
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

Form 10-K

**Annual Report Pursuant to Section 13
or 15(d) of the Securities Exchange Act of 1934**

**For the Fiscal Year Ended
December 31, 2013**

**Commission File Number
1-13661**

S.Y. BANCORP, INC.
1040 East Main Street
Louisville, Kentucky 40206
(502) 582-2571

Incorporated in Kentucky

I.R.S. No. 61-1137529

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

Title of each class:	Name of each exchange on which registered:
Common Stock, no par value	NASDAQ

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). **Yes** ☐ **No** ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes** ☐ **No** ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** ☒ **No** ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). **Yes** ☒ **No** ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ **No** ☒

The aggregate market value of registrant's voting stock (Common Stock, no par value) held by non-affiliates of the registrant as of June 30, 2013 (the last business day of the registrant's most recently completed second fiscal quarter) was \$316,583,000.

The number of shares of the registrant's Common Stock, no par value, outstanding as of February 24, 2014, was 14,611,849.

Documents Incorporated By Reference

Portions of Registrant's definitive proxy statement related to Registrant's Annual Meeting of Shareholders to be held on April 23, 2014 (the "Proxy Statement"), to be filed with the Securities and Exchange Commission, are incorporated by reference into Part III of this Form 10-K.

S.Y. BANCORP, INC.
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Part I

Item 1. Business

S. Y. Bancorp, Inc. (“Bancorp” or “Company”), headquartered in Louisville, Kentucky, is the holding company for Stock Yards Bank & Trust Company (“Bank”). Bancorp was incorporated in 1988 in Kentucky is registered with, and subject to supervision, regulation and examination by the Board of Governors of the Federal Reserve System. The Bank is wholly owned and is a state chartered bank. Because Bancorp has no significant operations of its own, its business and that of the Bank are essentially the same. The operations of the Bank are fully reflected in the consolidated financial statements of Bancorp. Accordingly, references to “Bancorp” in this document may encompass both the holding company and the Bank.

Stock Yards Bank & Trust Company

Stock Yards Bank & Trust Company is the banking subsidiary of Bancorp and was chartered in 1904. The Bank is headquartered in Louisville, Kentucky and provides commercial and personal banking services in the Louisville, Kentucky, Indianapolis, Indiana and Cincinnati, Ohio metropolitan markets through 34 full service banking offices. The Bank is chartered under the laws of the Commonwealth of Kentucky. In addition to traditional commercial and personal banking activities, the Bank has an investment management and trust department offering a wide range of trust administration, investment management, employee benefit plan and estate administration, and financial planning services. The Bank also originates and sells single-family residential mortgages. Additionally, the Bank offers securities brokerage services in the name of Stock Yards Financial Services through an arrangement with a third party broker-dealer. The Bank’s correspondent banking department offers holding company loans and lines of credit, deposit services, international services, investment management and trust services, and other services to community banks across Kentucky and southern Indiana. See Note 24 to Bancorp’s consolidated financial statements for information relating to the Bank’s business segments and “Item 2. Properties” for information regarding owned and leased properties.

2013 Acquisition

On April 30, 2013, Bancorp completed the acquisition of 100% of the outstanding shares of THE BANCORP, Inc. (“Oldham”), parent company of THE BANK — Oldham County, Inc. As a result of the transaction, THE BANK — Oldham County merged into Stock Yards Bank & Trust Company. Since the acquisition date, results of operations acquired in the Oldham transaction have been included in Bancorp’s financial results. The Oldham transaction has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration transferred were recorded at estimated fair value on the acquisition date. See Note 3 to Bancorp’s consolidated financial statements for information relating to the acquisition.

At December 31, 2013, Stock Yards Bank & Trust had 519 full-time equivalent employees. Employees of Stock Yards Bank & Trust are entitled to participate in a variety of employee benefit programs including a combined employee profit sharing and stock ownership plan (“KSOP”). Management of Bancorp strives to be an employer of choice and considers the relationship with employees to be good.

