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

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2022
Or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____________ to _____________

Commission file number 001-31220

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

Kentucky	**61-0979818**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*
346 North Mayo Trail **P.O. Box 2947** **Pikeville, Kentucky**	**41502**
(Address of principal executive offices)	*(Zip code)*

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

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

Common Stock
(Title of class)

CTBI	**NASDAQ Global Select Market**
(Trading symbol)	*(Name of exchange on which registered)*

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

Yes ☑ No

Indicate by check mark whether the registrant has submitted electronically every interactive data file required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☑ No

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

Large Accelerated Filer ☐ Accelerated Filer ☑ Non-accelerated Filer ☐

Smaller Reporting Company ☐ Emerging Growth Company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Yes ☐ No ☑

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

Common stock – 17,918,280 shares outstanding at October 31, 2022

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; the effects of the COVID-19 pandemic on our business operations and credit quality and on general economic and financial market conditions, as well as our ability to respond to the related challenges; our participation in the Paycheck Protection Program administered by the Small Business Administration; results of various investment activities; the effects of competitors' pricing policies, changes in laws and regulations, competition, and demographic changes on target market populations' savings and financial planning needs; industry changes in information technology systems on which we are highly dependent; failure of acquisitions to produce revenue enhancements or cost savings at levels or within the time frames originally anticipated or unforeseen integration difficulties; and the resolution of legal proceedings and related matters. In addition, the banking industry in general is subject to various monetary, operational, and fiscal policies and regulations, which include, but are not limited to, those determined by the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Consumer Financial Protection Bureau, and state regulators, whose policies, regulations, and enforcement actions could affect CTBI's results. These statements are representative only on the date hereof, and CTBI undertakes no obligation to update any forward-looking statements made.

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Registrant's annual report on Form 10-K. Accordingly, the reader of the Form 10-Q should refer to the Registrant's Form 10-K for the year ended December 31, 2021 for further information in this regard.

Community Trust Bancorp, Inc.
Condensed Consolidated Balance Sheets

(dollars in thousands)	*(unaudited)* **September 30 2022**	**December 31 2021**
Assets:		
Cash and due from banks	$ 60,527	$ 46,558
Interest bearing deposits	199,102	265,198
Cash and cash equivalents	259,629	311,756
Certificates of deposit in other banks	245	245
Debt securities available-for-sale at fair value (amortized cost of $1,486,869 and $1,461,829, respectively)	1,298,592	1,455,429
Equity securities at fair value	1,969	2,253
Loans held for sale	1,043	2,632
Loans	3,630,616	3,408,813
Allowance for credit losses	(44,433)	(41,756)
Net loans	3,586,183	3,367,057
Premises and equipment, net	41,593	40,479
Right-of-use assets	12,131	12,148
Federal Home Loan Bank stock	6,676	8,139
Federal Reserve Bank stock	4,887	4,887
Goodwill	65,490	65,490
Bank owned life insurance	92,453	91,097
Mortgage servicing rights	8,576	6,774
Other real estate owned	1,864	3,486
Deferred tax asset	46,435	0
Accrued interest receivable	16,513	15,415
Other assets	30,059	30,970
Total assets	$ 5,474,338	$ 5,418,257
Liabilities and shareholders' equity:		
Deposits:		
Noninterest bearing	$ 1,481,078	$ 1,331,103
Interest bearing	3,053,990	3,013,189
Total deposits	4,535,068	4,344,292
Repurchase agreements	230,123	271,088
Federal funds purchased	500	500
Advances from Federal Home Loan Bank	360	375
Long-term debt	57,841	57,841
Deferred tax liability	0	546
Operating lease liability	11,232	11,583
Finance lease liability	1,404	1,422
Accrued interest payable	2,501	1,016
Other liabilities	32,749	31,392
Total liabilities	4,871,778	4,720,055
Shareholders' equity:		
Preferred stock, 300,000 shares authorized and unissued	-	-
Common stock, $5.00 par value, shares authorized 25,000,000; shares issued and outstanding 2022 – 17,901,373; 2021 – 17,843,081	89,506	89,215
Capital surplus	228,484	227,085
Retained earnings	424,006	386,750
Accumulated other comprehensive loss, net of tax	(139,436)	(4,848)
Total shareholders' equity	602,560	698,202
Total liabilities and shareholders' equity	$ 5,474,338	$ 5,418,257

See notes to condensed consolidated financial statements.

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

(in thousands except per share data)	Three Months Ended September 30 2022	Three Months Ended September 30 2021	Nine Months Ended September 30 2022	Nine Months Ended September 30 2021
Interest income:				
Interest and fees on loans, including loans held for sale	$ 43,524	$ 40,636	$ 120,925	$ 121,009
Interest and dividends on securities				
Taxable	5,830	4,083	15,158	9,806
Tax exempt	740	783	2,264	2,317
Interest and dividends on Federal Reserve Bank and Federal Home Loan Bank stock	175	122	423	369
Interest on Federal Reserve Bank deposits	1,105	93	1,460	285
Other, including interest on federal funds sold	31	9	54	26
Total interest income	51,405	45,726	140,284	133,812
Interest expense:				
Interest on deposits	6,648	3,119	13,449	9,734
Interest on repurchase agreements and federal funds purchased	666	326	1,256	996
Interest on advances from Federal Home Loan Bank	0	0	1	0
Interest on long-term debt	555	267	1,220	819
Total interest expense	7,869	3,712	15,926	11,549
Net interest income	43,536	42,014	124,358	122,263
Provision for credit losses (recovery)	2,414	(163)	3,366	(6,919)
Net interest income after provision for credit losses (recovery)	41,122	42,177	120,992	129,182
Noninterest income:				
Deposit related fees	7,629	7,066	21,638	19,446
Gains on sales of loans, net	235	1,239	1,351	5,579
Trust and wealth management income	2,989	3,039	9,435	9,339
Loan related fees	1,589	1,050	5,066	4,324
Bank owned life insurance	743	654	2,136	1,808
Brokerage revenue	453	519	1,502	1,530
Securities gains (losses)	(159)	(62)	(285)	50
Other noninterest income	1,200	883	3,302	3,410
Total noninterest income	14,679	14,388	44,145	45,486
Noninterest expense:				
Officer salaries and employee benefits	4,114	4,861	12,235	13,978
Other salaries and employee benefits	14,432	13,992	42,383	40,668
Occupancy, net	2,259	2,087	6,624	6,300
Equipment	638	646	1,883	1,929
Data processing	2,270	1,911	6,566	5,940
Bank franchise tax	413	453	1,244	1,178
Legal fees	240	245	889	884
Professional fees	512	440	1,614	1,447
Advertising and marketing	768	819	2,179	2,251
FDIC insurance	360	393	1,073	1,042
Other real estate owned provision and expense	42	296	438	1,102
Repossession expense	104	83	335	294
Amortization of limited partnership investments	687	839	2,167	2,514
Other noninterest expense	4,636	3,263	11,182	8,609
Total noninterest expense	31,475	30,328	90,812	88,136
Income before income taxes	24,326	26,237	74,325	86,532
Income taxes	4,954	5,095	14,954	17,841
Net income	19,372	21,142	59,371	68,691
Other comprehensive income (loss):				
Unrealized holding gains (losses) on debt securities available-for-sale:				
Unrealized holding losses arising during the period	(56,091)	(9,322)	(181,877)	(16,703)
Less: Reclassification adjustments for realized gains (losses) included in net income	0	0	(1)	60
Tax benefit	(14,584)	(2,423)	(47,288)	(4,358)
Other comprehensive loss, net of tax	(41,507)	(6,899)	(134,588)	(12,405)

Comprehensive income (loss)	$ (22,135)	$ 14,243	$ (75,217)	$ 56,286
Basic earnings per share	$ 1.09	$ 1.19	$ 3.33	$ 3.86
Diluted earnings per share	$ 1.08	$ 1.19	$ 3.33	$ 3.86
Weighted average shares outstanding-basic	17,841	17,790	17,832	17,783
Weighted average shares outstanding-diluted	17,857	17,808	17,844	17,798

See notes to condensed consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
Quarterly
(unaudited)

(in thousands except per share and share amounts)	Common Shares	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance, June 30, 2022	17,895,181	$ 89,475	$ 228,020	$ 412,484	$ (97,929)	$ 632,050
Net income				19,372		19,372
Other comprehensive loss					(41,507)	(41,507)
Cash dividends declared ($0.44 per share)				(7,850)		(7,850)
Issuance of common stock	6,192	31	225			256
Stock-based compensation			239			239
Balance, September 30, 2022	17,901,373	$ 89,506	$ 228,484	$ 424,006	$ (139,436)	$ 602,560

(in thousands except per share and share amounts)	Common Shares	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Total
Balance, June 30, 2021	17,831,479	$ 89,158	$ 226,268	$ 360,595	$ 8,062	$ 684,083
Net income				21,142		21,142
Other comprehensive loss					(6,899)	(6,899)
Cash dividends declared ($0.40 per share)				(7,116)		(7,116)
Issuance of common stock	5,834	30	209			239
Stock-based compensation			194			194
Balance, September 30, 2021	17,837,313	$ 89,188	$ 226,671	$ 374,621	$ 1,163	$ 691,643

See notes to condensed consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity
Year-to-Date
(unaudited)

(in thousands except per share and share amounts)	Common Shares	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total
Balance, December 31, 2021	17,843,081	$ 89,215	$ 227,085	$ 386,750	$ (4,848)	$ 698,202
Net income				59,371		59,371
Other comprehensive loss					(134,588)	(134,588)
Cash dividends declared ($1.24 per share)				(22,115)		(22,115)
Issuance of common stock	44,758	224	531			755
Issuance of restricted stock	40,438	202	(202)			0
Vesting of restricted stock	(26,904)	(135)	135			0
Stock-based compensation			935			935
Balance, September 30, 2022	17,901,373	$ 89,506	$ 228,484	$ 424,006	$ (139,436)	$ 602,560

(in thousands except per share and share amounts)	Common Shares	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income, Net of Tax	Total
Balance, December 31, 2020	17,810,401	$ 89,052	$ 225,507	$ 326,738	$ 13,568	$ 654,865
Net income				68,691		68,691
Other comprehensive loss					(12,405)	(12,405)
Cash dividends declared ($1.17 per share)				(20,808)		(20,808)
Issuance of common stock	35,400	178	541			719
Issuance of restricted stock	9,193	46	(46)			0
Vesting of restricted stock	(17,681)	(88)	88			0
Stock-based compensation			581			581
Balance, September 30, 2021	17,837,313	$ 89,188	$ 226,671	$ 374,621	$ 1,163	$ 691,643

See notes to condensed consolidated financial statements.

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

(in thousands)	Nine Months Ended September 30 2022	2021
Cash flows from operating activities:		
Net income	$ 59,371	$ 68,691
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,843	3,791
Deferred taxes	306	(642)
Stock-based compensation	1,008	636
Provision for credit losses (recovery)	3,366	(6,919)
Write-downs of other real estate owned and other repossessed assets	275	637
Gains on sale of mortgage loans held for sale	(1,351)	(5,579)
Securities (gains)/losses	1	(60)
Fair value adjustment in equity securities	284	10
Gains on sale of assets, net	(211)	(223)
Proceeds from sale of mortgage loans held for sale	59,416	250,070
Funding of mortgage loans held for sale	(56,476)	(233,288)
Amortization of securities premiums and discounts, net	4,521	5,977
Change in cash surrender value of bank owned life insurance	(1,357)	(1,094)
Payment of operating lease liabilities	(1,325)	(1,271)
Mortgage servicing rights:		
Fair value adjustments	(1,247)	(380)
New servicing assets created	(555)	(1,817)
Changes in:		
Accrued interest receivable	(1,098)	538
Other assets	911	4,125
Accrued interest payable	1,485	601
Other liabilities	1,247	(1,869)
Net cash provided by operating activities	72,414	81,934
Cash flows from investing activities:		
Securities available-for-sale (AFS):		
Purchase of AFS securities	(178,055)	(795,657)
Proceeds from sales of AFS securities	0	1,080
Proceeds from prepayments, calls, and maturities of AFS securities	148,494	243,420
Change in loans, net	(221,985)	156,259
Purchase of premises and equipment	(4,309)	(1,171)
Proceeds from sale and retirement of premises and equipment	512	830
Proceeds from sale of stock by Federal Home Loan Bank	1,463	1,909
Proceeds from sale of other real estate owned and repossessed assets	955	2,556
Additional investment in other real estate owned and repossessed assets	(73)	(17,825)
Proceeds from settlement of bank owned life insurance	1	0
Net cash used in investing activities	(252,997)	(408,599)
Cash flows from financing activities:		
Change in deposits, net	190,776	280,154
Change in repurchase agreements and federal funds purchased, net	(40,965)	(63,840)
Proceeds from Federal Home Loan Bank advances	20,000	0
Payments on advances from Federal Home Loan Bank	(20,015)	(15)
Payment of finance lease liabilities	(18)	(14)
Issuance of common stock	755	719
Dividends paid	(22,077)	(20,798)
Net cash provided by financing activities	128,456	196,206
Net decrease in cash and cash equivalents	(52,127)	(130,459)
Cash and cash equivalents at beginning of period	311,756	338,235
Cash and cash equivalents at end of period	$ 259,629	$ 207,776
Supplemental disclosures:		
Income taxes paid	$ 12,260	$ 16,885
Interest paid	14,441	10,948
Non-cash activities:		
Loans to facilitate the sale of other real estate owned and repossessed assets	985	1,095
Common stock dividends accrued, paid in subsequent quarter	286	247
Real estate acquired in settlement of loans	478	929

See notes to condensed consolidated financial statements.

Note 1 - Summary of Significant Accounting Policies

In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments (which consist of normal recurring adjustments) necessary, to present fairly the condensed consolidated financial position as of September 30, 2022, the results of operations, other comprehensive income (loss), and changes in shareholders' equity for the three and nine months ended September 30, 2022 and 2021, and the cash flows for the nine months ended September 30, 2022 and 2021. In accordance with accounting principles generally accepted in the United States of America for interim financial information, these statements do not include certain information and footnote disclosures required by accounting principles generally accepted in the United States of America for complete annual financial statements. The results of operations, other comprehensive income (loss), and changes in shareholders' equity for the three and nine months ended September 30, 2022 and 2021 and the cash flows for the nine months ended September 30, 2022 and 2021 are not necessarily indicative of the results to be expected for the full year. The condensed consolidated balance sheet as of December 31, 2021 has been derived from the audited consolidated financial statements of Community Trust Bancorp, Inc. ("CTBI") for that period. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2021, included in our annual report on Form 10-K.

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

New Accounting Standards –

- **Facilitation of the Effects of Reference Rate Reform on Financial Reporting** – In April 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2020-04, *Reference Rate Reform (Topic 848)—Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. In response to concerns about structural risks of interbank offered rates, and, particularly, the risk of cessation of the London Interbank Offered Rate ("LIBOR"), regulators around the world have undertaken reference rate reform initiatives to identify alternative reference rates that are more observable or transaction-based and less susceptible to manipulation. The amendments in this ASU provide optional guidance for a limited time to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform on financial reporting and provide optional expedients and exceptions for applying generally accepted accounting principles ("GAAP") to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. This ASU applies only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. An entity may elect to apply ASU 2020-04 for contract modifications as of January 1, 2020, or prospectively from a date within an interim period that includes or is subsequent to March 12, 2020, up to the date that the financial statements are available to be issued. We anticipate this ASU will simplify any modifications we execute between the selected start date (yet to be determined) and December 31, 2022 that are directly related to LIBOR transition. At this time, we do not anticipate any material adverse impact to our business operation or financial results during the period of transition.

