350	\$ 130,726	\$ 251,065

December 31, 2015

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
<i>(in thousands)</i>					
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

13. Advances from Federal Home Loan Bank

Federal Home Loan Bank advances consisted of the following monthly amortizing and term borrowings at December 31:

<i>(in thousands)</i>	2016	2015
Monthly amortizing	\$ 944	\$ 1,056
Term	0	100,000
Total FHLB advances	\$ 944	\$ 101,056

The advances from the FHLB that require monthly principal payments were due for repayment as follows:

<i>(in thousands)</i>	Principal Payments Due by Period at December 31, 2016						
	Total	Within 1 Year	2 Years	3 Years	4 Years	5 Years	After 5 Years
Outstanding advances, weighted average interest rate – 1.33%	\$ 944	\$ 106	\$ 404	\$ 20	\$ 20	\$ 20	\$ 374

At December 31, 2015, CTBI had monthly amortizing FHLB advances totaling \$1.1 million at a weighted average interest rate of 1.53%.

CTBI utilizes the FHLB cash management advance to facilitate any short-term funding needs. These short-term advances typically have a two-week maturity and require the total payment to be made at maturity. At December 31, 2016, there were no short-term advances. At December 31, 2015, CTBI had a \$100.0 million term advance with a fixed interest rate of 0.34% and a maturity date of January 6, 2016.

Advances totaling \$0.9 million at December 31, 2016 were collateralized by FHLB stock of \$17.9 million and a blanket lien on qualifying 1-4 family first mortgage loans. As of December 31, 2016, CTBI had a \$522.8 million FHLB borrowing capacity with \$0.9 million in advances and \$226.1 million in letters of credit used for public fund pledging leaving \$295.8 million available for additional advances. The advances had fixed interest rates ranging from 0.00% to 6.03% with a weighted average rate of 1.33%. The advances are subject to restrictions or penalties in the event of prepayment.

14. Income Taxes

The components of the provision for income taxes, exclusive of tax effect of unrealized securities gains and losses, are as follows:

<i>(in thousands)</i>	2016	2015	2014
Current income tax expense	\$ 18,417	\$ 18,416	\$ 20,194
Deferred income tax expense (benefit)	701	115	(1,048)
Total income tax expense	\$ 19,118	\$ 18,531	\$ 19,146

A reconciliation of income tax expense at the statutory rate to our actual income tax expense is shown below:

<i>(in thousands)</i>	2016		2015		2014	
Computed at the statutory rate	\$ 23,262	35.00%	\$ 22,737	35.00%	\$ 21,839	35.00%
Adjustments resulting from:						
Tax-exempt interest	(1,289)	(1.94)	(1,275)	(1.96)	(1,204)	(1.93)
Housing and new markets credits	(2,680)	(4.03)	(2,692)	(4.14)	(1,076)	(1.72)
Dividends received deduction	(136)	(0.20)	(128)	(0.20)	(178)	(0.29)
Bank owned life insurance	(518)	(0.78)	(549)	(0.84)	(503)	(0.81)
ESOP dividend deduction	(313)	(0.47)	(298)	(0.46)	(284)	(0.46)
Other, net	792	1.18	736	1.13	552	0.89
Total	\$ 19,118	28.76%	\$ 18,531	28.53%	\$ 19,146	30.68%

The components of the net deferred tax liability as of December 31 are as follows:

<i>(in thousands)</i>	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Allowance for loan and lease losses	\$ 12,577	\$ 12,633
Interest on nonperforming loans	806	806
Accrued expenses	1,883	2,087
Allowance for other real estate owned	1,898	2,185
Unrealized losses on available-for-sale securities	1,241	0
Other	282	665
Total deferred tax assets	<u>18,687</u>	<u>18,376</u>
Deferred tax liabilities:		
Depreciation and amortization	(20,287)	(20,150)
FHLB stock dividends	(3,460)	(3,460)
Loan fee income	(536)	(552)
Mortgage servicing rights	(1,202)	(1,133)
Capitalized lease obligations	(65)	(211)
Unrealized gains on AFS securities	0	(544)
Limited partnership investments	(411)	(650)
Other	(562)	(596)
Total deferred tax liabilities	<u>(26,523)</u>	<u>(27,296)</u>
Net deferred tax liability	<u>\$ (7,836)</u>	<u>\$ (8,920)</u>

CTBI accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. CTBI determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

With a few exceptions, CTBI is no longer subject to U.S. federal tax examinations by tax authorities for years before 2013, and state and local income tax examinations by tax authorities for years before 2012. For federal tax purposes, CTBI recognizes interest and penalties on income taxes as a component of income tax expense.

CTBI files consolidated income tax returns with its subsidiaries.

15. Employee Benefits

CTBI maintains two separate retirement savings plans, a 401(k) Plan and an Employee Stock Ownership Plan ("ESOP").

The 401(k) Plan is available to all employees (age 21 and over) with one year of service and who work at least 1,000 hours per year. Participants in the plan have the option to contribute from 1% to 20% of their annual compensation. CTBI matches 50% of participant contributions up to 4% of gross pay. CTBI may at its discretion, contribute an additional percentage of covered employees' compensation. CTBI's matching contributions were \$1.0 million for the years ended December 31, 2016, 2015, and 2014. The 401(k) Plan owned 482,426, 515,062, and 503,082 shares of CTBI's common stock at December 31, 2016, 2015, and 2014, respectively. Substantially all shares owned by the 401(k) were allocated to employee accounts on those dates. The market price of the shares at the date of allocation is essentially the same as the market price at the date of purchase.

The ESOP Plan has the same entrance requirements as the 401(k) Plan above. CTBI currently contributes 4% of covered employees' gross compensation to the ESOP. The ESOP uses the contributions to acquire shares of CTBI's common stock. CTBI's contributions to the ESOP were \$1.5 million for the years ended December 31, 2016, 2015, and 2014. The ESOP owned 788,308, 765,630, and 752,710 shares of CTBI's common stock at December 31, 2016, 2015, and 2014, respectively. Substantially all shares owned by the ESOP were allocated to employee accounts on those dates. The market price of the shares at the date of allocation is essentially the same as the market price at the date of purchase.

Stock-Based Compensation:

As of December 31, 2016, CTBI maintained one active and two inactive incentive stock ownership plans covering key employees. The 2015 Stock Ownership Incentive Plan (“2015 Plan”) was approved by the Board of Directors and the Shareholders in 2015. The 2006 Stock Ownership Incentive Plan (“2006 Plan”) was approved by the Board of Directors and the Shareholders in 2006. The 2006 Plan was rendered inactive as of April 28, 2015. The 1998 Stock Option Plan (“1998 Plan”) was approved by the Board of Directors and the Shareholders in 1998. The 1998 Plan was rendered inactive as of April 26, 2006. The 2015 Plan has 550,000 shares authorized, 540,131 of which were available at December 31, 2016. Shares issuable pursuant to awards which were granted under the prior plans on or before their respective expiration or termination dates will be issued from the remaining shares reserved for issuance under the prior plans. The shares of common stock reserved for issuance under the prior plans in excess of the number of shares as to which options or other benefits are awarded thereunder, and any shares as to which options or other benefits granted under the prior plans may lapse, expire, terminate or be canceled, will not be reserved and available for issuance or reissuance under the 2015 Plan. In January 2016, 18,069 shares were issued under the terms of the 2015 Plan pursuant to awards granted and earned under the 2006 Plan. Accordingly, this issuance did not reduce the shares available under the 2015 Plan. Additional shares will not be issued under the 2015 Plan pursuant to awards granted under the 2006 Plan. The following table provides detail of the number of shares to be issued upon exercise of outstanding stock-based awards and remaining shares available for future issuance under all of CTBI’s equity compensation plans as of December 31, 2016:

Plan Category (shares in thousands)	Number of Shares to Be Issued Upon Exercise	Weighted Average Price	Shares Available for Future Issuance
Equity compensation plans approved by shareholders:			
Stock options	71	\$ 30.36	540(a)
Restricted stock	(c)	(b)	(a)
Performance units	(d)	(b)	(a)
Stock appreciation rights (“SARs”)	(e)	(b)	(a)
Total			540

- (a) Under the 2015 Plan, 550,000 shares are authorized for issuance; 10,000 have been issued as of December 31, 2016. In January of 2016, 18,069 restricted stock shares were issued under the terms of the 2015 Plan pursuant to awards granted under the 2006 Plan. Additional shares will not be issued pursuant to awards granted from prior plans.
- (b) Not applicable
- (c) The maximum number of shares of restricted stock that may be granted is 550,000 shares, and the maximum that may be granted to a participant during any calendar year is 75,000 shares.
- (d) No performance units payable in stock had been issued as of December 31, 2016. The maximum payment that can be made pursuant to performance units granted to any one participant in any calendar year shall be \$1,000,000.
- (e) No SARs have been issued. The maximum number of shares with respect to which SARs may be granted to a participant during any calendar year shall be 100,000 shares.