Supervision and Regulation

Bank holding companies and commercial banks are extensively regulated under both federal and state laws. Changes in applicable laws or regulations may have a material effect on the business and prospects of Bancorp.

Bancorp, as a registered bank holding company, is subject to the supervision of and regulation by the Federal Reserve Board under the Bank Holding Company Act of 1956. In addition, Bancorp is subject to the provisions of Kentucky’s banking laws regulating bank acquisitions and certain activities of controlling bank shareholders.

Kentucky and federal banking statutes delineate permissible activities for Kentucky state-chartered banks. Kentucky’s statutes, however, contain a super parity provision for Kentucky banks having a top one or two

rating in its most recent regulatory examination. This provision allows a state bank to engage in any banking activity in which a national bank in Kentucky, a state bank operating in any other state, or a federally chartered thrift could engage. The bank must first obtain a legal opinion specifying the statutory or regulatory provisions that permit the activity.

The Bank is subject to the supervision of the Kentucky Department of Financial Institutions and the Federal Deposit Insurance Corporation. The Federal Deposit Insurance Corporation (FDIC) insures the deposits of the Bank to the current maximums of \$250,000 per depositor.

The Gramm-Leach-Bliley Act (the “GLB Act”) allows for affiliations among banks, securities firms and insurance companies by means of a financial holding company (“FHC”). The GLB Act requires that, at the time of establishment of an FHC, all depository institutions within that corporate group must be “well managed” and “well capitalized” and must have received a rating of “satisfactory” or better under its most recent Community Reinvestment Act examination. Further, non-banking financial firms (for example an insurance company or securities firm) may establish an FHC and acquire a depository institution. While the distinction between banks and non-banking financial firms has been blurring over recent years, the GLB Act makes it less cumbersome for banks to offer services “financial in nature” but beyond traditional commercial banking activities. Likewise, non-banking financial firms may find it easier to offer services that had, heretofore, been provided primarily by depository institutions. In 2012, management of Bancorp chose to become an FHC after evaluating the benefits and costs.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) was signed into law in 2010. Generally, the Dodd-Frank Act was effective the day after it was signed into law, but different effective dates apply to specific sections of the law. This new extensive and complex legislation contained many new provisions affecting the banking industry, including:

- Creation of a new Bureau of Consumer Financial Protection overseeing banks with assets totaling \$10 billion or greater while writing and maintaining several regulations that apply to all banks
- Determination of debit card interchange rates by the Federal Reserve Board
- New regulation over derivative instruments
- Phase outs of certain forms of trust preferred debt and hybrids previously included as bank capital
- Increases to FDIC deposit coverage, revised calculations for assessing bank premiums, and numerous other provisions affecting financial institution regulation, oversight of certain non-banking organizations, investor protection, etc.

Uncertainty remains as to the ultimate impact of the Dodd-Frank Act, which could have a continued adverse impact on the financial services industry as a whole and on Bancorp’s business, results of operations and financial condition.

Available Information

Bancorp files reports with the SEC including the Annual Report on Form 10-K, quarterly reports on Form 10-Q, current event reports on Form 8-K, and proxy statements, as well as any amendments to those reports. The public may read and copy any materials the Registrant files with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>. Bancorp’s Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are accessible at no cost on Bancorp’s web site at <http://www.syb.com> after they are electronically filed with the SEC.

Item 1A. Risk Factors

Investment in Bancorp's common stock involves risk, and Bancorp's profitability and success may be affected by a number of factors including those discussed below.

Financial condition and profitability depend significantly on local and national economic conditions.

Our success depends on general economic conditions both locally and nationally. Most of Bancorp's customers are in the Louisville, Indianapolis, and Cincinnati metropolitan areas. Some of Bancorp's customers are directly impacted by the local economy while others have more national or global business dealings. Some of the factors influencing general economic conditions include tepid economic recovery, unemployment, and government regulation. Poor economic conditions have an unfavorable impact on the demand of customers for loans and the ability of some borrowers to repay these loans. Deterioration in the quality of the credit portfolio could have a material adverse effect on financial condition, results of operations, and ultimately capital.