- **Troubled Debt Restructurings and Vintage Disclosures** – In February 2022, the FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. The amendments in this ASU eliminate the accounting guidance for troubled debt restructurings ("TDRs") by creditors in Subtopic 310-40, *Receivables—Troubled Debt Restructurings by Creditors*, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity must apply the loan refinancing and restructuring guidance in paragraphs 310-20-35-9 through 35-11 to determine whether a modification results in a new loan or a continuation of an existing loan. Additionally, for public business entities, the amendments in this ASU require that an entity disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, *Financial Instruments—Credit Losses—Measured at Amortized Cost*, in the vintage disclosures required by paragraph 326-20-50-6. The amendments in the ASU are for fiscal periods beginning after December 22, 2022, including interim periods within those fiscal years. The changes can be early adopted, separately by topic. We do not anticipate a significant impact to our consolidated financial statements.

➢ **Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions** – In June 2022, the FASB issued ASU 2022-03, *Fair Value Measurement Topic 820: Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*. The FASB issued this ASU (1) to clarify the guidance in Topic 820, *Fair Value Measurement*, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) to amend a related illustrative example, and (3) to introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. The amendments in this ASU clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The amendments in ASU also require the following disclosures for equity securities subject to contractual sale restrictions: (1) the fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet; (2) the nature and remaining duration of the restriction(s); and (3) the circumstances that could cause a lapse in the restriction(s). For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. We do not anticipate a significant impact to our consolidated financial statements.

Significant Accounting Policies –

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 our consolidated financial statements.

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

We have identified the following significant accounting policies:

➢ **Investments** – Management determines the classification of securities at purchase. We classify debt securities into held-to-maturity, trading, or available-for-sale categories. Held-to-maturity ("HTM") securities are those which we have the positive intent and ability to hold to maturity and are reported at amortized cost. In accordance with FASB Accounting Standards Codification ("ASC") 320, *Investments – Debt Securities*, investments in debt securities that are not classified as held-to-maturity 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 HTM securities) shall be classified as available-for-sale ("AFS") securities.

We do not have any securities that are classified as trading securities. AFS 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 debt securities are computed by specific identification for those securities. Interest and dividend income, adjusted by amortization of purchase premium or discount, is included in earnings.

An allowance is recognized for credit losses relative to AFS securities rather than as a reduction in the cost basis of the security. Subsequent improvements in credit quality or reductions in estimated credit losses are recognized immediately as a reversal of the previously recorded allowance, which aligns the income statement recognition of credit losses with the reporting period in which changes occur.

HTM securities are subject to an allowance for lifetime expected credit losses, determined by adjusting historical loss information for current conditions and reasonable and supportable forecasts. The forward-looking evaluation of lifetime expected losses will be performed on a pooled basis for debt securities that share similar risk characteristics. These allowances for expected losses must be made by the holder of the HTM debt security when the security is purchased. At June 30, 2022 and December 31, 2021, CTBI held no securities designated as held-to-maturity.

CTBI accounts for equity securities in accordance with ASC 321, *Investments – Equity Securities*. ASC 321 requires equity investments (except those accounted for under the equity method and those that result in the consolidation of the investee) to be measured at fair value, with changes in fair values recognized in net income.

Equity securities with a readily determinable fair value are required to be measured at fair value, with changes in fair value recognized in net income. Equity securities without a readily determinable fair value are carried at cost, less any impairment, if any, plus or minus changes resulting from observable price changes for identical or similar investments. As permitted by ASC 321-10-35-2, CTBI can make an irrevocable election to subsequently measure an equity security without a readily determinable fair value, and all identical or similar investments of the same issuer, including future purchases of identical or similar investments of the same issuer, at fair value. CTBI has made this election for our Visa Class B equity securities. The fair value of these securities was determined by a third party service provider using Level 3 inputs as defined in ASC 820, *Fair Value Measurement*, and changes in fair value are recognized in income.

➢ **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 credit losses, and unamortized deferred fees or costs and premiums. 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. A restructuring of a debt constitutes a TDR 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.

The Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") included an election for banking institutions to not apply the guidance on accounting for TDRs to loan modifications, such as extensions or deferrals, related to COVID-19 made between March 1, 2020 and the earlier of (i) December 31, 2020 or (ii) 60 days after the end of the COVID-19 national emergency. The relief can only be applied to modifications for borrowers that were not more than 30 days past due as of December 31, 2019. The ability to exclude COVID-19-related modifications as TDRs was extended under the Consolidated Appropriations Act 2021 to the earlier of (i) 60 days after the end of the COVID-19 national emergency and (ii) January 1, 2022. CTBI elected to adopt these provisions of the CARES Act, as extended by the Consolidated Appropriations Act 2021.

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, or commitments as a yield adjustment.

➢ **Allowance for Credit Losses** – CTBI accounts for the allowance for credit losses under ASC 326. CTBI measures expected credit losses of financial assets on a collective (pool) basis using loss-rate methods when the financial assets share similar risk characteristics. Loans that do not share risk characteristics are evaluated on an individual basis. Regardless of an initial measurement method, once it is determined that foreclosure is probable, the allowance for credit losses is measured based on the fair value of the collateral as of the measurement date. As a practical expedient, the fair value of the collateral may be used for a loan when determining the allowance for credit losses for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty. The fair value shall be adjusted for selling costs when foreclosure is probable. For collateral-dependent financial assets, the credit loss expected may be zero if the fair value less costs to sell exceed the amortized cost of the loan. Loans shall not be included in both collective assessments and individual assessments.

In the event that collection of principal becomes uncertain, CTBI has policies in place to reverse accrued interest in a timely manner. Therefore, CTBI elected ASU 2019-04 which allows that accrued interest would continue to be presented separately and not part of the amortized cost of the loan. The methodology used by CTBI is developed using the current loan balance, which is then compared to amortized cost balances to analyze the impact. The difference in amortized cost basis versus consideration of loan balances impacts the allowance for credit losses calculation by 1 basis point and is considered immaterial. The primary difference is for indirect lending premiums.

We maintain an allowance for credit losses ("ACL") at a level that is appropriate to cover estimated credit losses on individually evaluated loans, 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 ACL.

We utilize an internal risk grading system for commercial credits. Those credits that meet the following criteria are subject to individual evaluation: the loan has an outstanding bank share balance of $1 million or greater and meets one of the following criteria: (i) has a criticized risk rating, (ii) is in nonaccrual status, (iii) is a TDR, or (iv) is 90 days or more past due. The borrower's cash flow, adequacy of collateral coverage, and other options available to CTBI, including legal remedies, are evaluated. 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 loan segments not subject to individual evaluation.

Homogenous loans, such as consumer installment, residential mortgages, and home equity lines are not individually risk graded. The associated ACL for these loans is measured in pools with similar risk characteristics under ASC 326.

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. For commercial loans greater than $1 million and classified as criticized, TDR, or nonaccrual, a specific reserve is established if a loss is determined to be possible and then charged-off once it is probable. When the foreclosed collateral has been legally assigned to CTBI, the estimated fair value of the collateral less costs to sell is then transferred to other real estate owned or other repossessed assets, and a charge-off is taken for any remaining balance. 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 (five 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. With the implementation of ASC 326, weighted average life calculations were completed as a tool to determine the life of CTBI's various loan segments. Vintage modeling was used to determine the life of loan losses for consumer and residential real estate loans. Static pool modeling was used to determine the life of loan losses for commercial loan segments. Qualitative factors used to derive CTBI's total ACL include delinquency trends, current economic conditions and trends, strength of supervision and administration of the loan portfolio, levels of underperforming loans, trends in loan losses, and underwriting exceptions. Forecasting factors including unemployment rates and industry specific forecasts for industries in which our total exposure is 5% of capital or greater are also included as factors in the ACL model. Management continually reevaluates the other subjective factors included in our ACL analysis.

➢ **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, 2015. Our core deposit intangible has been fully amortized since December 31, 2017.

➢ **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 our consolidated financial statements. During the nine months ended September 30, 2022 and 2021, CTBI has not recognized a significant amount of interest expense or penalties in connection with income taxes.

Note 2 – Stock-Based Compensation

Restricted stock expense for the three and nine months ended September 30, 2022 was $0.3 million and $1.0 million, respectively, including $27 thousand and $73 thousand, respectively, in dividends paid for those periods. Restricted stock expense for the three and nine months ended September 30, 2021 was $0.2 million and $0.6 million, respectively, including $19 thousand and $55 thousand, respectively, in dividends paid for those periods. As of September 30, 2022, there was a total of $2.0 million of unrecognized compensation expense related to restricted stock grants that will be recognized as expense as the awards vest over a weighted average period of 2.9 years. There were no shares of restricted stock granted during the three months ended September 30, 2022 or 2021. There were 40,438 and 9,193 shares of restricted stock granted during the nine months ended September 30, 2022 and 2021, respectively. The restricted stock was issued pursuant to the terms of CTBI's 2015 Stock Ownership Incentive Plan. The restrictions on the restricted stock will lapse ratably over four years, except for the 5,000 shares of management retention restricted stock granted in April 2022 which will vest at the end of five years, subject to such employee's continued employment. However, in the event of certain participant employee termination events occurring within 24 months of a change in control of CTBI or the death of the participant, the restrictions will lapse, and in the event of the participant's disability, the restrictions will lapse on a pro rata basis. The Compensation Committee will have discretion to review and revise restrictions applicable to a participant's restricted stock in the event of the participant's retirement.

There was no compensation expense related to stock option grants for the three and nine months ended September 30, 2022 and 2021. As of September 30, 2022, there was no unrecognized compensation expense related to unvested stock option awards, as all stock option awards have fully vested. There were no stock options granted in the first nine months of 2022 or 2021.

Note 3 – Securities

Debt securities are classified into HTM and AFS categories. HTM securities are those that CTBI has the positive intent and ability to hold to maturity and are reported at amortized cost. AFS securities are those that CTBI may decide to sell if needed for liquidity, asset-liability management or other reasons. AFS securities are reported at fair value, with unrealized gains or losses included as a separate component of equity, net of tax. As of September 30, 2022 and December 31, 2021, CTBI had no HTM securities.

The amortized cost and fair value of debt securities at September 30, 2022 are summarized as follows:

Available-for-Sale

(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury and government agencies	$ 441,216	$ 272	$ (39,716)	$ 401,772
State and political subdivisions	326,248	12	(68,184)	258,076
U.S. government sponsored agency mortgage-backed securities	626,731	2	(77,694)	549,039
Asset-backed securities	92,674	0	(2,969)	89,705
Total available-for-sale securities	$ 1,486,869	$ 286	$ (188,563)	$ 1,298,592

The amortized cost and fair value of debt securities at December 31, 2021 are summarized as follows:

Available-for-Sale

(in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury and government agencies	$ 299,606	$ 351	$ (4,187)	$ 295,770
State and political subdivisions	334,218	5,524	(5,539)	334,203
U.S. government sponsored agency mortgage-backed securities	733,467	5,107	(7,765)	730,809
Asset-backed securities	94,538	301	(192)	94,647
Total available-for-sale securities	$ 1,461,829	$ 11,283	$ (17,683)	$ 1,455,429

The amortized cost and fair value of debt securities at September 30, 2022 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.

	Available-for-Sale	
(in thousands)	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 38,956	$ 38,386
Due after one through five years	238,514	219,227
Due after five through ten years	273,334	237,002
Due after ten years	216,660	165,233
U.S. government sponsored agency mortgage-backed securities	626,731	549,039
Asset-backed securities	92,674	89,705
Total debt securities	$ 1,486,869	$ 1,298,592

During the three months ended September 30, 2022, we had an unrealized loss of $159 thousand from the fair value adjustment of equity securities. During the three months ended September 30, 2021, we had an unrealized loss of $62 thousand from the fair value adjustment of equity securities.

During the nine months ended September 30, 2022, we had a net securities loss of $285 thousand, consisting of a pre-tax loss of $1 thousand realized on calls of AFS securities and an unrealized loss of $284 thousand from the fair value adjustment of equity securities. During the nine months ended September 30, 2021, we had a net securities gain of $50 thousand, consisting of a pre-tax gain of $62 thousand and a pre-tax loss of $2 thousand realized on sales and calls of AFS securities and an unrealized loss of $10 thousand from the fair value adjustment of equity securities.

Equity Securities at Fair Value

CTBI made the election permitted by ASC 321-10-35-2 to record its Visa Class B shares at fair value. Equity securities at fair value as of September 30, 2022 were $2.0 million, as a result of a $159 thousand decrease in the fair value in the third quarter 2022. The fair value of equity securities decreased $62 thousand in the third quarter 2021. No equity securities were sold during the nine months ended September 30, 2022 and 2021.

The amortized cost of securities pledged as collateral, to secure public deposits and for other purposes, was $584.8 million at September 30, 2022 and $545.6 million at December 31, 2021.

The amortized cost of securities sold under agreements to repurchase amounted to $306.6 million at September 30, 2022 and $314.1 million at December 31, 2021.

CTBI evaluates its investment portfolio on a quarterly basis for impairment. The analysis performed as of September 30, 2022 indicates that all impairment is considered temporary, market and interest rate driven, and not credit-related. The percentage of total debt securities with unrealized losses as of September 30, 2022 was 97.2% compared to 72.4% as of December 31, 2021. The following table provides the amortized cost, gross unrealized losses, and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of September 30, 2022 that are not deemed to have credit losses. As stated above, CTBI had no HTM securities as of September 30, 2022.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	$ 174,884	$ (9,685)	$ 165,199
State and political subdivisions	138,322	(19,957)	118,365
U.S. government sponsored agency mortgage-backed securities	191,768	(11,796)	179,972
Asset-backed securities	47,343	(1,439)	45,904
Total <12 months temporarily impaired AFS securities	552,317	(42,877)	509,440
12 Months or More			
U.S. Treasury and government agencies	234,630	(30,031)	204,599
State and political subdivisions	184,173	(48,227)	135,946
U.S. government sponsored agency mortgage-backed securities	434,704	(65,898)	368,806
Asset-backed securities	45,331	(1,530)	43,801
Total ≥12 months temporarily impaired AFS securities	898,838	(145,686)	753,152
Total			
U.S. Treasury and government agencies	409,514	(39,716)	369,798
State and political subdivisions	322,495	(68,184)	254,311
U.S. government sponsored agency mortgage-backed securities	626,472	(77,694)	548,778
Asset-backed securities	92,674	(2,969)	89,705
Total temporarily impaired AFS securities	$ 1,451,155	$ (188,563)	$ 1,262,592

The analysis performed as of December 31, 2021 indicated that all impairment was considered temporary, market and interest rate driven, and not credit-related. The following table provides the amortized cost, gross unrealized losses, and fair value, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position as of December 31, 2021 that are not deemed to be other-than-temporarily impaired. As stated above, CTBI had no HTM securities as of December 31, 2021.

Available-for-Sale

(in thousands)	Amortized Cost	Gross Unrealized Losses	Fair Value
Less Than 12 Months			
U.S. Treasury and government agencies	$ 249,990	$ (4,123)	$ 245,867
State and political subdivisions	197,592	(4,779)	192,813
U.S. government sponsored agency mortgage-backed securities	473,831	(6,759)	467,072
Asset-backed securities	52,229	(190)	52,039
Total <12 months temporarily impaired AFS securities	973,642	(15,851)	957,791
12 Months or More			
U.S. Treasury and government agencies	14,505	(64)	14,441
State and political subdivisions	19,126	(760)	18,366
U.S. government sponsored agency mortgage-backed securities	62,330	(1,006)	61,324
Asset-backed securities	1,368	(2)	1,366
Total ≥12 months temporarily impaired AFS securities	97,329	(1,832)	95,497
Total			
U.S. Treasury and government agencies	264,495	(4,187)	260,308
State and political subdivisions	216,718	(5,539)	211,179
U.S. government sponsored agency mortgage-backed securities	536,161	(7,765)	528,396
Asset-backed securities	53,597	(192)	53,405
Total temporarily impaired AFS securities	$ 1,070,971	$ (17,683)	$ 1,053,288

U.S. Treasury and Government Agencies

The unrealized losses in U.S. Treasury and government agencies were caused by interest rate changes. 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 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.