The following table details the shares available for future issuance under the 2015 Plan at December 31, 2016.

Plan Category	Shares Available for Future Issuance
Shares available at January 1, 2016	550,000
Stock option issuances	(10,000)
Restricted stock issuances	0
Forfeitures	131
Shares available for future issuance	540,131

CTBI uses a Black-Scholes option pricing model with the following weighted average assumptions, which are evaluated and revised as necessary, in estimating the grant-date fair value of each option grant for the year end:

	2016	2015	2014
Expected option life (in years)	7.5	7.5	7.5
Expected volatility	34.34%	43.11%	43.32%
Expected dividend yield	3.70%	3.72%	3.40%
Risk-free interest rate	1.45%	1.54%	2.01%

The expected option life is derived from the “safe-harbor” rules for estimating option life in ASC 718, *Share-Based Payment*. The expected volatility is based on historical volatility of the stock using a historical look back that approximates the expected life of the option grant. The interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. CTBI’s stock-based compensation expense for the years 2016, 2015, and 2014 was \$0.5 million, \$0.8 million, and \$0.9 million, respectively. Included in stock-based compensation expense were dividends paid on restricted stock shares in the amount of \$37 thousand, \$80 thousand, and \$121 thousand, respectively, for the same periods.

The 2015 Plan:

CTBI's stock option activity for the 2015 Plan for the year ended December 31, 2016 is summarized as follows:

December 31	2016	
	Options	Weighted Average Exercise Price
Outstanding at beginning of year	0	\$ --
Granted	10,000	33.55
Exercised	0	--
Forfeited/expired	0	--
Outstanding at end of year	10,000	\$ 33.55
Exercisable at end of year	0	\$ --

A summary of the status of CTBI's 2015 Plan for nonvested options as of December 31, 2016, and changes during the year ended December 31, 2016, is presented as follows:

Nonvested Options	Options	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2016	0	\$ --
Granted	10,000	6.82
Vested	0	--
Forfeited	0	--
Nonvested at December 31, 2016	10,000	\$ 6.82

The weighted average remaining contractual term in years of the options outstanding at December 31, 2016 was 9.1 years.

The weighted-average fair value of options granted from the 2015 Plan during the year 2016 was \$0.07 million, or \$6.82 per share.

The following table shows the intrinsic values of options exercised, exercisable, and outstanding for the 2015 Plan for the years ended December 31, 2016:

(in thousands)	2016
Options exercised	\$ --
Options exercisable	--
Outstanding options	161

The following table shows restricted stock activity for the 2015 Plan for the year ended December 31, 2016:

December 31	2016	
	Grants	Weighted Average Fair Value at Grant
Outstanding at beginning of year	0	\$ --
Granted*	18,069	33.55
Vested	(442)	33.55
Forfeited	(131)	33.55
Outstanding at end of year	17,496	\$ 33.55

* Issued under the terms of the 2015 Plan pursuant to awards granted and earned under the 2006 Plan.

The 2006 Plan:

CTBI's stock option activity for the 2006 Plan for the years ended December 31, 2016, 2015, and 2014 is summarized as follows:

December 31	2016		2015		2014	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	118,574	\$ 32.36	98,821	\$ 32.35	97,047	\$ 32.29
Granted	0	--	20,000	32.27	10,000	34.75
Exercised	(57,423)	35.02	(247)	24.12	(5,757)	34.62
Forfeited/expired	(110)	35.41	0	--	(2,469)	34.29
Outstanding at end of year	61,041	\$ 29.84	118,574	\$ 32.36	98,821	\$ 32.35
Exercisable at end of year	30,629	\$ 26.64	87,749	\$ 32.12	86,264	\$ 32.25

A summary of the status of CTBI's 2006 Plan for nonvested options as of December 31, 2016, and changes during the year ended December 31, 2016, is presented as follows:

Nonvested Options	Options	Weighted Average Grant Date Fair Value
Nonvested at January 1, 2016	30,825	\$ 7.02
Granted	0	--
Vested	(413)	8.23
Forfeited	0	--
Nonvested at December 31, 2016	30,412	\$ 7.00

The weighted average remaining contractual term in years of the options outstanding at December 31, 2016 was 4.6 years.

There were no options granted from the 2006 Plan for the year 2016. The weighted-average fair value of options granted from the 2006 Plan during the years 2015 and 2014 were \$0.13 million or \$6.60 per share and \$0.08 million or \$7.76 per share; respectively.

The following table shows the intrinsic values of options exercised, exercisable, and outstanding for the 2006 Plan for the years ended December 31, 2016, 2015, and 2014:

<i>(in thousands)</i>	2016	2015	2014
Options exercised	\$ 139	\$ 3	\$ 11
Options exercisable	703	275	376
Outstanding options	1,206	334	421

The following table shows restricted stock activity for the years ended December 31, 2016, 2015, and 2014:

December 31	2016		2015		2014	
	Grants	Weighted Average Fair Value at Grant	Grants	Weighted Average Fair Value at Grant	Grants	Weighted Average Fair Value at Grant
Outstanding at beginning of year	64,735	\$ 28.92	101,309	\$ 26.19	107,511	\$ 25.91
Granted	0	--	10,582	32.27	4,561	37.85
Vested	(52,521)	28.01	(46,482)	23.66	(8,949)	28.35
Forfeited	(225)	32.52	(674)	33.31	(1,814)	28.38
Outstanding at end of year	11,989	\$ 32.85	64,735	\$ 28.92	101,309	\$ 26.19

The 1998 Plan:

CTBI's stock option activity for the 1998 Plan for the years ended December 31, 2016, 2015, and 2014 is summarized as follows:

December 31	2016		2015		2014	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of year	2,980	\$ 29.49	43,960	\$ 29.43	78,066	\$ 28.91
Granted	0	--	0	--	0	--
Exercised	(2,980)	29.49	(40,980)	29.42	(34,106)	28.25
Forfeited/expired	0	--	0	--	0	--
Outstanding at end of year	0	\$ --	2,980	\$ 29.49	43,960	\$ 29.43
Exercisable at end of year	0	\$ --	2,980	\$ 29.49	43,960	\$ 29.43

There were no options outstanding in the 1998 Plan at December 31, 2016.

The following table shows the intrinsic values of options exercised, exercisable, and outstanding for the 1998 Plan for the years ended December 31, 2016, 2015, and 2014:

<i>(in thousands)</i>	2016	2015	2014
Options exercised	\$ 13	\$ 241	\$ 270
Options exercisable	0	16	316
Outstanding options	0	16	316

There were no nonvested options in the 1998 Plan for the years December 31, 2016, 2015, and 2014.

The following table shows the unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans at December 31, 2016, 2015, and 2014 and the total grant-date fair value of shares vested, cash received from option exercises under all share-based payment arrangements, and the actual tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements for the years ended December 31, 2016, 2015, and 2014.

<i>(in thousands)</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Unrecognized compensation cost of unvested share-based compensation arrangements granted under the plan at year-end	\$ 835	\$ 495	\$ 861
Grant date fair value of shares vested for the year	1,490	1,111	343
Cash received from option exercises under all share-based payment arrangements for the year	2,099	1,212	1,163
Tax benefit realized for the tax deductions from option exercises of the share-based payment arrangements for the year	3	82	93

The unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plans at December 31, 2016 is expected to be recognized over a weighted-average period of 2.9 years.