Financial condition and profitability depend on real estate values in our market area.

Bancorp offers a variety of secured loans, including commercial lines of credit, commercial term loans, real estate, construction, home equity, consumer and other loans. Over half of Bancorp's loans are secured by real estate (both residential and commercial) in Bancorp's market area. In instances where borrowers are unable to repay their loans from us and there has been deterioration in the value of the loan collateral, Bancorp could experience higher loan losses. Additional increases in loan loss provisions, which may be necessary in the future, could have a material adverse effect on financial condition, results of operations, and ultimately capital.

If actual loan losses are greater than Bancorp's allowance assumption for loan losses, earnings could decrease.

Bancorp's loan customers may not repay their loans according to the terms of these loans, the collateral securing the payment of these loans may be insufficient to ensure repayment and the wealth of guarantors providing guarantees to support these loans may be insufficient to aid in the repayment of these loans. Accordingly, Bancorp may experience significant credit losses which could have a material adverse effect on operating results. Bancorp makes various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of borrowers and the value of real estate and other assets serving as collateral for repayment of many loans. In determining the adequacy of the allowance for loan losses, Bancorp considers, among other factors, an evaluation of economic conditions and Bancorp's loan loss experience. If Bancorp's assumptions prove to be incorrect or economic problems are worse than projected, the current allowance may not be sufficient to cover loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in the loan portfolio. Such additions to the allowance, if necessary, could have a material adverse impact on financial results.

In addition, federal and state regulators periodically review Bancorp's allowance for loan losses and may require an increase in the provision for loan losses or loan charge-offs. If the regulatory agencies require any increase in the provision for loan losses or loan charge-offs for which Bancorp had not allocated, it would have a negative effect on net income.

Fluctuations in interest rates could reduce profitability.

Our primary source of income is from the net interest spread, the difference between interest earned on loans and investments and the interest paid on deposits and borrowings. Bancorp expects to periodically experience "gaps" in the interest rate sensitivities of Bancorp's assets and liabilities, meaning that either interest-bearing liabilities will be more sensitive to changes in market interest rates than interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to Bancorp's position, this "gap" will work against Bancorp and earnings will be negatively affected.

Many factors affect the fluctuation of market interest rates, including, but not limited to the following:

- Inflation or deflation;
- recession;
- a rise in unemployment;
- tightening money supply;
- international disorder and instability in foreign financial markets; and
- the Federal Reserve's actions to control interest rates;

Bancorp's interest rate sensitivity analysis indicates an increase in interest rates of up to 2% would decrease net interest income, primarily because the majority of Bancorp's variable rate loans have floors of 4% or higher, and are indexed to the prime rate. Since the prime rate is currently 3.25%, rates would have to increase more than 75 bp before the rates on such loans will rise. This effect negatively impacts the effect of rising rates. Deposit rates generally do not reprice as quickly as loans which negatively affects earnings as rates decline. Bancorp's asset-liability management strategy, which is designed to mitigate risk from changes in market interest rates, may not be able to prevent changes in interest rates from having a material adverse effect on Bancorp's results of operations and financial condition. Bancorp's most recent earnings simulation model estimating the impact of changing interest rates on earnings indicates net interest income will decrease approximately 2.1% if interest rates immediately decrease 100 basis points for the next 12 months and decrease approximately 3.8% if rates increase 100 basis points. Prevailing interest rates are at historically low levels, and current indications are that the Federal Reserve will likely maintain the low rates through 2014 and into 2015.

Significant stock market volatility could negatively affect Bancorp's financial results.