State and Political Subdivisions

The unrealized losses in securities of state and political subdivisions were caused by interest rate changes. 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 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.

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 changes. CTBI expects to recover the amortized cost basis over the term of the securities. 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.

Asset-Backed Securities

The unrealized losses in asset-backed securities were caused by interest rate changes. 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 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.

Note 4 – Loans

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

(in thousands)	September 30 2022	December 31 2021
Hotel/motel	$ 335,253	$ 257,062
Commercial real estate residential	359,643	335,233
Commercial real estate nonresidential	756,138	757,893
Dealer floorplans	73,221	69,452
Commercial other	310,177	290,478
Commercial unsecured SBA PPP	1,958	47,335
Commercial loans	1,836,390	1,757,453
Real estate mortgage	814,944	767,185
Home equity lines	115,400	106,667
Residential loans	930,344	873,852
Consumer direct	160,866	156,683
Consumer indirect	703,016	620,825
Consumer loans	863,882	777,508
Loans and lease financing	$ 3,630,616	$ 3,408,813

The loan portfolios presented above are net of unearned fees and unamortized premiums. Unearned fees included above totaled $0.9 million as of September 30, 2022 and $4.0 million as of December 31, 2021 while the unamortized premiums on the indirect lending portfolio totaled $27.3 million as of September 30, 2022 and $24.1 million as of December 31, 2021.

CTBI has segregated and evaluates its loan portfolio through ten portfolio segments with similar risk characteristics. 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.

Hotel/motel loans are a significant concentration for CTBI, representing approximately 9.2% of total loans. This industry has unique risk characteristics as it is highly susceptible to changes in the domestic and global economic environments, which can cause the industry to experience substantial volatility. Additionally, any hotel/motel construction loans would be included in this segment as CTBI's construction loans are primarily completed as one loan going from construction to permanent financing. 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.

Commercial real estate residential loans are commercial purpose construction and permanent financed loans for commercial purpose 1-4 family/multi-family properties. 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.

Commercial real estate nonresidential loans are secured by nonfarm, nonresidential 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. Construction for commercial real estate nonresidential loans are also included in this segment as these loans are generally one loan for construction to permanent financing.

Dealer floorplans consist of loans to dealerships to finance inventory and are collateralized under a blanket security agreement and without specific liens on individual units. This risk is mitigated by the use of periodic inventory audits. These audits are performed monthly and follow up is required on any out of compliance items identified. These audits are subject to increasing frequency when fact patterns suggest more scrutiny is required.

Commercial other loans consist of agricultural loans, receivable financing, 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 equipment, or other assets, although such loans may be uncollateralized but guaranteed.

CTBI's participation in the Paycheck Protection Program ("PPP") established by the CARES Act resulted in the creation of a new loan segment of unsecured commercial other loans that are one hundred percent guaranteed by the Small Business Administration ("SBA"). These loans, which are subject to forgiveness, have maturities of either two or three to five years, depending on when the loan was made. These loans currently have no allowance for credit losses.

Residential real estate loans are a mixture of fixed rate and adjustable rate first and second lien residential mortgage loans and also include real estate construction loans which are typically for owner-occupied properties. The terms of the real estate construction loans are generally short-term with permanent financing upon completion. 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 primarily revolving adjustable rate credit lines secured by real property.

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

Indirect loans are primarily consumer 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 $1.0 million at September 30, 2022 and $2.6 million at December 31, 2021.

The following tables present the balance in the ACL for the periods ended September 30, 2022, December 31, 2021, and September 30, 2021:

	Three Months Ended September 30, 2022				
(in thousands)	**Beginning Balance**	**Provision Charged to Expense**	**Losses Charged Off**	**Recoveries**	**Ending Balance**
ACL					
Hotel/motel	$ 4,844	$ 39	$ 0	$ 0	$ 4,883
Commercial real estate residential	4,200	651	0	25	4,876
Commercial real estate nonresidential	8,968	617	0	10	9,595
Dealer floorplans	1,477	61	0	0	1,538
Commercial other	4,473	886	(307)	145	5,197
Real estate mortgage	8,179	(338)	(11)	5	7,835
Home equity	887	41	0	12	940
Consumer direct	1,621	(71)	(81)	205	1,674
Consumer indirect	7,695	528	(804)	476	7,895
Total	$ 42,344	$ 2,414	$ (1,203)	$ 878	$ 44,433

	Nine Months Ended September 30, 2022				
(in thousands)	**Beginning Balance**	**Provision Charged to Expense**	**Losses Charged Off**	**Recoveries**	**Ending Balance**
ACL					
Hotel/motel	$ 5,080	$ 19	$ (216)	$ 0	$ 4,883
Commercial real estate residential	3,986	885	(31)	36	4,876
Commercial real estate nonresidential	8,884	568	0	143	9,595
Dealer floorplans	1,436	102	0	0	1,538
Commercial other	4,422	1,079	(651)	347	5,197
Real estate mortgage	7,637	345	(188)	41	7,835
Home equity	866	79	(24)	19	940
Consumer direct	1,951	(316)	(426)	465	1,674
Consumer indirect	7,494	605	(1,815)	1,611	7,895
Total	$ 41,756	$ 3,366	$ (3,351)	$ 2,662	$ 44,433

	Year Ended December 31, 2021				
(in thousands)	**Beginning Balance**	**Provision Charged to Expense**	**Losses Charged Off**	**Recoveries**	**Ending Balance**
ACL					
Hotel/motel	$ 6,356	$ (1,276)	$ 0	$ 0	$ 5,080
Commercial real estate residential	4,464	(488)	(28)	38	3,986
Commercial real estate nonresidential	11,086	(2,233)	(306)	337	8,884
Dealer floorplans	1,382	54	0	0	1,436
Commercial other	4,289	388	(644)	389	4,422
Real estate mortgage	7,832	3	(266)	68	7,637
Home equity	844	39	(36)	19	866
Consumer direct	1,863	256	(684)	516	1,951
Consumer indirect	9,906	(3,129)	(2,361)	3,078	7,494
Total	$ 48,022	$ (6,386)	$ (4,325)	$ 4,445	$ 41,756

(in thousands)	Beginning Balance	Provision Charged to Expense	Losses Charged Off	Recoveries	Ending Balance
	Three Months Ended September 30, 2021				
ACL					
Hotel/motel	$ 5,674	$ (467)	$ 0	$ 0	$ 5,207
Commercial real estate residential	3,796	79	(4)	5	3,876
Commercial real estate nonresidential	9,308	(569)	(117)	8	8,630
Dealer floorplans	1,261	(85)	0	0	1,176
Commercial other	4,574	320	(203)	52	4,743
Real estate mortgage	7,708	(269)	(9)	8	7,438
Home equity	673	181	(14)	5	845
Consumer direct	1,635	290	(194)	110	1,841
Consumer indirect	7,066	357	(515)	551	7,459
Total	$ 41,695	$ (163)	$ (1,056)	$ 739	$ 41,215

(in thousands)	Beginning Balance	Provision Charged to Expense	Losses Charged Off	Recoveries	Ending Balance
	Nine Months Ended September 30, 2021				
ACL					
Hotel/motel	$ 6,356	$ (1,149)	$ 0	$ 0	$ 5,207
Commercial real estate residential	4,464	(567)	(28)	7	3,876
Commercial real estate nonresidential	11,086	(2,502)	(268)	314	8,630
Dealer floorplans	1,382	(206)	0	0	1,176
Commercial other	4,289	632	(433)	255	4,743
Real estate mortgage	7,832	(214)	(203)	23	7,438
Home equity	844	20	(33)	14	845
Consumer direct	1,863	91	(502)	389	1,841
Consumer indirect	9,906	(3,024)	(2,007)	2,584	7,459
Total	$ 48,022	$ (6,919)	$ (3,474)	$ 3,586	$ 41,215

CTBI derived its ACL balance by using vintage modeling for the consumer and residential portfolios. Static pool models incorporating losses by credit risk rating were developed to determine credit loss balances for the commercial loan segments.

Qualitative loss factors are based on CTBI's judgment of delinquency trends, level of nonperforming loans, trend in loan losses, supervision and administration, quality control exceptions, and reasonable and supportable forecasts based on unemployment rates and industry concentrations. CTBI has determined that 12 months represents a reasonable and supportable forecast period and reverts back to a historical loss rate immediately. CTBI leverages economic projections from a reputable and independent third party to form its loss driver forecasts over the 12 month forecast period. Other internal and external indicators of economic forecasts are also considered by CTBI when developing the forecast metrics.

CTBI also has an inherent model risk allocation included in its ACL calculation to allow for certain known model limitations as well as other potential risks not quantified elsewhere. Management has identified the following known model limitations and made adjustments through this portion of the calculation for them:

(1) The inability to completely identify revolving lines of credit within the commercial other segment. Management had to make assumptions regarding commercial renewals as those renewals are not tracked well by its loan system.

(2) The inability within the model to estimate the value of modifications made under TDRs. Management has manually calculated the estimated impact based on research of modified terms for TDRs.

With the continued impact of the global COVID-19 pandemic, including the current historically high rate of inflation, the significant rising rate environment, and the fact that there is no immediate end foreseen, this has been identified as a significant specific event that could impact our customers' ability to pay. As segments stabilize, these allocations are adjusted with reductions made in the hotel/motel and mortgage segments during the third quarter of 2022. Management continues to have a significant event qualitative factor to anticipate the continued impact of COVID-19 as deferments have ended and the SBA Paycheck Protection Programs are largely over with no approved capacity to fund new loans.

Provision for credit losses for the quarter was $2.4 million, compared to provision of $0.1 million for the quarter ended June 30, 2022 and a recovery of provision of $0.2 million for the third quarter 2021. Year-to-date provision was $3.4 million compared to a recovery of $6.9 million during the first nine months of 2021. Our reserve coverage (allowance for credit losses to nonperforming loans) at September 30, 2022 was 324.5%, compared to 305.9% at June 30, 2022 and 220.0% at September 30, 2021. Our credit loss reserve as a percentage of total loans outstanding at September 30, 2022 was 1.22% compared to 1.19% at June 30, 2022 and 1.21% at September 30, 2021.

Nonaccrual loans and loans 90 days past due and still accruing segregated by class of loans for both September 30, 2022 and December 31, 2021 were as follows:

	September 30, 2022			
(in thousands)	**Nonaccrual Loans with No ACL**	**Nonaccrual Loans with ACL**	**90+ and Still Accruing**	**Total Nonperforming Loans**
Hotel/motel	$ 0	$ 0	$ 0	$ 0
Commercial real estate residential	0	420	72	492
Commercial real estate nonresidential	0	3,133	509	3,642
Commercial other	0	214	208	422
Commercial unsecured SBA PPP	0	0	0	0
Total commercial loans	0	3,767	789	4,556
Real estate mortgage	0	3,945	4,038	7,983
Home equity lines	0	426	377	803
Total residential loans	0	4,371	4,415	8,786
Consumer direct	0	0	9	9
Consumer indirect	0	0	341	341
Total consumer loans	0	0	350	350
Loans and lease financing	$ 0	$ 8,138	$ 5,554	$ 13,692

(in thousands)	December 31, 2021 Nonaccrual Loans with No ACL	Nonaccrual Loans with ACL	90+ and Still Accruing	Total Nonperforming Loans
Hotel/motel	$ 0	$ 1,075	$ 0	$ 1,075
Commercial real estate residential	0	585	312	897
Commercial real estate nonresidential	2,447	1,602	144	4,193
Commercial other	0	302	76	378
Total commercial loans	2,447	3,564	532	6,543
Real estate mortgage	0	4,081	4,659	8,740
Home equity lines	0	579	513	1,092
Total residential loans	0	4,660	5,172	9,832
Consumer direct	0	0	44	44
Consumer indirect	0	0	206	206
Total consumer loans	0	0	250	250
Loans and lease financing	$ 2,447	$ 8,224	$ 5,954	$ 16,625

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 to the condensed consolidated financial statements for further discussion on our nonaccrual policy.

The following tables present CTBI's loan portfolio aging analysis, segregated by class, as of September 30, 2022 and December 31, 2021:

(in thousands)	September 30, 2022 30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
Hotel/motel	$ 0	$ 0	$ 0	$ 0	$ 335,253	$ 335,253
Commercial real estate residential	235	203	450	888	358,755	359,643
Commercial real estate nonresidential	1,461	1,136	3,180	5,777	750,361	756,138
Dealer floorplans	0	0	0	0	73,221	73,221
Commercial other	219	155	221	595	309,582	310,177
Commercial unsecured SBA PPP	73	1	0	74	1,884	1,958
Total commercial loans	1,988	1,495	3,851	7,334	1,829,056	1,836,390
Real estate mortgage	1,100	3,877	6,126	11,103	803,841	814,944
Home equity lines	529	72	541	1,142	114,258	115,400
Total residential loans	1,629	3,949	6,667	12,245	918,099	930,344
Consumer direct	407	90	9	506	160,360	160,866
Consumer indirect	2,852	581	341	3,774	699,242	703,016
Total consumer loans	3,259	671	350	4,280	859,602	863,882
Loans and lease financing	$ 6,876	$ 6,115	$ 10,868	$ 23,859	$ 3,606,757	$ 3,630,616

(in thousands)	December 31, 2021 30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans
Hotel/motel	$ 0	$ 0	$ 0	$ 0	$ 257,062	$ 257,062
Commercial real estate residential	274	116	845	1,235	333,998	335,233
Commercial real estate nonresidential	1,303	147	3,509	4,959	752,934	757,893
Dealer floorplans	0	0	0	0	69,452	69,452
Commercial other	1,225	175	108	1,508	288,970	290,478
Commercial unsecured SBA PPP	14	34	0	48	47,287	47,335
Total commercial loans	2,816	472	4,462	7,750	1,749,703	1,757,453
Real estate mortgage	1,171	2,707	6,859	10,737	756,448	767,185
Home equity lines	656	315	903	1,874	104,793	106,667
Total residential loans	1,827	3,022	7,762	12,611	861,241	873,852
Consumer direct	396	179	44	619	156,064	156,683
Consumer indirect	2,889	533	206	3,628	617,197	620,825
Total consumer loans	3,285	712	250	4,247	773,261	777,508
Loans and lease financing	$ 7,928	$ 4,206	$ 12,474	$ 24,608	$ 3,384,205	$ 3,408,813

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

Hotel/motel loans are a significant concentration for CTBI, representing approximately 9.2% of total loans. This industry has unique risk characteristics as it is highly susceptible to changes in the domestic and global economic environments, which can cause the industry to experience substantial volatility. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Hotel/motel 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. Management monitors and evaluates all commercial real estate loans based on collateral and risk grade criteria. Commercial construction loans generally are made to customers for the purpose of building income-producing properties, and any hotel/motel construction loan would be included in this segment. 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 residential loans are commercial purpose construction and permanent financed loans for commercial purpose 1-4 family/multi-family properties. All commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Management monitors and evaluates all commercial real estate loans based on collateral and risk grade criteria. Commercial residential 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 nonresidential loans are secured by nonfarm, nonresidential properties, farmland, and other commercial real estate. Construction for commercial real estate nonresidential loans are also included in this segment as these loans are generally one loan for construction to permanent financing. All commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Management monitors and evaluates all commercial real estate loans based on collateral and risk grade criteria. Commercial nonresidential 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.

Dealer floorplans are segmented separately as they are a unique product with unique risk factors. CTBI maintains strict processing procedures over its floorplan product with any exceptions requested by a loan officer approved by the appropriate loan committee and the floorplan manager.

Commercial other 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. 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.