16. Operating Leases

Certain premises and equipment are leased under operating leases. Additionally, certain premises are leased or subleased to third parties. These leases generally contain renewal options and require CTBI to pay all executory costs, such as taxes, maintenance fees, and insurance. Minimum non-cancellable rental payments and rental receipts are as follows:

<i>(in thousands)</i>	<u>Payments</u>	<u>Receipts</u>
2017	\$ 2,010	\$ 561
2018	1,501	350
2019	943	261
2020	725	227
2021	610	147
Thereafter	3,089	81
Total	<u>\$ 8,878</u>	<u>\$ 1,627</u>

Rental expense net of rental income under operating leases was \$1.3 million for 2016, \$1.3 million for 2015, and \$1.3 million for 2014.

17. 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 December 31, 2016 and December 31, 2015 and indicate the level within the fair value hierarchy of the valuation techniques.

<i>(in thousands)</i>	<u>Fair Value Measurements at December 31, 2016 Using</u>			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets measured – recurring basis				
Available-for-sale securities:				
U.S. Treasury and government agencies	\$ 222,464	\$ 44,934	\$ 177,530	\$ 0
State and political subdivisions	133,516	0	133,516	0
U.S. government sponsored agency mortgage-backed securities	225,056	0	225,056	0
CRA investment funds	24,358	24,358	0	0
Mortgage servicing rights	3,433	0	0	3,433

(in thousands)

Fair Value Measurements at
December 31, 2015 Using

	Fair Value	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)
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 December 31, 2016 and December 31, 2015. There have been no significant changes in the valuation techniques during the year ended December 31, 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 December 31, 2016, CTBI does 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 December 31, 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:

Mortgage Servicing Rights

(in thousands)

	2016	2015
Beginning balance	\$ 3,236	\$ 2,968
Total recognized gains (losses)		
Included in net income	164	126
Issues	521	557
Settlements	(488)	(415)
Ending balance	\$ 3,433	\$ 3,236
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	\$ 164	\$ 126

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

Noninterest Income

(in thousands)		2016	2015
Total losses		\$ (324)	\$ (289)

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 December 31, 2016 and December 31, 2015 and indicate the level within the fair value hierarchy of the valuation techniques.

(in thousands)		Fair Value Measurements at December 31, 2016 Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured – nonrecurring basis				
Impaired loans (collateral dependent)	\$ 5,506	\$ 0	\$ 0	\$ 5,506
Other real estate/assets owned	4,388	0	0	4,388

(in thousands)		Fair Value Measurements at December 31, 2015 Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (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. Fair value adjustments on impaired loans disclosed above were \$0.6 million and \$1.8 million for the years ended December 31, 2016 and December 31, 2015, respectively.

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. Fair value adjustments on other real estate/assets owned were \$1.2 million and \$1.7 million for the years ended December 31, 2016 and December 31, 2015, 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. 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 December 31, 2016 and December 31, 2015.

(in thousands)

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at December 31, 2016	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Mortgage servicing rights	\$ 3,433	Discount cash flows, computer pricing model	Constant prepayment rate	7.0% - 27.0% (9.5%)
			Probability of default	0.0% - 100.0% (3.0%)
			Discount rate	10.0% - 11.5% (10.1%)
				0.0% - 100.0% (33.7%)
Impaired loans (collateral-dependent)	\$ 5,506	Market comparable properties	Marketability discount	
Other real estate owned	\$ 4,388	Market comparable properties	Comparability adjustments	10.0% - 100.0% (14.9%)

(in thousands)

	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value at December 31, 2015	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Mortgage servicing rights	\$ 3,236	Discount cash flows, computer pricing model	Constant prepayment rate	6.1% - 22.4% (10.0%)
			Probability of default	0.0% - 100.0% (2.6%)
			Discount rate	10.0% - 11.5% (10.1%)
				0.0% - 76.7% (26.8%)
Impaired loans (collateral-dependent)	\$ 3,192	Market comparable properties	Marketability discount	
Other real estate 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 December 31, 2016 and indicates the level within the fair value hierarchy of the valuation techniques.

(in thousands)

	Fair Value Measurements at December 31, 2016 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	\$ 144,716	\$ 144,716	\$ 0	\$ 0
Certificates of deposit in other banks	980	0	982	0
Securities available-for-sale	605,394	69,292	536,102	0
Securities held-to-maturity	866	0	867	0
Loans held for sale	1,244	1,260	0	0
Loans, net	2,902,438	0	0	2,882,348
Federal Home Loan Bank stock	17,927	0	17,927	0
Federal Reserve Bank stock	4,887	0	4,887	0
Accrued interest receivable	11,922	0	11,922	0
Mortgage servicing rights	3,433	0	0	3,433
Financial liabilities:				
Deposits	\$ 3,081,308	\$ 767,918	\$ 2,321,690	\$ 0
Repurchase agreements	251,065	0	0	250,820
Federal funds purchased	4,816	0	4,816	0
Advances from Federal Home Loan Bank	944	0	1,009	0
Long-term debt	61,341	0	0	49,073
Accrued interest payable	1,200	0	1,200	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)

	Fair Value Measurements at December 31, 2015 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	\$ 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
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.

18. Off-Balance Sheet Transactions and Guarantees

CTBI is a party to transactions with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include standby letters of credit and commitments to extend credit in the form of unused lines of credit. CTBI uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

At December 31, CTBI had the following off-balance sheet financial instruments, whose approximate contract amounts represent additional credit risk to CTBI:

<i>(in thousands)</i>	2016	2015
Standby letters of credit	\$ 29,917	\$ 28,143
Commitments to extend credit	570,467	455,273
Total off-balance sheet financial instruments	\$ 600,384	\$ 483,416

Standby letters of credit represent conditional commitments to guarantee the performance of a third party. The credit risk involved is essentially the same as the risk involved in making loans. At December 31, 2016, we maintained a credit loss reserve recorded in other liabilities of approximately \$5 thousand relating to these financial standby letters of credit. The reserve coverage calculation was determined using essentially the same methodology as used for the allowance for loan and lease losses. Approximately 74% of the total standby letters of credit are secured, with \$18.6 million of the total \$29.9 million secured by cash. Collateral for the remaining secured standby letters of credit varies but is comprised primarily of accounts receivable, inventory, property, equipment, and income-producing properties.

Commitments to extend credit are agreements to originate loans to customers as long as there is no violation of any condition of the contract. At December 31, 2016, a credit loss reserve recorded in other liabilities of \$275 thousand was maintained relating to these commitments. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate. A portion of the commitments is to extend credit at fixed rates. Fixed rate loan commitments at December 31, 2016 of \$62.8 million had interest rates ranging predominantly from 3.00% to 5.00%, respectively, and terms predominantly two years or less. These credit commitments were based on prevailing rates, terms, and conditions applicable to other loans being made at December 31, 2016.

Included in our commitments to extend credit are mortgage loans in the process of origination which are intended for sale to investors in the secondary market. These forward sale commitments are on an individual loan basis that CTBI originates as part of its mortgage banking activities. CTBI commits to sell the loans at specified prices in a future period, typically within 60 days. These commitments are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale since CTBI is exposed to interest rate risk during the period between issuing a loan commitment and the sale of the loan into the secondary market. Total mortgage loans in the process of origination amounted to \$2.9 million and \$3.2 million at December 31, 2016 and 2015, respectively, and mortgage loans held for sale amounted to \$1.2 million for the years ended December 31, 2016 and 2015, respectively.

19. Concentrations of Credit Risk

CTBI's banking activities include granting commercial, residential, and consumer loans to customers primarily located in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee. CTBI is continuing to manage all components of its portfolio mix in a manner to reduce risk from changes in economic conditions. Concentrations of credit, as defined for regulatory purposes, are reviewed quarterly by management to ensure that internally established limits based on Tier 1 Capital plus the allowance for loan and lease losses are not exceeded. At December 31, 2016 and 2015, our concentrations of lessors of non-residential buildings credits were 45% and 44% of Tier 1 Capital plus the allowance for loan and lease losses, respectively. Lessors of residential buildings and dwellings were 37% and 36%, respectively. Hotel/motel industry credits were 41% and 34%, respectively. These percentages are within our internally established limits regarding concentrations of credit.