Capital and credit markets experience volatility and disruption from time to time. These conditions place downward pressure on credit availability, credit worthiness and customers' inclinations to borrow. Prolonged volatility or a significant disruption could negatively impact customers' ability to seek new loans or to repay existing loans. The personal wealth of many of borrowers and guarantors has historically added a source of financial strength to certain loans and would be negatively impacted by severe market declines. Sustained reliance on their personal assets to make loan payments would result in deterioration of their liquidity, and could result in loan defaults.

Income from investment management and trust services constitutes an average of 40% of non-interest income. Trust assets under management are expressed in terms of market value, and a significant portion of fee income is based upon those values. While investment management and trust fees are based on market values, they typically do not fluctuate directly with the overall stock market. Accounts typically contain fixed income and equity asset classes, which generally react to market fluctuations inversely to each other.

Competition with other financial institutions could adversely affect profitability.

Bancorp operates in a highly competitive industry that could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Bancorp faces vigorous competition from banks and other financial institutions. A number of these banks and other financial institutions have substantially greater resources and lending limits, larger branch systems and a wider array of banking services. Additionally, Bancorp encounters competition from smaller community banks in Bancorp's markets. Bancorp also competes with other non-traditional providers of financial services, such as brokerage firms and insurance companies. This competition may reduce or limit margins on banking services, reduce market share and adversely affect results of operations and financial condition.

Credit unions continue to grow in popularity and size, and their expansion into business lending is growing. Because credit unions are not subject to federal income tax, and Bancorp pays federal income tax at a marginal rate of 35%, these companies have a significant competitive advantage over Bancorp. This advantage may have a negative impact on Bancorp's growth and resultant financial results as these credit unions continue to expand.

Bancorp’s accounting policies and methods are critical to how Bancorp reports its financial condition and results of operations. They require management to make estimates about matters that are uncertain.

Accounting policies and methods are fundamental to how Bancorp records and reports its financial condition and results of operations. Bancorp must exercise judgment in selecting and applying these accounting policies and methods so they comply with United States generally accepted accounting principles (US GAAP).

Bancorp has identified certain accounting policies as being critical because they require management’s judgment to ascertain the valuations of assets, liabilities, commitments and contingencies. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset, or reducing a liability. Bancorp has established detailed policies and control procedures that are intended to ensure these critical accounting estimates and judgments are well controlled and applied consistently. In addition, the policies and procedures are intended to ensure that the process for changing methodologies occurs in an appropriate manner. Because of the uncertainty surrounding Bancorp’s judgments and the estimates pertaining to these matters, there can be no assurances that actual results will not differ from those estimates. See the “Critical Accounting Policies” in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for more information.

An extended disruption of vital infrastructure or a security breach could negatively impact Bancorp’s business, results of operations, and financial condition.

Bancorp’s operations depend upon, among other things, infrastructure, including equipment and facilities. Extended disruption of vital infrastructure by fire, power loss, natural disaster, telecommunications failure, information systems breaches, terrorist activity or the domestic and foreign response to such activity, or other events outside of Bancorp’s control could have a material adverse impact on the financial services industry as a whole and on Bancorp’s business, results of operations and financial condition. Bancorp’s business continuity plan may not work as intended or may not prevent significant interruption of operations. The occurrence of any failures, interruptions, or security breaches of information systems could damage Bancorp’s reputation, result in the loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have an adverse effect on Bancorp’s financial condition and results of operation.

Bancorp’s assets which are at risk for cyber-attacks include financial assets and non-public information belonging to customers. Bancorp utilizes several third-party vendors who have access to our assets via electronic media. Certain cyber security risks arise due to this access, including cyber espionage, blackmail, ransom, and theft. Bancorp employs many preventive and detective controls to protect its assets, and provides mandatory recurring information security training to all employees. Bancorp requires third parties to have similar or superior controls in place. Bancorp did not suffer a material incident in the years reported herein. Bancorp maintains certain insurance coverage to prevent material financial loss from cyber-attacks.

Bancorp operates in a highly regulated environment and may be adversely affected by changes in federal, state and local laws and regulations.