CTBI's participation in the CARES Act PPP loan program has resulted in a new loan segment of unsecured commercial other loans that are one hundred percent guaranteed by the SBA. These loans, which are subject to forgiveness, have maturities of either two or three to five years, depending on when the loans were made. These loans currently have no allowance for credit losses.

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 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 limited 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:

- *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.

- *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.

- *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.

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

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

The following tables present the credit risk profile of CTBI's commercial loan portfolio based on rating category and payment activity, segregated by class of loans and based on last credit decision or year of origination:

September 30, 2022	Term Loans Amortized Cost Basis by Origination Year							
(in thousands)	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**	**Revolving Loans**	**Total**
Hotel/motel								
Risk rating:								
Pass	$ 112,819	$ 35,913	$ 17,878	$ 54,855	$ 18,332	$ 44,135	$ 0	$ 283,932
Watch	8,013	9,019	6,184	3,879	3,312	18,935	0	49,342
OAEM	0	0	0	0	0	1,979	0	1,979
Substandard	0	0	0	0	0	0	0	0
Doubtful	0	0	0	0	0	0	0	0
Total hotel/motel	120,832	44,932	24,062	58,734	21,644	65,049	0	335,253
Commercial real estate residential								
Risk rating:								
Pass	94,915	119,441	40,624	16,026	11,053	39,688	11,474	333,221
Watch	1,164	456	1,526	855	4,132	6,891	112	15,136
OAEM	0	0	0	40	0	14	28	82
Substandard	425	4,388	1,754	354	1,655	2,628	0	11,204
Doubtful	0	0	0	0	0	0	0	0
Total commercial real estate residential	96,504	124,285	43,904	17,275	16,840	49,221	11,614	359,643
Commercial real estate nonresidential								
Risk rating:								
Pass	142,815	176,194	83,163	76,669	45,760	150,451	22,608	697,660
Watch	2,908	2,813	9,819	2,334	1,621	11,122	839	31,456
OAEM	0	0	0	0	0	96	19	115
Substandard	1,618	4,757	4,981	2,903	714	11,603	25	26,601
Doubtful	0	0	0	0	0	306	0	306
Total commercial real estate nonresidential	147,341	183,764	97,963	81,906	48,095	173,578	23,491	756,138
Dealer floorplans								
Risk rating:								
Pass	0	0	0	0	0	0	72,731	72,731
Watch	0	0	0	0	0	0	490	490
OAEM	0	0	0	0	0	0	0	0
Substandard	0	0	0	0	0	0	0	0
Doubtful	0	0	0	0	0	0	0	0
Total dealer floorplans	0	0	0	0	0	0	73,221	73,221
Commercial other								
Risk rating:								
Pass	71,441	62,568	36,470	9,792	2,673	24,792	75,652	283,388
Watch	1,376	519	673	280	261	1,057	6,602	10,768
OAEM	0	31	0	0	2	0	30	63
Substandard	6,911	5,599	931	945	164	621	787	15,958
Doubtful	0	0	0	0	0	0	0	0
Total commercial other	79,728	68,717	38,074	11,017	3,100	26,470	83,071	310,177
Commercial unsecured SBA PPP								
Risk rating:								
Pass	0	1,958	0	0	0	0	0	1,958
Watch	0	0	0	0	0	0	0	0
OAEM	0	0	0	0	0	0	0	0
Substandard	0	0	0	0	0	0	0	0
Doubtful	0	0	0	0	0	0	0	0
Total commercial unsecured SBA PPP	0	1,958	0	0	0	0	0	1,958
Commercial loans								
Risk rating:								

Pass	421,990	396,074	178,135	157,342	77,818	259,066	182,465	1,672,890
Watch	13,461	12,807	18,202	7,348	9,326	38,005	8,043	107,192
OAEM	0	31	0	40	2	2,089	77	2,239
Substandard	8,954	14,744	7,666	4,202	2,533	14,852	812	53,763
Doubtful	0	0	0	0	0	306	0	306
Total commercial loans	$ 444,405	$ 423,656	$ 204,003	$ 168,932	$ 89,679	$ 314,318	$ 191,397	$ 1,836,390

December 31, 2021	Term Loans Amortized Cost Basis by Origination Year							
(in thousands)	2021	2020	2019	2018	2017	Prior	Revolving Loans	Total
Hotel/motel								
Risk rating:								
Pass	$ 42,056	$ 11,231	$ 53,713	$ 18,752	$ 32,765	$ 20,087	$ 0	$ 178,604
Watch	9,234	14,021	8,813	8,780	2,678	30,502	0	74,028
OAEM	0	0	0	0	0	0	0	0
Substandard	0	0	0	3,355	1,075	0	0	4,430
Doubtful	0	0	0	0	0	0	0	0
Total hotel/motel	51,290	25,252	62,526	30,887	36,518	50,589	0	257,062
Commercial real estate residential								
Risk rating:								
Pass	142,364	54,380	22,320	19,826	11,919	45,791	9,544	306,144
Watch	2,643	2,359	1,962	2,119	554	6,949	156	16,742
OAEM	0	0	0	0	16	0	0	16
Substandard	4,822	1,990	620	1,835	596	2,468	0	12,331
Doubtful	0	0	0	0	0	0	0	0
Total commercial real estate residential	149,829	58,729	24,902	23,780	13,085	55,208	9,700	335,233
Commercial real estate nonresidential								
Risk rating:								
Pass	214,563	99,131	82,386	57,397	55,422	168,533	22,389	699,821
Watch	5,130	2,865	3,981	2,802	3,655	11,828	767	31,028
OAEM	0	0	0	0	0	178	20	198
Substandard	5,201	5,098	3,764	600	2,016	9,659	200	26,538
Doubtful	0	0	0	0	0	308	0	308
Total commercial real estate nonresidential	224,894	107,094	90,131	60,799	61,093	190,506	23,376	757,893
Dealer floorplans								
Risk rating:								
Pass	0	0	0	0	0	0	69,105	69,105
Watch	0	0	0	0	0	0	347	347
OAEM	0	0	0	0	0	0	0	0
Substandard	0	0	0	0	0	0	0	0
Doubtful	0	0	0	0	0	0	0	0
Total dealer floorplans	0	0	0	0	0	0	69,452	69,452
Commercial other								
Risk rating:								
Pass	72,650	43,838	16,495	29,858	9,105	13,346	75,119	260,411
Watch	7,196	1,967	1,582	599	332	1,071	11,792	24,539
OAEM	0	0	268	383	12	1	482	1,146
Substandard	1,600	1,589	147	184	287	451	124	4,382
Doubtful	0	0	0	0	0	0	0	0
Total commercial other	81,446	47,394	18,492	31,024	9,736	14,869	87,517	290,478
Commercial unsecured SBA PPP								
Risk rating:								
Pass	46,227	1,108	0	0	0	0	0	47,335
Watch	0	0	0	0	0	0	0	0
OAEM	0	0	0	0	0	0	0	0
Substandard	0	0	0	0	0	0	0	0
Doubtful	0	0	0	0	0	0	0	0
Total commercial unsecured SBA PPP	46,227	1,108	0	0	0	0	0	47,335
Commercial loans								
Risk rating:								
Pass	517,860	209,688	174,914	125,833	109,211	247,757	176,157	1,561,420
Watch	24,203	21,212	16,338	14,300	7,219	50,350	13,062	146,684

OAEM	0	0	268	383	28	179	502	1,360
Substandard	11,623	8,677	4,531	5,974	3,974	12,578	324	47,681
Doubtful	0	0	0	0	0	308	0	308
Total commercial loans	$ 553,686	$ 239,577	$ 196,051	$ 146,490	$ 120,432	$ 311,172	$ 190,045	$ 1,757,453

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:

September 30, 2022	**Term Loans Amortized Cost Basis by Origination Year**							
(in thousands)	**2022**	**2021**	**2020**	**2019**	**2018**	**Prior**	**Revolving Loans**	**Total**
Home equity lines								
Performing	$ 0	$ 0	$ 0	$ 0	$ 0	$ 10,866	$ 103,731	$ 114,597
Nonperforming	0	0	0	0	0	471	332	803
Total home equity lines	0	0	0	0	0	11,337	104,063	115,400
Mortgage loans								
Performing	143,060	183,460	137,463	64,827	31,710	246,441	0	806,961
Nonperforming	0	167	77	478	291	6,970	0	7,983
Total mortgage loans	143,060	183,627	137,540	65,305	32,001	253,411	0	814,944
Residential loans								
Performing	143,060	183,460	137,463	64,827	31,710	257,307	103,731	921,558
Nonperforming	0	167	77	478	291	7,441	332	8,786
Total residential loans	$ 143,060	$ 183,627	$ 137,540	$ 65,305	$ 32,001	$ 264,748	$ 104,063	$ 930,344
Consumer direct loans								
Performing	$ 54,072	$ 47,750	$ 27,195	$ 12,335	$ 7,345	$ 12,160	$ 0	$ 160,857
Nonperforming	0	6	0	0	3	0	0	9
Total consumer direct loans	54,072	47,756	27,195	12,335	7,348	12,160	0	160,866
Consumer indirect loans								
Performing	289,378	185,678	130,552	52,575	31,669	12,823	0	702,675
Nonperforming	73	70	129	21	35	13	0	341
Total consumer indirect loans	289,451	185,748	130,681	52,596	31,704	12,836	0	703,016
Consumer loans								
Performing	343,450	233,428	157,747	64,910	39,014	24,983	0	863,532
Nonperforming	73	76	129	21	38	13	0	350
Total consumer loans	$ 343,523	$ 233,504	$ 157,876	$ 64,931	$ 39,052	$ 24,996	$ 0	$ 863,882

December 31, 2021	Term Loans Amortized Cost Basis by Origination Year							
(in thousands)	**2021**	**2020**	**2019**	**2018**	**2017**	**Prior**	**Revolving Loans**	**Total**
Home equity lines								
Performing	$ 0	$ 0	$ 0	$ 0	$ 0	$ 10,909	$ 94,666	$ 105,575
Nonperforming	0	0	0	0	0	520	572	1,092
Total home equity lines	0	0	0	0	$ 0	11,429	95,238	106,667
Mortgage loans								
Performing	195,731	161,471	75,792	37,188	42,597	245,666	0	758,445
Nonperforming	0	63	424	364	558	7,331	0	8,740
Total mortgage loans	195,731	161,534	76,216	37,552	43,155	252,997	0	767,185
Residential loans								
Performing	195,731	161,471	75,792	$ 37,188	42,597	256,575	94,666	864,020
Nonperforming	0	63	424	364	558	7,851	572	9,832
Total residential loans	$ 195,731	$ 161,534	$ 76,216	$ 37,552	$ 43,155	$ 264,426	$ 95,238	$ 873,852
Consumer direct loans								
Performing	$ 71,626	$ 39,312	$ 18,492	$ 10,468	$ 4,490	$ 12,251	$ 0	$ 156,639
Nonperforming	0	4	3	34	3	0	0	44
Total consumer direct loans	71,626	39,316	18,495	10,502	4,493	12,251	0	156,683
Consumer indirect loans								
Performing	263,127	190,145	80,793	54,437	23,449	8,668	0	620,619
Nonperforming	24	135	20	0	23	4	0	206
Total consumer indirect loans	263,151	190,280	80,813	54,437	23,472	8,672	0	620,825
Consumer loans								
Performing	334,753	229,457	99,285	64,905	27,939	20,919	0	777,258
Nonperforming	24	139	23	34	26	4	0	250
Total consumer loans	$ 334,777	$ 229,596	$ 99,308	$ 64,939	$ 27,965	$ 20,923	$ 0	$ 777,508

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

The total of consumer mortgage loans secured by real estate properties for which formal foreclosure proceedings have resumed was $3.4 million at September 30, 2022. The total of consumer mortgage loans secured by real estate properties for which formal foreclosure proceedings began, but had been suspended, at December 31, 2021 was $2.3 million.

In accordance with ASC 326-20-30-2, if a loan does not share risk characteristics with other pooled loans in determining the allowance for credit losses, the loan shall be evaluated for expected credit losses on an individual basis. Of the loans that CTBI has individually evaluated, the loans listed below by segment are those that are collateral dependent:

	September 30, 2022		
(in thousands)	**Number of Loans**	**Recorded Investment**	**Specific Reserve**
Hotel/motel	1	$ 1,181	$ 0
Commercial real estate residential	3	5,820	0
Commercial real estate nonresidential	9	16,720	350
Commercial other	2	9,185	1,000
Total collateral dependent loans	**15**	**$ 32,906**	**$ 1,350**

	December 31, 2021		
(in thousands)	**Number of Loans**	**Recorded Investment**	**Specific Reserve**
Hotel/motel	2	$ 9,462	$ 600
Commercial real estate residential	4	7,255	0
Commercial real estate nonresidential	11	19,943	200
Commercial other	1	1,113	350
Total collateral dependent loans	**18**	**$ 37,773**	**$ 1,150**

	September 30, 2021		
(in thousands)	**Number of Loans**	**Recorded Investment**	**Specific Reserve**
Hotel/motel	2	$ 9,522	$ 600
Commercial real estate residential	4	7,363	0
Commercial real estate nonresidential	12	21,920	200
Commercial other	1	1,165	400
Total collateral dependent loans	**19**	**$ 39,970**	**$ 1,200**

The hotel/motel, commercial real estate residential, and commercial real estate nonresidential segments are all collateralized with real estate. The two loans listed in the commercial other segment at September 30, 2022 are collateralized by inventory, equipment, and accounts receivable.