20. Commitments and Contingencies

CTBI and our subsidiaries, and from time to time, our officers, are named defendants in legal actions arising from ordinary business activities. Management, after consultation with legal counsel, believes any pending actions at December 31, 2016 are without merit or that the ultimate liability, if any, will not materially affect our consolidated financial position or results of operations.

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

21. Regulatory Matters

CTBI's principal source of funds is dividends received from our banking subsidiary, CTB. Regulations limit the amount of dividends that may be paid by CTB without prior approval. During 2017, approximately \$55.4 million plus any 2017 net profits can be paid by CTB without prior regulatory approval.

The Federal Reserve Bank adopted quantitative measures which assign risk weightings to assets and off-balance sheet items and also define and set minimum regulatory capital requirements (risk based capital ratios). All banks are required to have a minimum Tier 1 (core capital) leverage ratio of 4% of adjusted quarterly average assets, common equity Tier 1 capital ratio of at least 4.5% of risk-weighted assets, Tier 1 capital of at least 6% of risk-weighted assets, and total capital of at least 8% of risk-weighted assets. Tier 1 capital consists principally of shareholders' equity including capital-qualifying subordinated debt but excluding unrealized gains and losses on securities available-for-sale, less goodwill and certain other intangibles. Total capital consists of Tier 1 capital plus certain debt instruments and the reserve for credit losses, subject to limitation. Failure to meet certain capital requirements can initiate certain actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements. The regulations also define well-capitalized levels of Tier 1 leverage, common equity Tier 1 capital, Tier 1, and total capital as 5%, 6.5%, 8%, and 10%, respectively. We had Tier 1 leverage, common equity Tier 1 capital, Tier 1, and total capital ratios above the well-capitalized levels at December 31, 2016 and 2015. We believe, as of December 31, 2016, CTBI meets all capital adequacy requirements for which it is subject to be defined as well-capitalized under the regulatory framework for prompt corrective action.

Under the current Federal Reserve Board's regulatory framework, certain capital securities offered by wholly owned unconsolidated trust preferred entities of CTBI are included as Tier 1 regulatory capital. On March 1, 2005, the Federal Reserve Board adopted a final rule that allows the continued limited inclusion of trust preferred securities in the Tier 1 capital of bank holding companies ("BHCs"). Under the final rule, trust preferred securities and other restricted core capital elements are subject to stricter quantitative limits. The Board's final rule limits restricted core capital elements to 25 percent of all core capital elements, net of goodwill less any associated deferred tax liability. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The final rule provided a five-year transition period, which ended March 31, 2009, for application of the quantitative limits. The requirement for trust preferred securities to include a call option has been eliminated, and standards for the junior subordinated debt underlying trust preferred securities eligible for Tier 1 capital treatment have been clarified. The final rule addresses supervisory concerns, competitive equity considerations, and the accounting for trust preferred securities. The final rule also strengthens the definition of regulatory capital by incorporating longstanding Board policies regarding the acceptable terms of capital instruments included in banking organizations' Tier 1 or Tier 2 capital. The final rule did not have a material impact on our regulatory ratios.

Consolidated Capital Ratios

(in thousands)

	Actual		For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
As of December 31, 2016:				
Tier 1 capital (to average assets)	\$ 496,432	12.75%	\$ 155,743	4.00%
Common equity Tier 1 capital (to risk weighted assets)	436,932	15.18	129,525	4.50
Tier 1 capital (to risk weighted assets)	496,432	17.25	172,672	6.00
Total capital (to risk weighted assets)	532,332	18.50	230,198	8.00
As of December 31, 2015:				
Tier 1 capital (to average assets)	\$ 468,304	12.40%	\$ 151,066	4.00%
Common equity Tier 1 capital (to risk weighted assets)	408,804	14.58	126,194	4.50
Tier 1 capital (to risk weighted assets)	468,304	16.70	168,253	6.00
Total capital (to risk weighted assets)	503,296	17.95	224,310	8.00

Community Trust Bank, Inc.'s Capital Ratios

(in thousands)

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016:						
Tier 1 capital (to average assets)	\$ 472,615	12.19%	\$ 155,083	4.00%	\$ 193,854	5.00%
Common equity Tier 1 capital (to risk weighted assets)	472,615	16.46	129,208	4.50	186,634	6.50
Tier 1 capital (to risk weighted assets)	472,615	16.46	172,278	6.00	229,704	8.00
Total capital (to risk weighted assets)	508,515	17.71	229,708	8.00	287,134	10.00
As of December 31, 2015:						
Tier 1 capital (to average assets)	\$ 445,107	11.84%	\$ 150,374	4.00%	\$ 187,967	5.00%
Common equity Tier 1 capital (to risk weighted assets)	445,107	15.91	125,895	4.50	181,848	6.50
Tier 1 capital (to risk weighted assets)	445,107	15.91	167,859	6.00	223,812	8.00
Total capital (to risk weighted assets)	480,099	17.16	223,822	8.00	279,778	10.00

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

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

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

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

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

22. Parent Company Financial Statements

Condensed Balance Sheets

<i>(in thousands)</i>	<u>2016</u>	<u>2015</u>
December 31		
Assets:		
Cash on deposit	\$ 1,525	\$ 1,462
Investment in and advances to subsidiaries	556,975	531,702
Goodwill	4,973	4,973
Premises and equipment, net	142	145
Other assets	391	911
Total assets	<u>\$ 564,006</u>	<u>\$ 539,193</u>
Liabilities and shareholders' equity:		
Long-term debt	\$ 61,341	\$ 61,341
Other liabilities	2,050	2,269
Total liabilities	<u>63,391</u>	<u>63,610</u>
Shareholders' equity	<u>500,615</u>	<u>475,583</u>
Total liabilities and shareholders' equity	<u>\$ 564,006</u>	<u>\$ 539,193</u>

Condensed Statements of Income and Comprehensive Income

<i>(in thousands)</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Year Ended December 31			
Income:			
Dividends from subsidiary banks	\$ 20,708	\$ 19,808	\$ 19,534
Other income	459	414	196
Total income	<u>21,167</u>	<u>20,222</u>	<u>19,730</u>
Expenses:			
Interest expense	1,417	1,170	1,131
Depreciation expense	107	130	153
Other expenses	2,256	2,465	2,550
Total expenses	<u>3,780</u>	<u>3,765</u>	<u>3,834</u>
Income before income taxes and equity in undistributed income of subsidiaries	17,387	16,457	15,896
Income tax benefit	(1,373)	(1,371)	(1,548)
Income before equity in undistributed income of subsidiaries	18,760	17,828	17,444
Equity in undistributed income of subsidiaries	28,586	28,604	25,807
Net income	<u>\$ 47,346</u>	<u>\$ 46,432</u>	<u>\$ 43,251</u>
Other comprehensive income (loss):			
Unrealized holding gains (losses) on securities available-for-sale:			
Unrealized holding gains (losses) arising during the period	(4,578)	(342)	13,928
Less: Reclassification adjustments for realized gains (losses) included in net income	522	(106)	(211)
Tax expense (benefit)	(1,785)	(83)	4,949
Other comprehensive income (loss), net of tax	<u>(3,315)</u>	<u>(153)</u>	<u>9,190</u>
Comprehensive income	<u>\$ 44,031</u>	<u>\$ 46,279</u>	<u>\$ 52,441</u>