Bancorp is subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal or state legislation could have a substantial impact on Bancorp and its operations. Additional legislation and regulations may be enacted or adopted in the future that could significantly affect Bancorp’s powers, authority and operations, which could have a material adverse effect on Bancorp’s financial condition and results of operations. The exercise of regulatory power may have negative impact on Bancorp’s results of operations and financial condition.

Item 1B. Unresolved Staff Comments

Bancorp has no unresolved SEC staff comments.

Item 2. Properties

The principal offices of Bancorp are located at 1040 East Main Street, Louisville, Kentucky. Bancorp's operations center is at a separate location. In addition to the main office complex and the operations center, Bancorp owned 19 branch properties at December 31, 2013, two of which are located on leased land. At that date, Bancorp also leased 15 branch facilities. Of the 34 banking locations, 28 are located in the Louisville Metropolitan Statistical Area ("MSA"), three are located in the Indianapolis MSA and three are located in the Cincinnati MSA. See Notes 6 and 18 to Bancorp's consolidated financial statements for the year ended December 31, 2013, for additional information relating to amounts invested in premises and equipment and lease commitments.

Item 3. Legal Proceedings

See Note 18 to Bancorp's consolidated financial statements for the year ended December 31, 2013, for information relating to legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

The following table lists the names and ages as of December 31, 2013 of all current executive officers of Bancorp and the Bank. Each executive officer is appointed by Bancorp's Board of Directors to serve at the discretion of the Board. There is no arrangement or understanding between any executive officer of Bancorp or the Bank and any other person(s) pursuant to which he/she was or is to be selected as an officer.

Name and Age of Executive Officer	Position and Offices with Bancorp and/or the Bank
David P. Heintzman Age 54	Chairman of the Board of Directors and Chief Executive Officer of Bancorp and the Bank
James A. Hillebrand Age 45	President and Director of Bancorp and the Bank
Kathy C. Thompson Age 52	Senior Executive Vice President and Director of Bancorp and the Bank
Nancy B. Davis Age 58	Executive Vice President, Secretary, Treasurer and Chief Financial Officer of Bancorp and the Bank
William M. Dishman III Age 50	Executive Vice President and Chief Risk Officer of the Bank
Gregory A. Hoeck Age 63	Executive Vice President and Director of Retail Banking of the Bank
Philip S. Poindexter Age 47	Executive Vice President and Chief Lending Officer of the Bank
T. Clay Stinnett Age 40	Executive Vice President and Chief Strategic Officer of Bancorp and the Bank

Mr. Heintzman was appointed Chairman and Chief Executive Officer in January 2006. Prior thereto, he served as President of Bancorp and the Bank since 1992. Mr. Heintzman joined the Bank in 1985.

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Mr. Hillebrand was appointed President in July 2008. Prior thereto, he served as Executive Vice President and Director of Private Banking of the Bank since 2005. From 2000 to 2004, he served as Senior Vice President of Private Banking. Mr. Hillebrand joined the Bank in 1996.

Ms. Thompson was appointed Senior Executive Vice President in January 2006. Prior thereto, she served as Executive Vice President of Bancorp and the Bank. She joined the Bank in 1992 and is Manager of the Investment Management and Trust Department.

Ms. Davis was appointed Executive Vice President of Bancorp and the Bank in 1999 and Chief Financial Officer in 1993. She joined the Bank in 1991.

Mr. Dishman joined the Bank and was appointed Executive Vice President and Chief Risk Officer in February 2009. Prior thereto, he served as Executive Vice President and Chief Credit Officer for National City Bank's Kentucky and Tennessee markets from 2004 to 2009.

Mr. Hoeck joined the Bank and was appointed Executive Vice President in May 1998. He is the Director of Retail Banking for the Bank. In January 2014, Mr. Hoeck announced his retirement from the Bank effective June 30, 2014.

Mr. Poindexter was appointed Chief Lending Officer in July 2008. Prior thereto, he served as Executive Vice President and Director of Commercial Banking. Mr. Poindexter joined the Bank in 2004.