Certain loans have been modified in TDRs, 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 TDRs that occurred during the three and nine months ended September 30, 2022 and 2021 and the year ended December 31, 2021:

	Three Months Ended September 30, 2022 Pre-Modification Outstanding Balance			
(in thousands)	**Number of Loans**	**Term Modification**	**Combination**	**Total Modification**
Commercial real estate residential	2	$ 318	$ 0	$ 318
Commercial real estate nonresidential	1	190	0	190
Commercial other	1	5,222	0	5,222
Total commercial loans	4	5,730	0	5,730
Real estate mortgage	2	288	393	681
Total residential loans	2	288	393	681
Total troubled debt restructurings	**6**	**$ 6,018**	**$ 393**	**$ 6,411**

(in thousands)	Three Months Ended September 30, 2022 Post-Modification Outstanding Balance			
	Number of Loans	Term Modification	Combination	Total Modification
Commercial real estate residential	2	$ 318	$ 0	$ 318
Commercial real estate nonresidential	1	189	0	189
Commercial other	1	5,222	0	5,222
Total commercial loans	4	5,729	0	5,729
Real estate mortgage	2	288	393	681
Total residential loans	2	288	393	681
Total troubled debt restructurings	6	$ 6,017	$ 393	$ 6,410

(in thousands)	Nine Months Ended September 30, 2022 Pre-Modification Outstanding Balance			
	Number of Loans	Term Modification	Combination	Total Modification
Commercial real estate residential	4	$ 472	$ 0	$ 472
Commercial real estate nonresidential	3	435	0	435
Commercial other	10	11,748	0	11,748
Total commercial loans	17	12,655	0	12,655
Real estate mortgage	5	593	1,309	1,902
Total residential loans	5	593	1,309	1,902
Total troubled debt restructurings	22	$ 13,248	$ 1,309	$ 14,557

(in thousands)	Nine Months Ended September 30, 2022 Post-Modification Outstanding Balance			
	Number of Loans	Term Modification	Combination	Total Modification
Commercial real estate residential	4	$ 472	$ 0	$ 472
Commercial real estate nonresidential	3	433	0	433
Commercial other	10	11,747	0	11,747
Total commercial loans	17	12,652	0	12,652
Real estate mortgage	5	593	1,309	1,902
Total residential loans	5	593	1,309	1,902
Total troubled debt restructurings	22	$ 13,245	$ 1,309	$ 14,554

(in thousands)	Year Ended December 31, 2021 Pre-Modification Outstanding Balance				
	Number of Loans	Term Modification	Combination	Other	Total Modification
Commercial real estate residential	6	$ 388	$ 0	$ 0	$ 388
Commercial real estate nonresidential	9	4,179	2,988	0	7,167
Commercial other	5	417	0	0	417
Total commercial loans	20	4,984	2,988	0	7,972
Real estate mortgage	3	278	277	262	817
Total residential loans	3	278	277	262	817
Total troubled debt restructurings	23	$ 5,262	$ 3,265	$ 262	$ 8,789

(in thousands)	Year Ended December 31, 2021 Post-Modification Outstanding Balance				
	Number of Loans	Term Modification	Combination	Other	Total Modification
Commercial real estate residential	6	$ 424	$ 0	$ 0	$ 424
Commercial real estate nonresidential	9	4,282	3,000	0	7,282
Commercial other	5	340	0	0	340
Total commercial loans	20	5,046	3,000	0	8,046
Real estate mortgage	3	279	277	262	818
Total residential loans	3	279	277	262	818
Total troubled debt restructurings	23	$ 5,325	$ 3,277	$ 262	$ 8,864

(in thousands)	Three Months Ended September 30, 2021 Pre-Modification Outstanding Balance			
	Number of Loans	Term Modification	Combination	Total Modification
Commercial real estate residential	2	$ 255	$ 0	$ 255
Commercial real estate nonresidential	4	2,098	2,568	4,666
Commercial other	1	95	0	95
Total commercial loans	7	2,448	2,568	5,016
Total troubled debt restructurings	7	$ 2,448	$ 2,568	$ 5,016

(in thousands)	Three Months Ended September 30, 2021 Post-Modification Outstanding Balance			
	Number of Loans	Term Modification	Combination	Total Modification
Commercial real estate residential	2	$ 254	$ 0	$ 254
Commercial real estate nonresidential	4	2,196	2,562	4,758
Commercial other	1	101	0	101
Total commercial loans	7	2,551	2,562	5,113
Total troubled debt restructurings	7	$ 2,551	$ 2,562	$ 5,113

(in thousands)	Nine Months Ended September 30, 2021 Pre-Modification Outstanding Balance			
	Number of Loans	Term Modification	Combination	Total Modification
Commercial real estate residential	2	$ 255	$ 0	$ 255
Commercial real estate nonresidential	9	4,179	2,988	7,167
Commercial other	3	393	0	393
Total commercial loans	14	4,827	2,988	7,815
Total troubled debt restructurings	14	$ 4,827	$ 2,988	$ 7,815

(in thousands)	Nine Months Ended September 30, 2021 Post-Modification Outstanding Balance			
	Number of Loans	Term Modification	Combination	Total Modification
Commercial real estate residential	2	$ 254	$ 0	$ 254
Commercial real estate nonresidential	9	4,282	3,000	7,282
Commercial other	3	317	0	317
Total commercial loans	14	4,853	3,000	7,853
Total troubled debt restructurings	14	$ 4,853	$ 3,000	$ 7,853

No charge-offs have resulted from modifications for any of the presented periods. We had commitments to extend additional credit in the amount of $41 thousand and $52 thousand at September 30, 2022 and December 31, 2021, respectively, on loans that were considered TDRs.

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 TDR are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a TDR subsequently default, CTBI evaluates the loan for possible further impairment. The allowance for loan losses may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan. Presented below, segregated by class of loans, are loans that were modified as TDRs within the past 12 months which have subsequently defaulted. CTBI considers a loan in default when it is 90 days or more past due or transferred to nonaccrual. There were no defaulted restructured loans for the three and nine months ended September 30, 2022.

	Three Months Ended September 30, 2021		**Nine Months Ended September 30, 2021**	
(in thousands)	**Number of Loans**	**Recorded Balance**	**Number of Loans**	**Recorded Balance**
Commercial:				
Hotel/motel	0	$ 0	1	$ 1,113
Residential:				
Real estate mortgage	0	0	1	275
Total defaulted restructured loans	0	$ 0	2	$ 1,388

Note 5 – Other Real Estate Owned

Activity for other real estate owned was as follows:

	Three Months Ended September 30		**Nine Months Ended September 30**	
(in thousands)	**2022**	**2021**	**2022**	**2021**
Beginning balance of other real estate owned	$ 1,954	$ 5,848	$ 3,486	$ 7,694
New assets acquired	34	644	478	895
Capitalized costs	0	0	73	0
Fair value adjustments	(6)	(132)	(275)	(637)
Sale of assets	(118)	(2,046)	(1,898)	(3,638)
Ending balance of other real estate owned	$ 1,864	$ 4,314	$ 1,864	$ 4,314

Carrying costs and fair value adjustments associated with foreclosed properties for the three months ended September 30, 2022 and 2021 were $42 thousand and $0.3 million, respectively. Carrying costs and fair value adjustments associated with foreclosed properties for the nine months ended September 30, 2022 and 2021 were $0.4 million and $1.1 million, 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:

(in thousands)	**September 30 2022**	**December 31 2021**
1-4 family	$ 583	$ 1,130
Construction/land development/other	438	480
Multifamily	0	88
Non-farm/non-residential	843	1,788
Total foreclosed properties	$ 1,864	$ 3,486

Note 6 – 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 $263.9 million and $317.1 million at September 30, 2022 and December 31, 2021, respectively.

The remaining contractual maturity of the securities sold under agreements to repurchase by class of collateral pledged included in the accompanying consolidated balance sheets as of September 30, 2022 and December 31, 2021 is presented in the following tables:

	September 30, 2022				
	Remaining Contractual Maturity of the Agreements				
(in thousands)	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions:					
U.S. Treasury and government agencies	$ 6,645	$ 8,153	$ 55	$ 4,973	$ 19,826
State and political subdivisions	90,502	5,155	1,663	10,091	107,411
U.S. government sponsored agency mortgage-backed securities	23,121	17,692	637	61,436	102,886
Total	$ 120,268	$ 31,000	$ 2,355	$ 76,500	$ 230,123

	December 31, 2021				
	Remaining Contractual Maturity of the Agreements				
(in thousands)	Overnight and Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Repurchase agreements and repurchase-to-maturity transactions:					
U.S. Treasury and government agencies	$ 3,176	$ 16	$ 5,400	$ 10,040	$ 18,632
State and political subdivisions	83,375	484	13,633	9,427	106,919
U.S. government sponsored agency mortgage-backed securities	24,689	0	85,967	34,881	145,537
Total	$ 111,240	$ 500	$ 105,000	$ 54,348	$ 271,088

Note 7 – Fair 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 GAAP, 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 exit price 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 determining an exit price for the assets or liabilities.

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis as of September 30, 2022 and December 31, 2021 and indicate the level within the fair value hierarchy of the valuation techniques.

		Fair Value Measurements at September 30, 2022 Using		
(in thousands)	**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 – recurring basis				
Available-for-sale securities:				
U.S. Treasury and government agencies	$ 401,772	$ 362,015	$ 39,757	$ 0
State and political subdivisions	258,076	0	258,076	0
U.S. government sponsored agency mortgage-backed securities	549,039	0	549,039	0
Asset-backed securities	89,705	0	89,705	0
Equity securities at fair value	1,969	0	0	1,969
Mortgage servicing rights	8,576	0	0	8,576

(in thousands)	Fair Value	Fair Value Measurements at December 31, 2021 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	$ 295,770	$ 242,214	$ 53,556	$ 0
State and political subdivisions	334,203	0	334,203	0
U.S. government sponsored agency mortgage-backed securities	730,809	0	730,809	0
Asset-backed securities	94,647	0	94,647	0
Equity securities at fair value	2,253	0	0	2,253
Mortgage servicing rights	6,774	0	0	6,774

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. These valuation methodologies were applied to all of CTBI's financial assets carried at fair value. CTBI had no liabilities measured and recorded at fair value as of September 30, 2022 and December 31, 2021. There have been no significant changes in the valuation techniques during the quarter ended September 30, 2022. 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 AFS are reported at fair value on a recurring basis. U.S. Treasury and government agencies 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, U.S. government sponsored agency mortgage-backed securities, and asset-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.

Equity Securities at Fair Value

As of September 30, 2022 and December 31, 2021, the only securities owned by CTBI that were valued using Level 3 criteria are Visa Class B Stock (included in equity securities at fair value). Fair value for Visa Class B Stock is determined by an independent third party utilizing assumptions about factors such as quarterly common stock dividend payments, the conversion of the securities to the relevant Class A Stock shares subject to the prevailing conversion rate, and conversion date. We have concluded the third party assumptions, processes, and conclusions to be reasonable and appropriate in determining the fair value of this asset. See the table below for inputs and valuation techniques used for Level 3 equity securities.

Mortgage Servicing Rights

Mortgage servicing rights ("MSRs") do not trade in an active, open market with readily observable prices. CTBI reports MSRs 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, MSRs are classified within Level 3 of the hierarchy. Fair value determinations for Level 3 measurements of MSRs 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. We have reviewed the assumptions, processes, and conclusions of the third party provider. We have determined these assumptions, processes, and conclusions to be reasonable and appropriate in determining the fair value of this asset. See the table below for inputs and valuation techniques used for Level 3 MSRs.

Level 3 Reconciliation

Following is a reconciliation of the beginning and ending balances of recurring fair value measurements, for the periods indicated, using significant unobservable (Level 3) inputs:

	Three Months Ended September 30, 2022		Three Months Ended September 30, 2021	
(in thousands)	**Equity Securities at Fair Value**	**Mortgage Servicing Rights**	**Equity Securities at Fair Value**	**Mortgage Servicing Rights**
Beginning balance	$ 2,128	$ 8,220	$ 2,523	$ 5,899
Total unrealized gains (losses)				
Included in net income	(159)	504	(62)	141
Issues	0	103	0	407
Settlements	0	(251)	0	(182)
Ending balance	$ 1,969	$ 8,576	$ 2,461	$ 6,265
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	$ (159)	$ 504	$ (62)	$ 141

	Nine Months Ended September 30, 2022		Nine Months Ended September 30, 2021	
(in thousands)	**Equity Securities at Fair Value**	**Mortgage Servicing Rights**	**Equity Securities at Fair Value**	**Mortgage Servicing Rights**
Beginning balance	$ 2,253	$ 6,774	$ 2,471	$ 4,068
Total unrealized gains (losses)				
Included in net income	(284)	1,955	(10)	1,042
Issues	0	555	0	1,817
Settlements	0	(708)	0	(662)
Ending balance	$ 1,969	$ 8,576	$ 2,461	$ 6,265
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	$ (284)	$ 1,955	$ (10)	$ 1,042

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

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	**2022**	**2021**	**2022**	**2021**
Total gains (losses)	$ 94	$ (103)	$ 963	$ 370

<u>Nonrecurring Measurements</u>

The following tables present the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a nonrecurring basis as of September 30, 2022 and December 31, 2021 and indicate the level within the fair value hierarchy of the valuation techniques.

		Fair Value Measurements at September 30, 2022 Using		
(in thousands)	**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				
Collateral dependent loans	$ 4,809	$ 0	$ 0	$ 4,809
Other real estate owned	597	0	0	597

		Fair Value Measurements at December 31, 2021 Using		
(in thousands)	**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				
Collateral dependent loans	$ 1,238	$ 0	$ 0	$ 1,238
Other real estate owned	1,487	0	0	1,487

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.

Collateral Dependent Loans

The estimated fair value of collateral-dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent 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 collateral dependent are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty in accordance with ASC 326-20-35-5. Quarter-to-date fair value adjustments on collateral-dependent loans disclosed above were $0.9 million, $0.4 million, and $0.1 million for the quarters ended September 30, 2022, December 31, 2021, and September 30, 2021, respectively. Year-to-date adjustments were $1.2 million, $0.7 million, and $0.8 million for the nine months ended September 30, 2022, the year ended December 31, 2021, and the nine months ended September 30, 2021, 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. There were no quarter-to-date fair value adjustments on OREO disclosed above for the quarter ended September 30, 2022 while the adjustments were $0.2 million and $0.1 million for the quarters ended December 31, 2021, and September 30, 2021, respectively. Year-to-date adjustments were $0.2 million, $0.3 million, and $0.1 million for the nine months ended September 30, 2022, for the year ended December 31, 2021, and for the nine months ended September 30, 2021, 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 September 30, 2022 and December 31, 2021.

	Quantitative Information about Level 3 Fair Value Measurements				
(in thousands)	**Fair Value at September 30, 2022**		**Valuation Technique(s)**	**Unobservable Input**	**Range (Weighted Average)**
Equity securities at fair value	$	1,969	Discount cash flows, computer pricing model	Discount rate	8.0% - 12.0% (10.0%)
				Conversion date	Dec 2024 – Dec 2028 (Dec 2026)
Mortgage servicing rights	$	8,576	Discount cash flows, computer pricing model	Constant prepayment rate	7.0% - 24.9% (7.1%)
				Probability of default	0.0% - 100.0% (1.2%)
				Discount rate	9.5% - 11.7% (10.0%)
Collateral dependent loans	$	4,809	Market comparable properties	Marketability discount	33.0% - 46.0% (39.0%)
Other real estate owned	$	597	Market comparable properties	Comparability adjustments	0.0% - 10.0% (10.0%)

	Quantitative Information about Level 3 Fair Value Measurements				
(in thousands)	**Fair Value at December 31, 2021**		**Valuation Technique(s)**	**Unobservable Input**	**Range (Weighted Average)**
Equity securities at fair value	$	2,253	Discount cash flows, computer pricing model	Discount rate	8.0% - 12.0% (10.0%)
				Conversion date	Dec 2024 – Dec 2028 (Dec 2026)
Mortgage servicing rights	$	6,774	Discount cash flows, computer pricing model	Constant prepayment rate	7.0% - 26.7% (10.0%)
				Probability of default	0.0% - 75.0% (1.4%)
				Discount rate	10.0% - 11.5% (10.1%)
Collateral-dependent loans	$	1,238	Market comparable properties	Marketability discount	20.0% - 62.0% (41.0%)
Other real estate owned	$	1,487	Market comparable properties	Comparability adjustments	10.0% - 45.5% (15.1%)

Uncertainty of Fair Value Measurements

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

Equity Securities at Fair Value

Fair value for equity securities is derived based on unobservable inputs, such as the discount rate, quarterly dividends payable to the Visa Class B common stock, and the prevailing conversion rate at the conversion date. The most recent conversion rate of 1.6059 and the most recent dividend rate of 0.6022 were used to derive the fair value estimate. 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 discount rate is accompanied by a directionally opposite change in the fair value estimate.

Mortgage Servicing Rights

Fair value for MSRs is derived based on unobservable inputs, such as prepayment speeds of the underlying loans generated using the Andrew Davidson Prepayment Model, FHLMC/FNMA guidelines, the weighted average life of the loan, the discount rate, the weighted average coupon, and the weighted average default rate. Significant increases (decreases) in either of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for prepayment speeds is accompanied by a directionally opposite change in the assumption for interest rates.

Fair Value of Financial Instruments

The following table presents estimated fair value of CTBI's financial instruments as of September 30, 2022 and indicates the level within the fair value hierarchy of the valuation techniques. In accordance with the adoption of ASU 2016-01, the fair values as of September 30, 2022 were measured using an exit price notion.