Condensed Statements of Cash Flows

<i>(in thousands)</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Year Ended December 31			
Cash flows from operating activities:			
Net income	\$ 47,346	\$ 46,432	\$ 43,251
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	107	130	153
Equity in undistributed earnings of subsidiaries	(28,586)	(28,604)	(25,807)
Stock-based compensation	458	783	838
Excess tax benefits of stock-based compensation	100	104	760
Changes in:			
Other assets	519	240	(558)
Other liabilities	(90)	968	563
Net cash provided by operating activities	<u>19,854</u>	<u>20,053</u>	<u>19,200</u>
Cash flows from investing activities:			
Purchase of premises and equipment	(104)	(45)	(125)
Repayment of investments in and advances to subsidiaries	0	0	(14)
Net cash used in investing activities	<u>(104)</u>	<u>(45)</u>	<u>(139)</u>
Cash flows from financing activities:			
Issuance of common stock	2,985	2,082	1,992
Repurchase of common stock	(382)	(189)	0
Excess tax benefits of stock-based compensation	(100)	(104)	(760)
Dividends paid	(22,190)	(21,330)	(20,570)
Net cash used in financing activities	<u>(19,687)</u>	<u>(19,541)</u>	<u>(19,338)</u>
Net increase (decrease) in cash and cash equivalents	63	467	(277)
Cash and cash equivalents at beginning of year	1,462	995	1,272
Cash and cash equivalents at end of year	<u>\$ 1,525</u>	<u>\$ 1,462</u>	<u>\$ 995</u>

23. Earnings Per Share

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

<i>(in thousands except per share data)</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Year Ended December 31			
Numerator:			
Net income	\$ 47,346	\$ 46,432	\$ 43,251
Denominator:			
Basic earnings per share:			
Weighted average shares	17,548	17,431	17,326
Diluted earnings per share:			
Dilutive effect of equity grants	<u>18</u>	<u>52</u>	<u>71</u>
Adjusted weighted average shares	<u>17,566</u>	<u>17,483</u>	<u>17,397</u>
Earnings per share:			
Basic earnings per share	\$ 2.70	\$ 2.66	\$ 2.50
Diluted earnings per share	2.70	2.66	2.49

There were no options to purchase common shares that were excluded from the diluted calculations above for the year ended December 31, 2016. 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 58,063 common shares were excluded from the diluted calculations above for the year ended December 31, 2015, because the exercise prices on the options were greater than the average market price for the period. There were no options to purchase common shares that were excluded from the diluted calculations above for the year ended December 31, 2014.

24. 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 years ended December 31, 2016, 2015, and 2014 were:

<i>(in thousands)</i>	<u>Amounts Reclassified from AOCI</u>		
Year Ended December 31	<u>2016</u>	<u>2015</u>	<u>2014</u>
Affected line item in the statements of income			
Securities gains (losses)	\$ 522	\$ (106)	\$ (211)
Tax expense (benefit)	183	(37)	(74)
Total reclassifications out of AOCI	<u>\$ 339</u>	<u>\$ (69)</u>	<u>\$ (137)</u>

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors
and Stockholders
Community Trust Bancorp, Inc.
Pikeville, Kentucky

We have audited the accompanying consolidated balance sheets of Community Trust Bancorp, Inc. (Company) as of December 31, 2016 and 2015, and the related consolidated statements of income and comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

BKD, LLP
Louisville, Kentucky
March 15, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee, Board of Directors
and Stockholders
Community Trust Bancorp, Inc.
Pikeville, Kentucky

We have audited Community Trust Bancorp, Inc.'s (Company) internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company and our report dated March 15, 2017, expressed an unqualified opinion thereon.

BKD, LLP
Louisville, Kentucky
March 15, 2017

MANAGEMENT REPORT ON INTERNAL CONTROL

We, as management of Community Trust Bancorp, Inc. and its subsidiaries ("CTBI"), are responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Because of the inherent limitations, any system of internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements due to the possibility that a control can be circumvented or overridden or that misstatements due to error or fraud may occur that are not detected. Also, projections of the effectiveness to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures included in such controls may deteriorate.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2016 based on the control criteria in the 2013 COSO Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on such evaluation, we have concluded that CTBI's internal control over financial reporting is effective as of December 31, 2016.

The effectiveness of CTBI's internal control over financial reporting as of December 31, 2016 has been audited by BKD, LLP, an independent registered public accounting firm that audited the CTBI's consolidated financial statements included in this annual report.

March 15, 2017



Jean R. Hale
Chairman, President, and
Chief Executive Officer



Kevin J. Stumbo
Executive Vice President, Chief Financial Officer,
and Treasurer

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," and 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

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

- ✓ Our Business
- ✓ Financial Goals and Performance
- ✓ Results of Operations and Financial Condition
- ✓ Contractual Obligations and Commitments
- ✓ Liquidity and Market Risk
- ✓ Interest Rate Risk
- ✓ Capital Resources
- ✓ Impact of Inflation, Changing Prices, and Economic Conditions
- ✓ Stock Repurchase Program
- ✓ Critical Accounting Policies and Estimates

Our Business

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

Through its subsidiaries, CTBI engages in a wide range of commercial and personal banking and trust and wealth management activities, which include accepting time and demand deposits; making secured and unsecured loans to corporations, individuals and others; providing cash management services to corporate and individual customers; issuing letters of credit; renting safe deposit boxes; and providing funds transfer services. The lending activities of CTB include making commercial, construction, mortgage, and personal loans. Lease-financing, lines of credit, revolving lines of credit, term loans, and other specialized loans, including asset-based financing, are also available. Our corporate subsidiaries act as trustees of personal trusts, as executors of estates, as trustees for employee benefit trusts, as paying agents for bond and stock issues, as investment agent, as depositories for securities, and as providers of full service brokerage and insurance services. For further information, see Item 1 of our annual report on Form 10-K for the year ended December 31, 2016.

Financial Goals and Performance

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

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

Results of Operations and Financial Condition

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

2016 Highlights

- ✓ Our loan portfolio increased \$64.4 million from December 31, 2015.
- ✓ Our investment portfolio increased \$9.7 million from December 31, 2015.
- ✓ Deposits, including repurchase agreements, increased \$100.4 million from December 31, 2015.
- ✓ Nonperforming loans at \$27.5 million decreased \$1.1 million from December 31, 2015. Nonperforming assets at \$63.4 million decreased \$6.0 million from December 31, 2015.
- ✓ Net loan charge-offs for the year 2016 were \$8.0 million, or 0.28% of average loans, compared to \$7.0 million, or 0.25%, for the year 2015.

Income Statement Review

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

Net Interest Income

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

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

Provision for Loan Losses

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

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

Noninterest Income

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

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

Noninterest Expense

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

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

Balance Sheet Review

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

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

Loans

<i>(in thousands)</i>	December 31, 2016				
	<u>Balance</u>	<u>Variance from Prior Year</u>	<u>Net Charge-Offs</u>	<u>Nonperforming</u>	<u>ALLL</u>
Loan Category					
Commercial:					
Construction	\$ 66,998	(14.1)%	\$ 280	\$ 1,940	\$ 884
Secured by real estate	1,085,428	3.1	1,463	9,341	14,191
Equipment lease financing	5,512	(35.3)	0	0	42
Other commercial	350,159	(2.4)	1,697	1,700	4,656
Total commercial	1,508,097	0.7	3,440	12,981	19,773
Residential:					
Real estate construction	57,966	(6.1)	185	163	629
Real estate mortgage	702,969	(0.7)	942	12,555	6,027
Home equity	91,511	2.3	45	1,022	774
Total residential	852,446	(0.8)	1,172	13,740	7,430
Consumer:					
Consumer direct	133,093	5.3	621	68	1,885
Consumer indirect	444,735	14.0	2,800	681	6,845
Total consumer	577,828	11.9	3,421	749	8,730
Total loans	\$ 2,938,371	2.2%	\$ 8,033	\$ 27,470	\$ 35,933

Asset Quality

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

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

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

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

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

When foreclosed properties are acquired, appraisals are obtained and the properties are booked at the current market value less expected sales costs. Additionally, periodic updated appraisals are obtained on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected sales costs. Charges to earnings in 2016 to reflect the decrease in current market values of foreclosed properties totaled \$1.2 million. There were 72 properties reappraised during 2016. Of these, 45 were written down by a total of \$0.9 million. Charges during the year ended December 31, 2015 were \$1.7 million. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market and is typically between 12 and 18 months but generally not more than 24 months. Approximately eighty-eight percent of our OREO properties have appraisals dated within the past 18 months. Management anticipates that our foreclosed properties will remain elevated as we work through current market conditions.