Mr. Stinnett was appointed Executive Vice President and Chief Strategic Officer in February 2011. Prior thereto, he served as Senior Vice President and Chief Strategic Officer since 2005. Mr. Stinnett joined the Bank in 2000.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Bancorp's common stock is traded on the NASDAQ Global Select Market under the ticker symbol SYBT. The table below sets forth the quarterly high and low market closing prices of Bancorp's common stock and dividends declared per share. The payment of dividends by the Bank to Bancorp is subject to the restriction described in Note 17 to the consolidated financial statements. Management believes that Bancorp will continue to generate adequate earnings to continue to pay dividends on a quarterly basis. On December 31, 2013, Bancorp estimates it had a total of approximately 5,600 shareholders, including beneficial owners holding shares in nominee or "street" name.

Quarter	2013			2012		
	High	Low	Cash dividends declared	High	Low	Cash dividends declared
First	\$ 23.29	\$ 22.10	\$ 0.20	\$ 23.65	\$ 20.60	\$ 0.19
Second	24.99	21.51	0.20	23.95	21.96	0.19
Third	28.46	24.99	0.20	24.98	22.45	0.19
Fourth	33.77	27.23	0.21	24.12	21.08	0.20

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The following table shows information relating to the repurchase of shares of common stock by Bancorp during the three months ended December 31, 2013.

	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plan (2)	Maximum number of shares that may yet be purchased under the plan
October 1-October 31	780	\$ 30.64	—	—
November 1-November 30	2,081	31.61	—	—
December 1-December 31	43	32.13	—	—
Total	2,904	\$ 31.36	—	—

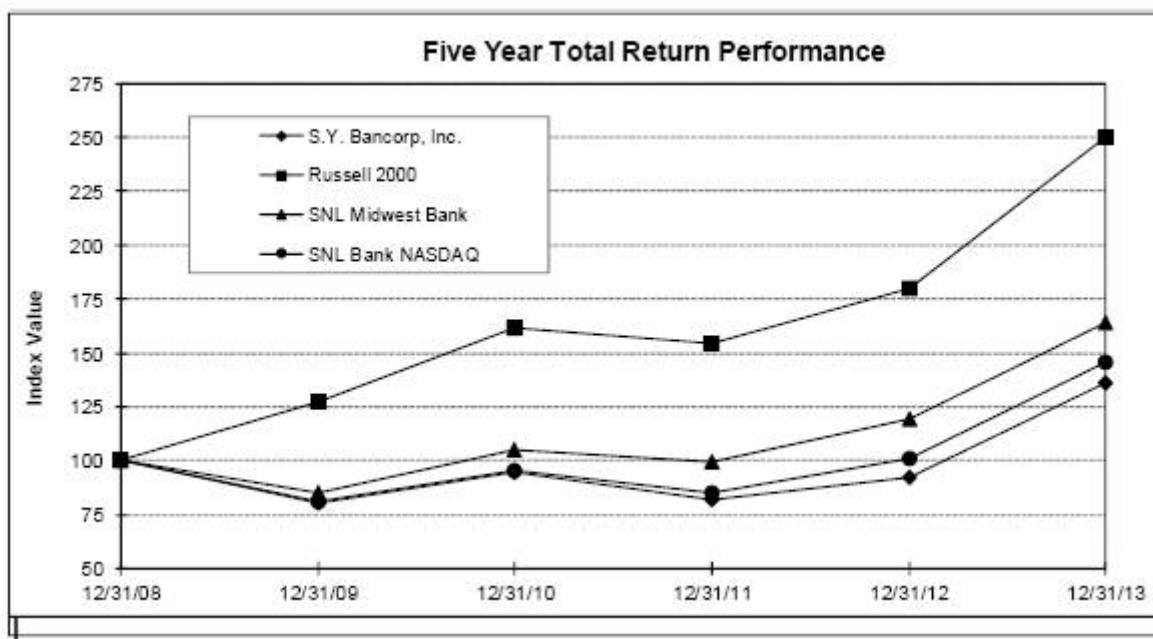
(1) Activity represents shares of stock withheld to pay the exercise price of stock options or to pay taxes due upon the exercise of stock appreciation rights. This activity has no impact on the number of shares that may be purchased under a Board-approved plan.