		Fair Value Measurements at September 30, 2022 Using		
(in thousands)	**Carrying Amount**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial assets:				
Cash and cash equivalents	$ 259,629	$ 259,629	$ 0	$ 0
Certificates of deposit in other banks	245	0	245	0
Debt securities available-for-sale	1,298,592	362,015	936,577	0
Equity securities at fair value	1,969	0	0	1,969
Loans held for sale	1,043	1,065	0	0
Loans, net	3,586,183	0	0	3,540,716
Federal Home Loan Bank stock	6,676	0	6,676	0
Federal Reserve Bank stock	4,887	0	4,887	0
Accrued interest receivable	16,513	0	16,513	0
Financial liabilities:				
Deposits	$ 4,535,068	$ 1,481,078	$ 3,064,938	$ 0
Repurchase agreements	230,123	0	0	230,238
Federal funds purchased	500	0	500	0
Advances from Federal Home Loan Bank	360	0	381	0
Long-term debt	57,841	0	0	50,759
Accrued interest payable	2,501	0	2,501	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, 2021 and indicates the level within the fair value hierarchy of the valuation techniques.

		Fair Value Measurements at December 31, 2021 Using		
(in thousands)	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Cash and cash equivalents	$ 311,756	$ 311,756	$ 0	$ 0
Certificates of deposit in other banks	245	0	245	0
Debt securities available-for-sale	1,455,429	242,214	1,213,215	0
Equity securities at fair value	2,253	0	0	2,253
Loans held for sale	2,632	2,693	0	0
Loans, net	3,367,057	0	0	3,480,803
Federal Home Loan Bank stock	8,139	0	8,139	0
Federal Reserve Bank stock	4,887	0	4,887	0
Accrued interest receivable	15,415	0	15,415	0
Financial liabilities:				
Deposits	$ 4,344,292	$ 1,331,103	$ 3,043,339	$ 0
Repurchase agreements	271,088	0	0	271,186
Federal funds purchased	500	0	500	0
Advances from Federal Home Loan Bank	375	0	400	0
Long-term debt	57,841	0	0	45,854
Accrued interest payable	1,016	0	1,016	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

Note 8 – Revenue Recognition

CTBI's primary source of revenue is interest income generated from loans and investment securities. Interest income is recognized according to the terms of the financial instrument agreement over the life of the loan or investment security unless it is determined that the counterparty is unable to continue making interest payments. Interest income also includes prepaid interest fees from commercial customers, which approximates the interest foregone on the balance of the loan prepaid.

CTBI's additional source of income, also referred to as noninterest income, includes service charges on deposit accounts, gains/losses on the sale of OREO, gains/losses on the sale of property, plant and equipment, trust and wealth management income, loan related fees, brokerage revenue, and other miscellaneous income and is largely based on contracts with customers. In these cases, CTBI recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. CTBI considers a customer to be any party to which we will provide goods or services that are an output of CTBI's ordinary activities in exchange for consideration. There is little seasonality with regards to revenue from contracts with customers and all inter-company revenue is eliminated when CTBI's financial statements are consolidated.

Generally, CTBI enters into contracts with customers that are short-term in nature where the performance obligations are fulfilled and payment is processed at the same time. Such examples include revenue related to merchant fees, interchange fees, and investment services income. In addition, revenue generated from existing customer relationships such as deposit accounts are also considered short-term in nature, because the relationship may be terminated at any time and payment is processed at the time performance obligations are fulfilled. As a result, CTBI does not have contract assets, contract liabilities, or related receivable accounts for contracts with customers. In cases where collectability is a concern, CTBI does not record revenue.

Generally, the pricing of transactions between CTBI and each customer is either (i) established within a legally enforceable contract between the two parties, as is the case with loan sales, or (ii) disclosed to the customer at a specific point in time, as is the case when a deposit account is opened or before a new loan is underwritten. Fees are usually fixed at a specific amount or as a percentage of a transaction amount. No judgment or estimates by management are required to record revenue related to these transactions and pricing is clearly identified within these contracts.

CTBI primarily operates in Kentucky and contiguous areas. Therefore, all significant operating decisions are based upon analysis of CTBI as one operating segment.

We disaggregate our revenue from contracts with customers by contract-type and timing of revenue recognition, as we believe it best depicts how the nature, amount, timing, and uncertainty of our revenue and cash flows are affected by economic factors. Noninterest income not generated under accounting guidance for revenue from contracts with customers during CTBI's ordinary activities primarily relates to gains on sales of loans, MSRs, gains/losses on the sale of investment securities, and income from bank owned life insurance.

For more information related to our components of noninterest income, see the Condensed Consolidated Statements of Income and Comprehensive Income above.

Note 9 – Earnings Per Share

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

	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands except per share data)	**2022**	**2021**	**2022**	**2021**
Numerator:				
Net income	$ 19,372	$ 21,142	$ 59,371	$ 68,691
Denominator:				
Basic earnings per share:				
Weighted average shares	17,841	17,790	17,832	17,783
Diluted earnings per share:				
Effect of dilutive stock options and restricted stock grants	16	18	12	15
Adjusted weighted average shares	17,857	17,808	17,844	17,798
Earnings per share:				
Basic earnings per share	$ 1.09	$ 1.19	$ 3.33	$ 3.86
Diluted earnings per share	1.08	1.19	3.33	3.86

There were no options to purchase common shares that were excluded from the diluted calculations above for the three and nine months ended September 30, 2022 and 2021. 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.

Note 10 – Accumulated Other Comprehensive Income (Loss)

Unrealized gains (losses) on AFS securities

Amounts reclassified from accumulated other comprehensive income (loss) ("AOCI") and the affected line items in the statements of income during the three and nine months ended September 30, 2022 and 2021 were:

	Amounts Reclassified from AOCI			
	Three Months Ended September 30		Nine Months Ended September 30	
(in thousands)	**2022**	**2021**	**2022**	**2021**
Affected line item in the statements of income				
Securities gains (losses)	$ 0	$ 0	$ (1)	$ 60
Tax expense (benefit)	0	0	0	16
Total reclassifications out of AOCI	$ 0	$ 0	$ (1)	$ 44

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand Community Trust Bancorp, Inc. ("CTBI"), our operations, and our present business environment. The MD&A is provided as a supplement to—and should be read in conjunction with—our condensed consolidated financial statements and the accompanying notes thereto contained in Part I, Item 1 of this quarterly report, as well as our consolidated financial statements, the accompanying notes thereto, and the related Management's Discussion and Analysis of Financial Condition and Results of Operations in our annual report on Form 10-K for the year ended December, 31, 2021. The MD&A includes the following sections:

- Our Business
- Financial Goals and Performance
- Results of Operations and Financial Condition
- 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

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 78 banking locations in eastern, northeastern, central, and south central Kentucky, southern West Virginia, and northeastern Tennessee, four trust offices across Kentucky, and one trust office in northeastern Tennessee. At September 30, 2022, we had total consolidated assets of $5.5 billion and total consolidated deposits, including repurchase agreements, of $4.8 billion. Total shareholders' equity at September 30, 2022 was $602.6 million. Trust assets under management at September 30, 2022 were $3.1 billion, including CTB's investment portfolio totaling $1.3 billion.

Through our 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, 2021.

Results of Operations and Financial Condition

We reported earnings for the third quarter 2022 of $19.4 million, or $1.09 per basic share, compared to $20.3 million, or $1.14 per basic share, earned during the second quarter 2022 and $21.1 million, or $1.19 per basic share, earned during the third quarter 2021. Total revenue was $2.9 million above prior quarter and $1.8 million above prior year same quarter. Net interest revenue increased $2.7 million compared to prior quarter and $1.5 million compared to prior year same quarter, and noninterest income increased $0.2 million compared to prior quarter and $0.3 million compared to prior year same quarter. Provision for credit losses for the quarter was $2.4 million, compared to provision of $0.1 million for the quarter ended June 30, 2022 and a recovery of provision of $0.2 million for the third quarter 2021. Noninterest expense increased $1.5 million compared to prior quarter and $1.1 million compared to prior year same quarter. Net income for the nine months ended September 30, 2022 was below prior year by $9.3 million, primarily due to the $6.9 million recovery of provision for credit losses taken in 2021 and the $4.2 million decline in gains on sales of loans.

As reported in our Form 10-Q for the quarter ended June 30, 2022, several counties in eastern Kentucky experienced major flooding during which six of our branch locations were impacted. After assessing the situation, we have determined that there has been no material impact to our financial condition as a result of the flooding.

Quarterly Highlights

- ❖ Net interest income for the quarter of $43.5 million was $2.7 million above prior quarter and $1.5 million above prior year same quarter.
- ❖ Provision for credit losses for the quarter was $2.4 million, compared to provision of $0.1 million for the quarter ended June 30, 2022 and a recovery of provision of $0.2 million for the third quarter 2021.
- ❖ Our loan portfolio increased $72.2 million, an annualized 8.0%, during the quarter and $221.8 million, an annualized 8.7%, from December 31, 2021.
- ❖ Net loan charge-offs were $0.3 million, or 0.04% of average loans annualized, for the quarter ended September 30, 2022 compared to $0.04 million, or less than 0.01% of average loans annualized, for the second quarter 2022 and $0.3 million, or 0.04% of average loans annualized for the quarter ended September 30, 2021.
- ❖ Asset quality remains strong from prior quarter as our nonperforming loans, excluding troubled debt restructurings (“TDRs”), decreased slightly to $13.7 million at September 30, 2022 from $13.8 million at June 30, 2022 and decreased $2.9 million from the $16.6 million at December 31, 2021. Nonperforming assets at $15.6 million decreased $0.2 million from June 30, 2022 and $4.6 million from December 31, 2021.
- ❖ Deposits, including repurchase agreements, increased $53.5 million, an annualized 4.5%, during the quarter and $149.8 million, an annualized 4.3%, from December 31, 2021.
- ❖ Shareholders’ equity declined $29.5 million, an annualized 18.5%, during the quarter and $95.6 million, an annualized 18.3%, from December 31, 2021, as a result of the continued increase in unrealized losses on our securities portfolio.
- ❖ Noninterest income for the quarter ended September 30, 2022 of $14.7 million was $0.2 million, or 1.2%, above prior quarter and $0.3 million, or 2.0%, above prior year same quarter.
- ❖ Noninterest expense for the quarter ended September 30, 2022 of $31.5 million was $1.5 million, or 5.0%, higher than prior quarter and $1.1 million, or 3.8%, above prior year same quarter.

Income Statement Review

(dollars in thousands)			Change 2022 vs. 2021	
Nine Months Ended September 30	**2022**	**2021**	**Amount**	**Percent**
Net interest income	$ 124,358	$ 122,263	$ 2,095	1.7%
Provision for credit losses (recovery)	3,366	(6,919)	10,285	(148.6)%
Noninterest income	44,145	45,486	(1,341)	(2.9)%
Noninterest expense	90,812	88,136	2,676	3.0%
Income taxes	14,954	17,841	(2,887)	(16.2)%
Net income	$ 59,371	$ 68,692	$ (9,321)	(13.6)%
Average earning assets	$ 5,146,251	$ 5,109,934	$ 36,317	0.7%
Yield on average earnings assets, tax equivalent*	3.66%	3.52%	0.14%	4.1%
Cost of interest bearing funds	0.63%	0.46%	0.17%	39.1%
Net interest margin, tax equivalent*	3.25%	3.22%	0.03%	1.0%

*Yield on average earning assets and net interest margin are computed on a taxable equivalent basis using a 24.95% tax rate.

Net Interest Income

($ in thousands)	3Q 2022	2Q 2022	3Q 2021	Percent Change 3Q 2022 Compared to: 2Q 2022	3Q 2021	YTD 2022	YTD 2021	Percent Change
Components of net interest income:								
Income on earning assets	$ 51,405	$ 45,352	$ 45,726	13.3%	12.4%	$ 140,284	$ 133,812	4.8%
Expense on interest bearing liabilities	7,869	4,562	3,712	72.5%	112.0%	15,926	11,549	37.9%
Net interest income	43,536	40,790	42,014	6.7%	3.6%	124,358	122,263	1.7%
TEQ	240	233	226	3.0%	6.2%	707	673	5.1%
Net interest income, tax equivalent	$ 43,776	$ 41,023	$ 42,240	6.7%	3.6%	$ 125,065	$ 122,936	1.7%
Average yield and rates paid:								
Earning assets yield	3.97%	3.56%	3.52%	11.6%	12.8%	3.66%	3.52%	4.1%
Rate paid on interest bearing liabilities	0.93%	0.54%	0.43%	71.4%	115.2%	0.63%	0.46%	39.1%
Gross interest margin	3.04%	3.02%	3.09%	0.7%	(1.6%)	3.03%	3.06%	(1.0%)
Net interest margin	3.36%	3.20%	3.23%	5.1%	4.1%	3.25%	3.22%	1.0%
Average balances:								
Investment securities	$ 1,380,881	$ 1,452,021	$ 1,511,178	(4.9%)	(8.6%)	$ 1,438,769	$ 1,266,850	13.6%
Loans	$ 3,568,174	$ 3,538,324	$ 3,400,194	0.8%	4.9%	$ 3,516,114	$ 3,480,860	1.0%
Earning assets	$ 5,163,624	$ 5,140,656	$ 5,184,749	0.4%	(0.4%)	$ 5,146,251	$ 5,109,934	0.7%
Interest-bearing liabilities	$ 3,359,242	$ 3,373,741	$ 3,410,286	(0.4%)	(1.5%)	$ 3,361,097	$ 3,390,178	(0.9%)

Net interest income for the quarter ended September 30, 2022 of $43.5 million was $2.7 million above prior quarter and $1.5 million above prior year same quarter. Our net interest margin, on a fully tax equivalent basis, at 3.36% for the third quarter 2022 increased 16 basis points from prior quarter and 13 basis points from prior year same quarter, as our average earning assets increased $23.0 million from prior quarter but decreased $21.1 million from prior year same quarter. Our yield on average earning assets for the third quarter 2022 increased 41 basis points from prior quarter and 45 basis points from prior year same quarter, and our cost of funds increased 39 basis points from prior quarter and 50 basis points from prior year same quarter. Noninterest bearing deposits at September 30, 2022 increased $72.9 million over prior quarter and $162.9 million over prior year. Net interest income for the nine months ended September 30, 2022 increased $2.1 million or 1.7% from the nine months ended September 30, 2021.

Our ratio of average loans to deposits, including repurchase agreements, was 75.4% for the quarter ended September 30, 2022 compared to 75.2% for the quarter ended June 30, 2022 and 73.1% for the quarter ended September 30, 2021.

Provision for Credit Losses

Provision for credit losses for the quarter ended September 30, 2022 was $2.4 million, compared to provision of $0.1 million for the quarter ended June 30, 2022 and a recovery of provision of $0.2 million for the third quarter 2021. Year-to-date provision was $3.4 million compared to a recovery of $6.9 million during the first nine months of 2021. The primary reasons for the change in provision expense year over year were the release of reserves that occurred in 2021 and the funding of additional loan growth that has occurred in 2022. Loans declined $156.0 million for the nine months ended September 30, 2021, while loans have grown $221.8 million for the nine months ended September 30, 2022. Our reserve coverage (allowance for credit losses to nonperforming loans) at September 30, 2022 was 324.5% compared to 305.9% at June 30, 2022 and 220.0% at September 30, 2021. Our credit loss reserve as a percentage of total loans outstanding at September 30, 2022 was 1.22% compared to 1.19% at June 30, 2022 and 1.21% at September 30, 2021.