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

(in thousands)

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

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

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

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

Contractual Obligations and Commitments

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

Contractual Obligations:

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

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

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

Other Commitments:

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

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

Liquidity and Market Risk

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

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

Interest Rate Risk

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

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

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

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

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

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

The simulation model used the yield curve spread evenly over a twelve-month period. The measurement at December 31, 2016 estimates that our net interest income in an up-rate environment would increase by 7.05% at a 400 basis point change, 5.10% increase at a 300 basis point change, 3.15% increase at a 200 basis point change, and a 1.30% increase at a 100 basis point change. In a down-rate environment, a 25 basis point decrease in interest rates would decrease net interest income by 0.21% over one year. In order to reduce the exposure to interest rate fluctuations and to manage liquidity, we have developed sale procedures for several types of interest-sensitive assets. Primarily all long-term, fixed rate single family residential mortgage loans underwritten according to Federal Home Loan Mortgage Corporation guidelines are sold for cash upon origination or originated under terms where they could be sold. Periodically, additional assets such as commercial loans are also sold. In 2016 and 2015, \$81.4 million and \$80.6 million, respectively, were realized on the sale of fixed rate residential mortgages. We focus our efforts on consistent net interest revenue and net interest margin growth through each of the retail and wholesale business lines. We do not currently engage in trading activities.

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

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

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

Capital Resources

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

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

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

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

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

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

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

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

Impact of Inflation, Changing Prices, and Economic Conditions

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

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

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

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

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

Stock Repurchase Program

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

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

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

Critical Accounting Policies and Estimates

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

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

Our accounting policies are described in note 1 to the consolidated financial statements. We have identified the following critical accounting policies:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SELECTED STATISTICAL INFORMATION

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

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

<i>(in thousands)</i>	2016			2015			2014		
	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
Earning assets:									
Loans (1)(2)(3)	\$ 2,916,031	\$ 134,455	4.61%	\$ 2,791,871	\$ 131,304	4.70%	\$ 2,642,231	\$ 128,929	4.88%
Loans held for sale	728	101	13.87	1,075	95	8.84	943	74	7.85
Securities:									
U.S. Treasury and agencies	445,500	6,669	1.50	446,081	7,425	1.66	474,062	9,302	1.96
Tax exempt state and political subdivisions (3)	99,086	4,182	4.22	101,382	4,162	4.11	95,460	3,963	4.15
Other securities	53,492	1,596	2.98	59,705	1,728	2.89	66,793	2,012	3.01
Federal Reserve Bank and Federal Home Loan Bank stock	22,814	1,011	4.43	22,812	1,010	4.43	23,978	1,136	4.74
Federal funds sold	3,121	19	0.61	3,344	13	0.39	4,007	15	0.37
Interest bearing deposits	108,546	538	0.50	90,106	219	0.24	103,823	248	0.24
Other investments	1,550	17	1.10	6,285	56	0.89	9,307	87	0.93
Investment in unconsolidated subsidiaries	1,846	43	2.33	1,845	35	1.90	1,846	34	1.84
Total earning assets	3,652,714	\$ 148,631	4.07%	3,524,506	\$ 146,047	4.14%	3,422,450	\$ 145,800	4.26%
Allowance for loan and lease losses	(36,681)			(35,735)			(34,544)		
	3,616,033			3,488,771			3,387,906		
Nonearning assets:									
Cash and due from banks	50,946			53,641			55,658		
Premises and equipment, net	48,138			49,103			50,923		
Other assets	205,140			198,767			185,044		
Total assets	<u>\$ 3,920,257</u>			<u>\$ 3,790,282</u>			<u>\$ 3,679,531</u>		

(in thousands)	2016			2015			2014		
	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate	Average Balances	Interest	Average Rate
Interest bearing liabilities:									
Deposits:									
Savings and demand deposits	\$ 1,088,291	\$ 2,566	0.24%	\$ 1,018,866	\$ 2,299	0.23%	\$ 956,389	\$ 2,141	0.22%
Time deposits	1,203,081	8,355	0.69	1,217,225	7,317	0.60	1,291,896	7,657	0.59
Repurchase agreements and federal funds purchased	262,361	1,155	0.44	256,091	938	0.37	233,431	841	0.36
Advances from Federal Home Loan Bank	14,410	62	0.43	15,821	49	0.31	4,210	27	0.64
Long-term debt	<u>61,341</u>	<u>1,417</u>	<u>2.31</u>	<u>61,341</u>	<u>1,170</u>	<u>1.91</u>	<u>61,341</u>	<u>1,131</u>	<u>1.84</u>
Total interest bearing liabilities	2,629,484	\$ 13,555	0.52%	2,569,344	\$ 11,773	0.46%	2,547,267	\$ 11,797	0.46%
Noninterest bearing liabilities:									
Demand deposits	758,555			720,508			660,833		
Other liabilities	<u>37,820</u>			<u>34,748</u>			<u>36,141</u>		
Total liabilities	3,425,859			3,324,600			3,244,241		
Shareholders' equity	<u>494,398</u>			<u>465,682</u>			<u>435,290</u>		
Total liabilities and shareholders' equity	<u>\$ 3,920,257</u>			<u>\$ 3,790,282</u>			<u>\$ 3,679,531</u>		
Net interest income, tax equivalent		<u>\$ 135,076</u>			<u>\$ 134,274</u>			<u>\$ 134,003</u>	
Less tax equivalent interest income		<u>2,055</u>			<u>2,027</u>			<u>1,933</u>	
Net interest income		<u>\$ 133,021</u>			<u>\$ 132,247</u>			<u>\$ 132,070</u>	
Net interest spread			<u>3.55%</u>			<u>3.68%</u>			<u>3.80%</u>
Benefit of interest free funding			<u>0.15</u>			<u>0.13</u>			<u>0.12</u>
Net interest margin			<u>3.70%</u>			<u>3.81%</u>			<u>3.92%</u>

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

(2) Loan balances include deferred loan origination costs and principal balances on nonaccrual loans.

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

Net Interest Differential

The following table illustrates the approximate effect of volume and rate changes on net interest differentials between 2016 and 2015 and also between 2015 and 2014.

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

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

Investment Portfolio

The maturity distribution and weighted average interest rates of securities at December 31, 2016 are as follows:

Available-for-sale

(in thousands)	Estimated Maturity at December 31, 2016										
	Within 1 Year		1-5 Years		5-10 Years		After 10 Years		Total Fair Value		Amortized Cost
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
U.S. Treasury, government agencies, and government sponsored agency mortgage-backed securities	\$ 101,616	0.79%	\$ 95,908	1.66%	\$ 85,877	1.71%	\$ 164,119	1.93%	\$ 447,520	1.57%	\$ 450,588
State and political subdivisions	2,800	2.99	44,225	3.66	46,283	4.33	40,208	4.36	133,516	4.09	133,351
Other securities	0	0.00	0	0.00	0	0.00	24,358	2.28	24,358	2.28	25,000
Total	\$ 104,416	0.85%	\$ 140,133	2.29%	\$ 132,160	2.63%	\$ 228,685	2.40%	\$ 605,394	2.15%	\$ 608,939

Held-to-maturity
Estimated Maturity at December 31, 2016

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

Total Securities
Estimated Maturity at December 31, 2016

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

The calculations of the weighted average interest rates for each maturity category are based upon yield weighted by the respective costs of the securities. The weighted average rates on state and political subdivisions are computed on a taxable equivalent basis using a 35% tax rate.

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

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

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

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

Loan Portfolio

(in thousands)	2016	2015	2014	2013	2012
Commercial:					
Construction	\$ 66,998	\$ 78,020	\$ 121,942	\$ 110,779	\$ 119,447
Secured by real estate	1,085,428	1,052,919	948,626	872,542	807,213
Equipment lease financing	5,512	8,514	10,344	8,840	9,246
Commercial other	350,159	358,898	352,048	374,881	376,348
Total commercial	1,508,097	1,498,351	1,432,960	1,367,042	1,312,254
Residential:					
Real estate construction	57,966	61,750	62,412	56,075	55,041
Real estate mortgage	702,969	707,874	712,465	697,601	696,928
Home equity	91,511	89,450	88,335	84,880	82,292
Total residential	852,446	859,074	863,212	838,556	834,261
Consumer:					
Consumer direct	133,093	126,406	122,136	122,215	122,581
Consumer indirect	444,735	390,130	315,516	287,541	281,477
Total consumer	577,828	516,536	437,652	409,756	404,058
Total loans	\$ 2,938,371	\$ 2,873,961	\$ 2,733,824	\$ 2,615,354	\$ 2,550,573
Percent of total year-end loans					
Commercial:					
Construction	2.28%	2.71%	4.46%	4.24%	4.68%
Secured by real estate	36.94	36.64	34.70	33.36	31.65
Equipment lease financing	0.18	0.30	0.38	0.34	0.36
Commercial other	11.92	12.49	12.88	14.33	14.76
Total commercial	51.32	52.14	52.42	52.27	51.45
Residential:					
Real estate construction	1.97	2.15	2.28	2.15	2.16
Real estate mortgage	23.93	24.63	26.06	26.67	27.32
Home equity	3.11	3.11	3.23	3.25	3.23
Total residential	29.01	29.89	31.57	32.07	32.71
Consumer:					
Consumer direct	4.53	4.40	4.47	4.67	4.80
Consumer indirect	15.14	13.57	11.54	10.99	11.04
Total consumer	19.67	17.97	16.01	15.66	15.84
Total loans	100.00%	100.00%	100.00%	100.00%	100.00%

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

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

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

Nonperforming Assets

(in thousands)	2016	2015	2014	2013	2012
Nonaccrual loans	\$ 16,623	\$ 16,563	\$ 20,971	\$ 19,958	\$ 16,791
90 days or more past due and still accruing interest	10,847	12,046	17,985	23,599	19,215
Total nonperforming loans	27,470	28,609	38,956	43,557	36,006
Other repossessed assets	103	183	90	0	5
Foreclosed properties	35,856	40,674	36,776	39,188	46,986
Total nonperforming assets	\$ 63,429	\$ 69,466	\$ 75,822	\$ 82,745	\$ 82,997
Nonperforming assets to total loans and foreclosed properties	2.13%	2.38%	2.74%	3.12%	3.20%
Allowance to nonperforming loans	130.81%	126.16%	88.43%	78.08%	92.33%

Nonaccrual and Past Due Loans

(in thousands)	Nonaccrual loans	As a % of Loan Balances by Category	Accruing Loans Past Due 90 Days or More	As a % of Loan Balances by Category	Balances
December 31, 2016					
Commercial construction	\$ 1,912	2.85%	\$ 28	0.04%	\$ 66,998
Commercial secured by real estate	6,326	0.58	3,015	0.28	1,085,428
Equipment lease financing	0	0.00	0	0.00	5,512
Commercial other	1,559	0.45	141	0.04	350,159
Real estate construction	11	0.02	152	0.26	57,966
Real estate mortgage	6,260	0.89	6,295	0.90	702,969
Home equity	555	0.61	467	0.51	91,511
Consumer direct	0	0.00	68	0.05	133,093
Consumer indirect	0	0.00	681	0.15	444,735
Total	\$ 16,623	0.57%	\$ 10,847	0.37%	\$ 2,938,371
December 31, 2015					
Commercial construction	\$ 3,402	4.36%	\$ 30	0.04%	\$ 78,020
Commercial secured by real estate	5,928	0.56	3,757	0.36	1,052,919
Equipment lease financing	0	0.00	0	0.00	8,514
Commercial other	1,485	0.41	310	0.09	358,898
Real estate construction	249	0.40	55	0.09	61,750
Real estate mortgage	5,206	0.74	6,925	0.98	707,874
Home equity	183	0.20	448	0.50	89,450
Consumer direct	110	0.09	126	0.10	126,406
Consumer indirect	0	0.00	395	0.10	390,130
Total	\$ 16,563	0.58%	\$ 12,046	0.42%	\$ 2,873,961

Discussion of the Nonaccrual Policy

The accrual of interest income on loans is discontinued when management believes, after considering economic and business conditions, collateral value, and collection efforts, that the borrower's financial condition is such that the collection of interest is doubtful. Cash payments received on nonaccrual loans generally are applied against principal, and interest income is only recorded once principal recovery is reasonably assured. Any loans greater than 90 days past due must be well secured and in the process of collection to continue accruing interest. See note 1 for further discussion on our nonaccrual policy.

Potential Problem Loans

Interest accrual is discontinued when we believe, after considering economic and business conditions, collateral value, and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

Foreign Outstandings

None

Loan Concentrations

We had no concentration of loans exceeding 10% of total loans at December 31, 2016. See note 19 to the consolidated financial statements for further information.

Analysis of the Allowance for Loan and Lease Losses

<i>(in thousands)</i>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Allowance for loan and lease losses, beginning of year	\$ 36,094	\$ 34,447	\$ 34,008	\$ 33,245	\$ 33,171
Loans charged off:					
Commercial construction	(316)	(3)	(15)	(1,135)	(1,034)
Commercial secured by real estate	(1,641)	(1,379)	(2,163)	(1,607)	(2,035)
Commercial other	(2,136)	(1,961)	(3,141)	(2,265)	(3,233)
Real estate construction	(192)	(135)	(123)	(89)	(189)
Real estate mortgage	(1,043)	(1,421)	(1,058)	(744)	(1,123)
Home equity	(54)	(129)	(115)	(241)	(248)
Consumer direct	(1,236)	(1,306)	(1,326)	(1,166)	(1,245)
Consumer indirect	(5,050)	(3,536)	(3,495)	(3,802)	(3,483)
Total charge-offs	<u>(11,668)</u>	<u>(9,870)</u>	<u>(11,436)</u>	<u>(11,049)</u>	<u>(12,590)</u>
Recoveries of loans previously charged off:					
Commercial construction	36	13	28	309	35
Commercial secured by real estate	178	60	305	163	303
Commercial other	439	585	621	557	764
Real estate construction	7	4	2	4	28
Real estate mortgage	101	117	40	56	151
Home equity	9	54	5	11	11
Consumer direct	615	435	566	495	538
Consumer indirect	2,250	1,599	1,553	1,649	1,384
Total recoveries	<u>3,635</u>	<u>2,867</u>	<u>3,120</u>	<u>3,244</u>	<u>3,214</u>
Net charge-offs:					
Commercial construction	(280)	10	13	(826)	(999)
Commercial secured by real estate	(1,463)	(1,319)	(1,858)	(1,444)	(1,732)
Commercial other	(1,697)	(1,376)	(2,520)	(1,708)	(2,469)
Real estate construction	(185)	(131)	(121)	(85)	(161)
Real estate mortgage	(942)	(1,304)	(1,018)	(688)	(972)
Home equity	(45)	(75)	(110)	(230)	(237)
Consumer direct	(621)	(871)	(760)	(671)	(707)
Consumer indirect	(2,800)	(1,937)	(1,942)	(2,153)	(2,099)
Total net charge-offs	<u>(8,033)</u>	<u>(7,003)</u>	<u>(8,316)</u>	<u>(7,805)</u>	<u>(9,376)</u>
Provisions charged against operations	7,872	8,650	8,755	8,568	9,450
Balance, end of year	<u>\$ 35,933</u>	<u>\$ 36,094</u>	<u>\$ 34,447</u>	<u>\$ 34,008</u>	<u>\$ 33,245</u>
Allocation of allowance, end of year:					
Commercial construction	\$ 884	\$ 2,199	\$ 2,896	\$ 3,396	\$ 4,033
Commercial secured by real estate	14,191	14,434	13,618	14,535	13,541
Equipment lease financing	42	79	119	121	126
Commercial other	4,656	4,225	4,263	5,238	5,469
Real estate construction	629	550	534	397	376
Real estate mortgage	6,027	6,678	6,094	4,939	4,767
Home equity	774	839	756	601	563
Consumer direct	1,885	1,594	1,574	1,127	1,102
Consumer indirect	6,845	5,496	4,593	3,654	3,268
Balance, end of year	<u>\$ 35,933</u>	<u>\$ 36,094</u>	<u>\$ 34,447</u>	<u>\$ 34,008</u>	<u>\$ 33,245</u>
Average loans outstanding, net of deferred loan costs and fees	\$ 2,916,031	\$ 2,791,871	\$ 2,642,231	\$ 2,579,805	\$ 2,549,459
Loans outstanding at end of year, net of deferred loan costs and fees	\$ 2,938,371	\$ 2,873,961	\$ 2,733,824	\$ 2,615,354	\$ 2,550,573
Net charge-offs to average loan type:					
Commercial construction	0.40%	(0.01)%	(0.01)%	0.77%	0.86%
Commercial secured by real estate	0.14	0.13	0.21	0.17	0.21
Commercial other	0.47	0.39	0.70	0.46	0.64
Real estate construction	0.32	0.21	0.20	0.16	0.30
Real estate mortgage	0.13	0.18	0.15	0.10	0.15
Home equity	0.05	0.08	0.13	0.28	0.28
Consumer direct	0.48	0.71	0.63	0.55	0.57
Consumer indirect	0.67	0.55	0.67	0.75	0.67
Total	<u>0.28%</u>	<u>0.25%</u>	<u>0.31%</u>	<u>0.30%</u>	<u>0.37%</u>
Other ratios:					
Allowance to net loans, end of year	1.22%	1.26%	1.26%	1.30%	1.30%
Provision for loan losses to average loans	0.27%	0.31%	0.33%	0.33%	0.37%