Noninterest Income

				Percent Change 3Q 2022 Compared to:				
($ in thousands)	**3Q 2022**	**2Q 2022**	**3Q 2021**	**2Q 2022**	**3Q 2021**	**YTD 2022**	**YTD 2021**	**Percent Change**
Deposit related fees	$ 7,629	$ 7,263	$ 7,066	5.0%	8.0%	$ 21,638	$ 19,446	11.3%
Trust revenue	2,989	3,198	3,039	(6.5%)	(1.6%)	9,435	9,339	1.0%
Gains on sales of loans	235	519	1,239	(54.7%)	(81.0%)	1,351	5,579	(75.8%)
Loan related fees	1,589	1,415	1,050	12.3%	51.3%	5,066	4,324	17.2%
Bank owned life insurance revenue	743	702	654	5.8%	13.6%	2,136	1,808	18.1%
Brokerage revenue	453	459	519	(1.3%)	(12.8%)	1,502	1,530	(1.8%)
Other	1,041	945	821	10.3%	26.9%	3,017	3,460	(12.8%)
Total noninterest income	$ 14,679	$ 14,501	$ 14,388	1.2%	2.0%	$ 44,145	$ 45,486	(2.9%)

Noninterest income for the quarter ended September 30, 2022 of $14.7 million was $0.2 million, or 1.2%, above prior quarter and $0.3 million, or 2.0%, above prior year same quarter. The quarter over quarter increase included a $0.4 million increase in deposit related fees and a $0.2 million increase in loan related fees, partially offset by a $0.3 million decrease in gains on sales of loans and a $0.2 million decrease in trust revenue. Year-to-date noninterest income decreased $1.3 million from the nine months ended September 30, 2021 due to a $4.2 million decline in gains on sales of loans, partially offset by a $2.2 million increase in deposit related fees and a $0.7 million increase in loan related fees. Gains on sales of loans continue to be impacted by the slowdown in the industry-wide mortgage refinancing boom. Deposit related fees were primarily impacted by debit card income and overdraft charges. Loan related fees were primarily impacted by the change in the fair market value of mortgage servicing rights. The decrease in trust revenue quarter over quarter was due to the decline in the market value of managed assets.

Noninterest Expense

($ in thousands)	3Q 2022	2Q 2022	3Q 2021	Percent Change 3Q 2022 Compared to: 2Q 2022	3Q 2021	YTD 2022	YTD 2021	Percent Change
Salaries	$ 12,537	$ 12,219	$ 11,962	2.6%	4.8%	$ 36,495	$ 35,080	4.0%
Employee benefits	6,009	6,315	6,891	(4.8%)	(12.8%)	18,123	19,566	(7.4%)
Net occupancy and equipment	2,897	2,756	2,733	5.1%	6.0%	8,507	8,229	3.4%
Data processing	2,270	2,095	1,911	8.3%	18.8%	6,566	5,940	10.5%
Legal and professional fees	752	884	685	(15.0%)	9.7%	2,503	2,331	7.4%
Advertising and marketing	769	659	819	16.7%	(6.1%)	2,180	2,251	(3.2%)
Taxes other than property and payroll	422	425	464	(0.8%)	(9.1%)	1,274	1,209	5.4%
Net other real estate owned expense	41	43	296	(4.3%)	(86.2%)	438	1,102	(60.2%)
Other	5,778	4,582	4,567	26.1%	26.5%	14,726	12,428	18.5%
Total noninterest expense	$ 31,475	$ 29,978	$ 30,328	5.0%	3.8%	$ 90,812	$ 88,136	3.0%

Noninterest expense for the quarter ended September 30, 2022 of $31.5 million was $1.5 million, or 5.0%, higher than prior quarter and $1.1 million, or 3.8%, above prior year same quarter. The increase in noninterest expense quarter over quarter was primarily the result of a $1.4 million accrual for customer refunds of re-presented returned item fees. Noninterest expense for the nine months ended September 30, 2022 was $2.7 million higher than the nine months ended September 30, 2021.

Balance Sheet Review

CTBI's total assets at September 30, 2022 of $5.5 billion increased $27.0 million, an annualized 2.0%, from June 30, 2022 and $56.1 million, an annualized 1.4%, from December 31, 2021. Loans outstanding at September 30, 2022 were $3.6 billion, an increase of $72.2 million, an annualized 8.0%, from June 30, 2022 and $221.8 million, an annualized 8.7%, from December 31, 2021. The increase in loans included a $38.9 million increase in the commercial loan portfolio, a $26.3 million increase in the residential loan portfolio, a $5.9 million increase in the indirect consumer loan portfolio, and a $1.1 million increase in the consumer direct loan portfolio. CTBI's investment portfolio decreased $103.7 million, an annualized 29.3%, from June 30, 2022 and $156.8 million, an annualized 14.4%, from December 31, 2021. Deposits in other banks increased $62.8 million from prior quarter but decreased $66.1 million from December 31, 2021. Deposits, including repurchase agreements, at $4.8 billion increased $53.5 million, an annualized 4.5%, from June 30, 2022 and $149.8 million, an annualized 4.3%, from December 31, 2021.

Shareholders' equity at September 30, 2022 was $602.6 million, a $29.5 million, or annualized 18.5%, decrease from the $632.0 million at June 30, 2022 and a $95.6 million, or annualized 18.3%, decrease from the $698.2 million at December 31, 2021, as a result of the continued increase in unrealized losses on our securities portfolio. CTBI's annualized dividend yield to shareholders as of September 30, 2022 was 4.34%.

Loans

(dollars in thousands)	September 30, 2022				
Loan Category	**Balance**	**Variance from Prior Year**	**Net (Charge Offs)/ Recoveries**	**Nonperforming**	**ACL**
Commercial:					
Hotel/motel	$ 335,253	30.4%	$ (216)	$ 0	$ 4,883
Commercial real estate residential	359,643	7.3	5	492	4,876
Commercial real estate nonresidential	756,138	(0.2)	143	3,642	9,595
Dealer floorplans	73,221	5.4	0	0	1,538
Commercial other	310,177	6.8	(304)	422	5,197
Commercial unsecured SBA PPP	1,958	(95.9)	0	0	0
Total commercial	1,836,390	4.5	(372)	4,556	26,089
Residential:					
Real estate mortgage	814,944	6.2	(147)	7,983	7,835
Home equity	115,400	8.2	(5)	803	940
Total residential	930,344	6.5	(152)	8,786	8,775
Consumer:					
Consumer direct	160,866	2.7	(39)	9	1,674
Consumer indirect	703,016	13.2	(204)	341	7,895
Total consumer	863,885	11.1	(165)	350	9,569
Total loans	$ 3,630,616	6.5%	$ (689)	$ 13,692	$ 44,433

Total Deposits and Repurchase Agreements

				Percent Change 3Q 2022 Compared to:	
(dollars in thousands)	**3Q 2022**	**2Q 2022**	**YE 2021**	**2Q 2022**	**YE 2021**
Non-interest bearing deposits	$ 1,481,078	$ 1,408,148	$ 1,331,103	5.2%	11.3%
Interest bearing deposits					
Interest checking	100,680	99,055	97,064	1.6%	3.7%
Money market savings	1,268,682	1,243,817	1,206,401	2.0%	5.2%
Savings accounts	683,697	671,349	632,645	1.8%	8.1%
Time deposits	1,000,931	1,050,559	1,077,079	(4.7)%	(7.1)%
Repurchase agreements	230,123	238,733	271,088	(3.6)%	(15.1)%
Total interest bearing deposits and repurchase agreements	3,284,113	3,303,513	3,284,277	(0.6)%	0.0%
Total deposits and repurchase agreements	$ 4,765,191	$ 4,711,661	$ 4,615,380	1.1%	3.2%

Asset Quality

CTBI's total nonperforming loans, excluding TDRs, decreased slightly to $13.7 million at September 30, 2022 from $13.8 million at June 30, 2022 and decreased $2.9 million from the $16.6 million at December 31, 2021. Accruing loans 90+ days past due at $5.6 million increased $0.5 million from prior quarter but decreased $0.4 million from December 31, 2021. Nonaccrual loans at $8.1 million decreased $0.7 million from prior quarter and $2.5 million from December 31, 2021. Accruing loans 30-89 days past due at $12.1 million increased $1.5 million from prior quarter and $1.2 million from December 31, 2021. 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. CTB's Loan Portfolio Risk Management Committee also meets quarterly focusing on the overall asset quality and risk metrics of the loan portfolio. 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, TDR, nonaccrual status, and adequate loan loss reserves. The Loan Review Department has annually reviewed, on average, 96% 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 86% 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. 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.

For further information regarding nonperforming loans, see Note 4 to the condensed consolidated financial statements contained herein.

Our level of foreclosed properties at $1.9 million at September 30, 2022 was a $0.1 million decrease from the $2.0 million at June 30, 2022 and a $1.6 million decrease from the $3.5 million at December 31, 2021. Sales of foreclosed properties for the nine months ended September 30, 2022 totaled $1.9 million while new foreclosed properties totaled $0.5 million. At September 30, 2022, the book value of properties under contracts to sell was $0.4 million; however, the closings had not occurred at quarter-end.

The appraisal aging analysis of foreclosed properties, as well as the holding period, at September 30, 2022 is shown below:

(dollars in thousands)

Appraisal Aging Analysis

Days Since Last Appraisal	Number of Properties	Current Book Value
Up to 3 months	1	$ 40
3 to 6 months	1	20
6 to 9 months	14	1,311
9 to 12 months	3	111
12 to 18 months	3	81
18 to 24 months	4	301
Total	26	$ 1,864

Holding Period Analysis

Holding Period	Current Book Value
Less than one year	$ 104
1 year	670
2 years	92
3 years	37
4 years	101
5 years	62
6 years	234
7 years	6
8 years	558
9 years	0
Total	$ 1,864

Regulatory approval is required and has been obtained to hold foreclosed properties beyond the initial period of five years. Additionally, CTBI is required to dispose of any foreclosed property that has not been sold within ten years.

Net loan charge-offs were $0.3 million, 0.04% of average loans annualized, for the quarter ended September 30, 2022 compared to net loan charge-offs of $42 thousand, less than 0.01% of average loans annualized, for the second quarter 2022 and net loan charge-offs for the third quarter 2021 of $0.3 million. Year-to-date net loan charge-offs were $0.7 million, 0.03% of average loans annualized, compared to a net recovery of loan charge-offs of $0.1 million for the first nine months of 2021.

Dividends

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

Pay Date	Record Date	Amount Per Share
October 1, 2022	September 15, 2022	$0.440
July 1, 2022	June 15, 2022	$0.400
April 1, 2022	March 15, 2022	$0.400
January 1, 2022	December 15, 2021	$0.400
October 1, 2021	September 15, 2021	$0.400
July 1, 2021	June 15, 2021	$0.385

Liquidity and Market Risk

The objective of CTBI's Asset/Liability management function is to maintain consistent growth in net interest income within our policy limits. This objective is accomplished through management of our consolidated balance sheet composition, liquidity, and interest rate risk exposures arising from changing economic conditions, interest rates, and customer preferences. The goal of liquidity management is to provide adequate funds to meet changes in loan and lease demand or deposit withdrawals. This is accomplished by maintaining liquid assets in the form of cash and cash equivalents and investment securities, sufficient unused borrowing capacity, and growth in core deposits. As of September 30, 2022, we had approximately $259.6 million in cash and cash equivalents and approximately $1.3 billion in securities valued at estimated fair value designated as available-for-sale and available to meet liquidity needs on a continuing basis compared to $311.8 million and $1.5 billion at December 31, 2021. 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 $0.4 million at September 30, 2022 and at December 31, 2021. As of September 30, 2022, we had a $517.3 million available borrowing position with the Federal Home Loan Bank, compared to $484.4 million at December 31, 2021. We generally rely upon net inflows of cash from financing activities, supplemented by net inflows of cash from operating activities, to provide cash for our investing activities. As is typical of many financial institutions, significant financing activities include deposit gathering, use of short-term borrowing facilities such as repurchase agreements and federal funds purchased, and issuance of long-term debt. At September 30, 2022 and at December 31, 2021, we had $75 million in lines of credit with various correspondent banks available to meet any future cash needs. Our primary investing activities include purchases of securities and loan originations. We do not rely on any one source of liquidity and manage availability in response to changing consolidated balance sheet needs. Included in our cash and cash equivalents at September 30, 2022 were deposits with the Federal Reserve of $194.6 million, compared to $262.4 million at December 31, 2021. Additionally, we project cash flows from our investment portfolio to generate additional liquidity over the next 90 days.

The investment portfolio consists of investment grade short-term issues suitable for bank investments. The majority of the investment portfolio is in U.S. government and government sponsored agency issuances. At September 30, 2022, available-for-sale ("AFS") securities comprised all of the total investment portfolio, and the AFS portfolio was approximately 216% of equity capital. Sixty-seven 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, 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 12-month period.

Capital Resources

We continue to offer a dividend to our shareholders, providing an annualized dividend yield for the quarter ended September 30, 2022 of 4.34%. Shareholders' equity declined $29.5 million, or an annualized 13.5%, during the quarter and $89.1 million, or 12.9%, from September 30, 2021, as a result of the continued increase in unrealized losses on our securities portfolio. Our primary source of capital growth is the retention of earnings. Cash dividends were $1.24 per share and $1.17 per share for the nine months ended September 30, 2022 and 2021, respectively. We retained 62.8% of our earnings for the first nine months of 2022 compared to 69.7% for the first nine months of 2021.

Insured depository institutions are required to meet certain capital level requirements. On October 29, 2019, federal banking regulators adopted a final rule to simplify the regulatory capital requirements for eligible community banks and holding companies that opt-in to the community bank leverage ratio ("CBLR") framework, as required by Section 201 of the Economic Growth, Relief and Consumer Protection Act of 2018. Under the final rule, which became effective as of January 1, 2020, community banks and holding companies (which includes CTB and CTBI) that satisfy certain qualifying criteria, including having less than $10 billion in average total consolidated assets and a leverage ratio (referred to as the "community bank leverage ratio") of greater than 9%, were eligible to opt-in to the CBLR framework. The community bank leverage ratio is the ratio of a banking organization's Tier 1 capital to its average total consolidated assets, both as reported on the banking organization's applicable regulatory filings. Accordingly, a qualifying community banking organization that has a community bank leverage ratio greater than 9% will be considered to have met: (i) the risk-based and leverage capital requirements of the generally applicable capital rules; (ii) the capital ratio requirements in order to be considered well-capitalized under the prompt corrective action framework; and (iii) any other applicable capital or leverage requirements.

In April 2020, as directed by Section 4012 of the Coronavirus Aid, Relief, and Economic Security Act, the regulatory agencies introduced temporary changes to the CBLR framework. These changes, which subsequently were adopted as a final rule, temporarily reduced the CBLR requirement to 8% through the end of calendar year 2020. Beginning in calendar year 2021, the CBLR requirement increased to 8.5% for the calendar year before returning to 9% in calendar year 2022. The final rule also provides for a two-quarter grace period for qualifying community banking organizations whose leverage ratios fall no more than 100 basis points below the applicable CBLR requirement. Management elected to use the CBLR framework for CTBI and CTB. CTBI's CBLR ratio as of September 30, 2022 was 13.24%. CTB's CBLR ratio as of September 30, 2022 was 12.68%. Under either framework, CTBI and CTB would be considered well-capitalized under the applicable guidelines.

As of September 30, 2022, we are not aware of any current recommendations by banking regulatory authorities which, if they were to be implemented, would have, or are reasonably likely to have, a material adverse impact on our liquidity, capital resources, or operations.

Impact of Inflation, Changing Prices, and Economic Conditions

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

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

We all continue to find ourselves living and operating in unprecedented times as the COVID-19 pandemic is causing personal and financial hardship to our customers, employees, and communities. During these challenging times, we have instituted programs to support our customers with loan modifications, forbearance, and fee waivers and participated in programs created by the government stimulus programs like the Paycheck Protection Program, focused on helping small businesses keep their employees and meet their expenses as they were unable to operate due to mandated closures. We instituted programs supporting our employees focused on healthcare, childcare, and remote and split schedule work, as well as work space changes that allow for proper social distancing to keep our employees safe as we continue to operate as a critical part of the economy. We continue to support our communities through donations to non-profit organizations as they strive to continue their commitments of serving those in need. We also continue to manage our company for the long term and our strong capital position and culture of building communities built on trust will facilitate our ability to manage through these challenging times. We will continue to serve our constituents while we all meet the challenges of living with COVID-19.