The allowance for loan and lease losses balance is maintained at a level considered adequate to cover anticipated probable losses based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral values, and other factors and estimates which are subject to change over time. This analysis is completed quarterly and forms the basis for allocation of the loan loss reserve and what charges to the provision may be required. See notes 1, 4, and 7 to the consolidated financial statements for further information.

Average Deposits and Other Borrowed Funds

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

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

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

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

Selected Financial Data 2012-2016

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

Year Ended December 31	2016	2015	2014	2013	2012
Interest income	\$ 146,576	\$ 144,020	\$ 143,867	\$ 148,127	\$ 153,722
Interest expense	13,555	11,773	11,797	13,440	21,588
Net interest income	133,021	132,247	132,070	134,687	132,134
Provision for loan losses	7,872	8,650	8,755	8,568	9,450
Noninterest income	48,441	46,809	45,081	49,304	45,957
Noninterest expense	107,126	105,443	105,999	110,251	103,554
Income before income taxes	66,464	64,963	62,397	65,172	65,087
Income taxes	19,118	18,531	19,146	20,000	20,225
Net income	\$ 47,346	\$ 46,432	\$ 43,251	\$ 45,172	\$ 44,862
Per common share:					
Basic earnings per share	\$ 2.70	\$ 2.66	\$ 2.50	\$ 2.63	\$ 2.64
Diluted earnings per share	\$ 2.70	\$ 2.66	\$ 2.49	\$ 2.62	\$ 2.63
Cash dividends declared-	\$ 1.260	\$ 1.220	\$ 1.181	\$ 1.154	\$ 1.136
as a % of net income	46.67%	45.86%	47.24%	43.79%	43.10%
Book value, end of year	\$ 28.40	\$ 27.12	\$ 25.64	\$ 23.70	\$ 23.31
Market price, end of year	\$ 49.60	\$ 34.96	\$ 36.61	\$ 41.05	\$ 29.80
Market to book value, end of year	1.75x	1.29x	1.43x	1.73x	1.28x
Price/earnings ratio, end of year	18.37x	13.14x	14.64x	15.57x	11.30x
Cash dividend yield, for the year	2.54%	3.49%	3.23%	2.81%	3.81%
At year-end:					
Total assets	\$ 3,932,169	\$ 3,903,934	\$ 3,723,765	\$ 3,581,716	\$ 3,635,664
Long-term debt	61,341	61,341	61,341	61,341	61,341
Shareholders' equity	500,615	475,583	447,877	412,492	400,344
Averages:					
Assets	\$ 3,920,257	\$ 3,790,282	\$ 3,679,531	\$ 3,651,541	\$ 3,641,660
Deposits, including repurchase agreements	3,306,550	3,201,545	3,130,338	3,127,709	3,139,229
Earning assets	3,652,714	3,524,506	3,422,450	3,384,211	3,357,134
Loans	2,916,031	2,791,871	2,642,231	2,579,805	2,549,459
Shareholders' equity	494,398	465,682	435,290	408,782	389,377
Profitability ratios:					
Return on average assets	1.21%	1.23%	1.18%	1.24%	1.23%
Return on average equity	9.58	9.97	9.94	11.05	11.52
Capital ratios:					
Equity to assets, end of year	12.73%	12.18%	12.03%	11.52%	11.01%
Average equity to average assets	12.61	12.29	11.83	11.19	10.69
Risk based capital ratios:					
Tier 1 leverage	12.75%	12.40%	12.04%	11.51%	10.65%
Common equity Tier 1 capital	15.18	14.58	--	--	--
Tier 1 capital	17.25	16.70	16.51	16.15	15.23
Total capital	18.50	17.95	17.76	17.40	16.49
Other significant ratios:					
Allowance to net loans, end of year	1.22%	1.26%	1.26%	1.30%	1.30%
Allowance to nonperforming loans, end of year	130.81	126.16	88.43	78.08	92.33
Nonperforming assets to loans and foreclosed properties, end of year	2.13	2.38	2.74	3.12	3.20
Net interest margin	3.70	3.81	3.92	4.03	3.99
Efficiency ratio	58.54	58.20	59.12	59.33	57.93
Other statistics:					
Average common shares outstanding	17,548	17,431	17,326	17,158	17,013
Number of full-time equivalent employees, end of year	996	984	1,012	1,022	1,035

Quarterly Financial Data

(Unaudited)

(in thousands except ratios and per share amounts)

Three Months Ended	<u>December 31</u>	<u>September 30</u>	<u>June 30</u>	<u>March 31</u>
2016				
Net interest income	\$ 33,411	\$ 33,227	\$ 33,059	\$ 33,324
Net interest income, taxable equivalent basis	33,930	33,726	33,565	33,855
Provision for loan losses	2,043	2,191	1,873	1,765
Noninterest income	12,515	13,186	11,769	10,971
Noninterest expense	27,005	26,687	27,192	26,242
Net income	11,866	12,312	11,566	11,602
Per common share:				
Basic earnings per share	\$ 0.67	\$ 0.70	\$ 0.66	\$ 0.66
Diluted earnings per share	0.67	0.70	0.66	0.66
Dividends declared	0.32	0.32	0.31	0.31
Common stock price:				
High	\$ 51.35	\$ 37.49	\$ 36.95	\$ 36.00
Low	35.85	33.71	32.98	30.89
Last trade	49.60	37.11	34.66	35.32
Selected ratios:				
Return on average assets, annualized	1.19%	1.25%	1.19%	1.20%
Return on average common equity, annualized	9.41	9.81	9.46	9.63
Net interest margin, annualized	3.66	3.66	3.71	3.76

Three Months Ended	<u>December 31</u>	<u>September 30</u>	<u>June 30</u>	<u>March 31</u>
2015				
Net interest income	\$ 33,195	\$ 32,965	\$ 33,182	\$ 32,905
Net interest income, taxable equivalent basis	33,692	33,467	33,697	33,418
Provision for loan losses	1,910	2,520	2,319	1,901
Noninterest income	11,810	12,035	12,228	10,736
Noninterest expense	25,778	27,534	26,313	25,818
Net income	11,870	11,222	12,402	10,938
Per common share:				
Basic earnings per share	\$ 0.68	\$ 0.64	\$ 0.71	\$ 0.63
Diluted earnings per share	0.68	0.64	0.71	0.63
Dividends declared	0.31	0.31	0.30	0.30
Common stock price:				
High	\$ 37.15	\$ 37.63	\$ 35.49	\$ 36.47
Low	33.68	33.62	31.54	31.53
Last trade	34.96	35.51	34.87	33.16
Selected ratios:				
Return on average assets, annualized	1.22%	1.18%	1.32%	1.18%
Return on average common equity, annualized	9.91	9.50	10.78	9.70
Net interest margin, annualized	3.74	3.77	3.85	3.89

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