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 each of July 2000, May 2003, and March 2020. CTBI repurchased 32,664 shares of its common stock during the first quarter 2020, leaving 1,034,706 shares remaining under our current repurchase authorization. As of September 30, 2022, a total of 2,465,294 shares have been repurchased through this program.

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 our consolidated financial statements.

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

We have identified the following critical accounting policies:

Allowance for Credit Losses – CTBI accounts for the allowance for credit losses ("ACL") and the reserve for unfunded commitments in accordance with Accounting Standards Update ("ASU") 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, and its related subsequent amendments, commonly known as CECL.

We disaggregate our portfolio loans into portfolio segments for purposes of determining the ACL. Our loan portfolio segments include commercial, residential mortgage, and consumer. We further disaggregate our portfolio segments into classes for purposes of monitoring and assessing credit quality based on certain risk characteristics. For an analysis of CTBI's ACL by portfolio segment and credit quality information by class, refer to Note 4 to the condensed consolidated financial statements contained herein.

CTBI maintains the ACL to absorb the amount of credit losses that are expected to be incurred over the remaining contractual terms of the related loans. Contractual terms are adjusted for expected prepayments but are not extended for expected extensions, renewals, or modifications except in circumstances where CTBI reasonably expects to execute a TDR with the borrower or where certain extension or renewal options are embedded in the original contract and not unconditionally cancellable by CTBI. Accrued interest receivable on loans is presented in our consolidated financial statements as a component of other assets. When accrued interest is deemed to be uncollectible (typically when a loan is placed on nonaccrual status), interest income is reversed. In the event that collection of principal becomes uncertain, CTBI has policies in place to reverse accrued interest in a timely manner. Therefore, CTBI elected ASU 2019-04 which allows that accrued interest would continue to be presented separately and not part of the amortized cost of the loan. For additional information on CTBI's accounting policies related to nonaccrual loans, refer to Note 1 to the condensed consolidated financial statements contained herein.

Credit losses are charged and recoveries are credited to the ACL. The ACL is maintained at a level CTBI considers to be adequate and is based on ongoing quarterly assessments and evaluations of the collectability of loans, including historical credit loss experience, current and forecasted market and economic conditions, and consideration of various qualitative factors that, in management's judgment, deserve consideration in estimating expected credit losses. Provisions for credit losses are recorded for the amounts necessary to adjust the ACL to CTBI's current estimate of expected credit losses on portfolio loans. CTBI's strategy for credit risk management includes a combination of conservative exposure limits significantly below legal lending limits and conservative underwriting, documentation, and collection standards. The strategy also emphasizes diversification on a geographic, industry, and customer level, regular credit examinations, and quarterly management reviews of large credit exposures and loans experiencing deterioration of credit quality.

CTBI's methodology for determining the ACL requires significant management judgment and includes an estimate of expected credit losses on a collective basis for groups of loans with similar risk characteristics and specific allowances for loans which are individually evaluated.

Larger commercial loans with balances exceeding $1 million that exhibit probable or observed credit weaknesses are individually evaluated for an ACL if such loans, (i) have a criticized risk rating, (ii) are on nonaccrual status, (iii) are classified as TDRs, or (iv) are 90 days or more past due. CTBI considers the current value of collateral, credit quality of any guarantees, the guarantor's liquidity and willingness to cooperate, the loan structure, and other factors when determining the amount of the ACL. Other factors may include the borrower's susceptibility to risks presented by the forecasted macroeconomic environment, the industry and geographic region of the borrower, the size and financial condition of the borrower, the cash flow and leverage of the borrower, and our evaluation of the borrower's management. Significant management judgment is required when evaluating which of these factors are most relevant in individual circumstances, and when estimating the amount of expected credit losses based on those factors. When loans are individually evaluated, allowances are determined based on management's estimate of the borrower's ability to repay the loan given the availability of collateral and other sources of cash flow, as well as an evaluation of legal options available to CTBI. Allowances for individually evaluated loans that are collateral-dependent are typically measured based on the fair value of the underlying collateral, less expected costs to sell where applicable. For collateral-dependent financial assets, the credit loss expected may be zero if the fair value less costs to sell exceeds the amortized cost of the loan. Loans shall not be included in both collective assessments and individual assessments. Individually evaluated loans that are not collateral-dependent are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate. Specific allowances on individually evaluated commercial loans, including TDRs, are reviewed quarterly and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience. Regardless of an initial measurement method, once it is determined that foreclosure is probable, the allowance for credit losses is measured based on the fair value of the collateral as of the measurement date. As a practical expedient, the fair value of the collateral may be used for a loan when determining the allowance for credit losses for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty. The fair value shall be adjusted for selling costs when foreclosure is probable.

Expected credit losses are estimated on a collective basis for loans that are not individually evaluated. These include commercial loans that do not meet the criteria for individual evaluation as well as homogeneous loans in the residential mortgage and consumer portfolio segments. For collectively evaluated commercial loans, CTBI uses a static pool methodology based on our risk rating system. See Note 4 to the condensed consolidated financial statements contained herein for information on CTBI's risk rating system. Other homogenous loans such as the residential mortgage and consumer portfolio segments derive their ACL from vintage modeling. Vintage modeling was chosen primarily because these loans have fixed amortization schedules, and it allows CTBI to track loans from origination to completion, including repayments and prepayments, and captures net charge-offs by the different vintages providing historical loss rates. These are the two primary models utilized for ACL determination although there are additional models for specific processes in addition. CTBI's expected credit loss models were developed based on historical credit loss experience and observations of migration patterns for various credit risk characteristics (such as internal credit risk grades, external credit ratings or scores, delinquency status, etc.) over time, with those observations evaluated in the context of concurrent macroeconomic conditions. CTBI developed our models from historical observations capturing a full economic cycle when possible.

CTBI's expected credit loss models consider historical credit loss experience, current market and economic conditions, and forecasted changes in market and economic conditions if such forecasts are considered reasonable and supportable. Generally, CTBI considers our forecasts to be reasonable and supportable for a period of up to one year from the estimation date. For periods beyond the reasonable and supportable forecast period, expected credit losses are estimated by reverting to historical loss information. CTBI evaluates the length of our reasonable and supportable forecast period, our reversion period, and reversion methodology at least annually, or more often if warranted by economic conditions or other circumstances.

Other qualitative factors are used by CTBI in determining the ACL. These considerations inherently require significant management judgment to determine the appropriate factors to be considered and the extent of their impact on the ACL estimate. Qualitative factors are used to capture characteristics in the portfolio that impact expected credit losses but that are not fully captured within CTBI's expected credit loss models. These include adjustments for changes in policies or procedures in underwriting, monitoring or collections, lending and risk management personnel, and results of internal audit and quality control reviews. These may also include adjustments, when deemed necessary, for specific idiosyncratic risks such as geopolitical events, natural disasters and their effects on regional borrowers, and changes in product structures. Qualitative factors may also be used to address the impacts of unforeseen events on key inputs and assumptions within CTBI's expected credit loss models, such as the reasonable and supportable forecast period, changes to historical loss information, or changes to the reversion period or methodology. When evaluating the adequacy of allowances, consideration is also given to regional geographic concentrations and the closely associated effect that changing economic conditions may have on CTBI's customers.

Overall, the collective evaluation process requires significant management judgment when determining the estimation methodology and inputs into the models, as well as in evaluating the reasonableness of the modeled results and the appropriateness of qualitative adjustments. CTBI's forecasts of market and economic conditions and the internal risk grades assigned to loans in the commercial portfolio segment are examples of inputs to the expected credit loss models that require significant management judgment. These inputs have the potential to drive significant variability in the resulting ACL.

The reserve for unfunded commitments is maintained at a level believed by management to be sufficient to absorb estimated expected credit losses related to unfunded credit facilities and is included in other liabilities in the consolidated balance sheets. The determination of the adequacy of the reserve is based upon expected credit losses over the remaining contractual life of the commitments, taking into consideration the current funded balance and estimated exposure over the reasonable and supportable forecast period. This process takes into consideration the same risk elements that are analyzed in the determination of the adequacy of CTBI's ACL, as previously discussed. Net adjustments to the reserve for unfunded commitments are included in other noninterest expense in the consolidated statements of income.

Goodwill – Business combinations entered into by CTBI typically include the recognition of goodwill. U.S. generally accepted accounting principles ("GAAP") require goodwill to be tested for impairment on an annual basis, which for CTBI is October 1, and more frequently if events or circumstances indicate that there may be impairment. Refer to Note 1 to the condensed consolidated financial statements contained herein for a discussion on the methodology used by CTBI to assess goodwill for impairment.

Impairment exists when a reporting unit's carrying amount of goodwill exceeds its implied fair value. In testing goodwill for impairment, U.S. GAAP permits CTBI to first assess qualitative factors to determine whether it is more likely than not that its fair value is less than its carrying amount. In this qualitative assessment, CTBI evaluates events and circumstances which may include, but are not limited to, the general economic environment, banking industry and market conditions, the overall financial performance of CTBI, and the performance of CTBI's common stock, to determine if it is not more likely than not that the fair value is less than its carrying amount. If the quantitative impairment test is required or the decision to bypass the qualitative assessment is elected, CTBI performs the goodwill impairment test by comparing its fair value with its carrying amount, including goodwill. If the carrying amount exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill recorded. A recognized impairment loss cannot be reversed in future periods even if the fair value of the reporting unit subsequently recovers.

The fair value of CTBI is the price that would be received to sell the company as a whole in an orderly transaction between market participants at the measurement date. The determination of the fair value is a subjective process that involves the use of estimates and judgments, particularly related to cash flows, the appropriate discount rates, and an applicable control premium. CTBI employs an income-based approach, utilizing forecasted cash flows and the estimated cost of equity as the discount rate. Significant management judgment is necessary in the preparation of the forecasted cash flows surrounding expectations for earnings projections, growth and credit loss expectations, and actual results may differ from forecasted results.

Income Taxes – Income tax liabilities or assets are established for the amount of taxes payable or refundable for the current year. Deferred tax liabilities ("DTLs") and deferred tax assets ("DTAs") are also established for the future tax consequences of events that have been recognized in CTBI's financial statements or tax returns. A DTL or DTA is recognized for the estimated future tax effects attributable to temporary differences and deductions that can be carried forward (used) in future years. The valuation of current and deferred income tax liabilities and assets is considered critical, as it requires management to make estimates based on provisions of the enacted tax laws. The assessment of tax liabilities and assets involves the use of estimates, assumptions, interpretations, and judgments concerning certain accounting pronouncements and federal and state tax codes.

Fair Value Measurements – As a financial services company, the carrying value of certain financial assets and liabilities is impacted by the application of fair value measurements, either directly or indirectly. In certain cases, an asset or liability is measured and reported at fair value on a recurring basis, such as available-for-sale investment securities. In other cases, management must rely on estimates or judgments to determine if an asset or liability not measured at fair value warrants an impairment write-down or whether a valuation reserve should be established. Given the inherent volatility, the use of fair value measurements may have a significant impact on the carrying value of assets or liabilities or result in material changes to our consolidated financial statements from period to period. Detailed information regarding fair value measurements can be found in Note 7 to the condensed consolidated financial statements contained herein.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk management focuses on maintaining consistent growth in net interest income within Board-approved policy limits. CTBI uses an earnings simulation model to analyze net interest income sensitivity to movements in interest rates. Given a 200 basis point increase to the yield curve used in the simulation model, it is estimated net interest income for CTBI would increase by 3.83% over one year and 6.30% over two years. A 200 basis point decrease in the yield curve would decrease net interest income by an estimated 4.74% over one year and 7.04% over two years. For further discussion of CTBI's market risk, see the Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Market Risk included in the annual report on Form 10-K for the year ended December 31, 2021.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

CTBI's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. As of the end of the period covered by this report, an evaluation was carried out by CTBI's management, with the participation of our Vice Chairman, President, and Chief Executive Officer and the Executive Vice President, Chief Financial Officer, and Treasurer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, management concluded that disclosure controls and procedures as of September 30, 2022 were effective in ensuring material information required to be disclosed in this quarterly report on Form 10-Q was recorded, processed, summarized, and reported on a timely basis.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in CTBI's internal control over financial reporting that occurred during the three months ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, CTBI's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1.	Legal Proceedings	None
Item 1A.	Risk Factors	None
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	None
Item 3.	Defaults Upon Senior Securities	None
Item 4.	Mine Safety Disclosure	Not applicable
Item 5.	Other Information:	
	CTBI's Principal Executive Officer and Principal Financial Officer have furnished to the SEC the certifications with respect to this Form 10-Q that are required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002	
Item 6.	Exhibits:	
	(1) Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Exhibit 31.1 Exhibit 31.2
	(2) Certifications Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Exhibit 32.1 Exhibit 32.2
	(3) XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL	Exhibit 101.INS
	(4) XBRL Taxonomy Extension Schema Document	Exhibit 101.SCH
	(5) XBRL Taxonomy Extension Calculation Linkbase	Exhibit 101.CAL
	(6) XBRL Taxonomy Extension Definition Linkbase	Exhibit 101.DEF
	(7) XBRL Taxonomy Extension Label Linkbase	Exhibit 101.LAB
	(8) XBRL Taxonomy Extension Presentation Linkbase	Exhibit 101.PRE
	(9) Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)	Exhibit 104

SIGNATURES

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

COMMUNITY TRUST BANCORP, INC.

Date: November 8, 2022

By:

/s/ Mark A. Gooch

Mark A. Gooch
Vice Chairman, President, and Chief Executive Officer

/s/ Kevin J. Stumbo

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

Exhibit 31.1

Certification of Principal Executive Officer

I, Mark A. Gooch, Vice Chairman, President, and Chief Executive Officer of Community Trust Bancorp, Inc. ("CTBI"), certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Community Trust Bancorp, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CTBI as of, and for, the periods presented in this report;

(4) CTBI's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for CTBI and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to CTBI, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) evaluated the effectiveness of CTBI's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in CTBI's internal control over financial reporting that occurred during CTBI's most recent fiscal quarter (CTBI's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, CTBI's internal control over financial reporting; and

(5) CTBI's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to CTBI's auditors and the audit committee of CTBI's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect CTBI's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in CTBI's internal control over financial reporting.

/s/ Mark A. Gooch

Mark A. Gooch
Vice Chairman, President, and Chief Executive Officer
November 8, 2022

Exhibit 31.2

Certification of Principal Financial Officer

I, Kevin J. Stumbo, Executive Vice President, Chief Financial Officer, and Treasurer of Community Trust Bancorp, Inc. ("CTBI"), certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Community Trust Bancorp, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CTBI as of, and for, the periods presented in this report;

(4) CTBI's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for CTBI and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to CTBI, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) evaluated the effectiveness of CTBI's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in CTBI's internal control over financial reporting that occurred during CTBI's most recent fiscal quarter (CTBI's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonable likely to materially affect, CTBI's internal control over financial reporting; and

(5) CTBI's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to CTBI's auditors and the audit committee of CTBI's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect CTBI's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in CTBI's internal control over financial reporting.

/s/ Kevin J. Stumbo

Kevin J. Stumbo
Executive Vice President, Chief Financial Officer, and Treasurer
November 8, 2022

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Community Trust Bancorp, Inc. (“CTBI”) on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark A. Gooch, Vice Chairman, President, and Chief Executive Officer of CTBI, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CTBI.

/s/ Mark A. Gooch

Mark A. Gooch
Vice Chairman, President, and Chief Executive Officer
November 8, 2022

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Community Trust Bancorp, Inc. (“CTBI”) on Form 10-Q for the period ended September 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Kevin J. Stumbo, Executive Vice President, Chief Financial Officer, and Treasurer of CTBI, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of CTBI.

/s/ Kevin J. Stumbo

Kevin J. Stumbo
Executive Vice President, Chief Financial Officer, and Treasurer
November 8, 2022