(2) Since 2008, there has been no active share buyback plan.

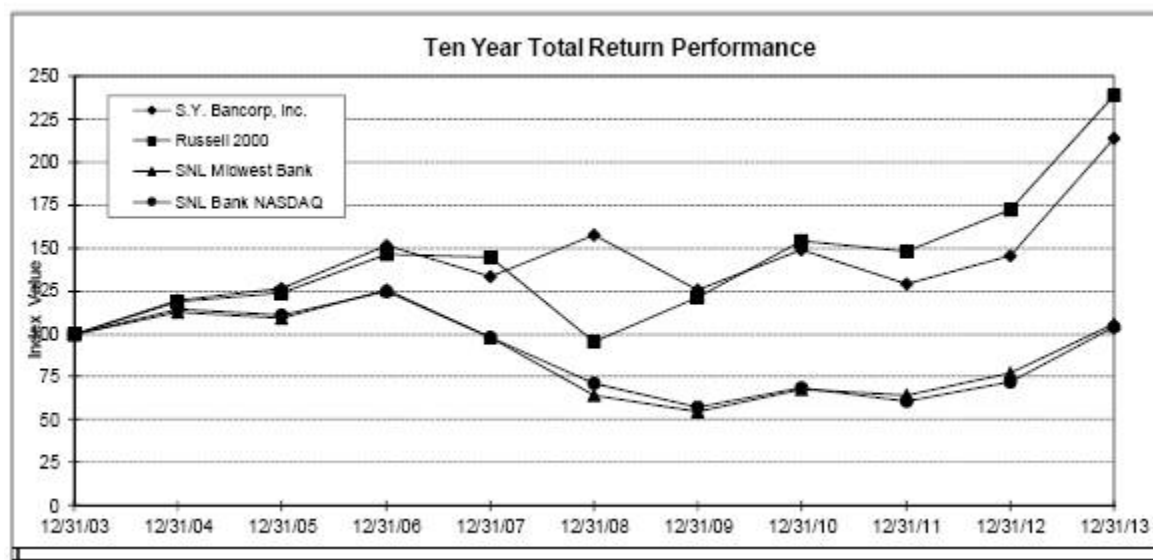
The following performance graph and data shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed soliciting material or subject to Regulation 14A of the Exchange Act or incorporated by reference in any filing under the Exchange Act or the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

The first graph below compares the performance of Bancorp Common Stock to the Russell 2000 index, the SNL NASDAQ Bank index and the SNL Midwest Bank index for Bancorp's last five fiscal years. The graph assumes the value of the investment in Bancorp Common Stock and in each index was \$100 at December 31, 2008 and that all dividends were reinvested.

The ten-year period is presented in addition to the five-year period required by the S.E.C. because it provides additional perspective, and Bancorp management believes that longer-term performance is of greater interest to Bancorp shareholders. In 2008 and 2009, Bancorp did not decrease or suspend cash dividends, nor did it experience a decline in value as precipitous as illustrated by the referenced bank indices. Accordingly, Bancorp's stock price increases since 2008 have not been as steep as the referenced bank indices. The ten-year graph assumes the value of the investment in Bancorp Common Stock and in each index was \$100 at December 31, 2003 and that all dividends were reinvested.



Index	Period Ending					
	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
S.Y. Bancorp, Inc.	100.00	80.02	94.70	81.85	92.48	135.83
Russell 2000	100.00	127.17	161.32	154.59	179.86	249.69
SNL Midwest Bank	100.00	84.75	105.24	99.40	119.64	163.80
SNL Bank NASDAQ	100.00	81.12	95.71	84.92	101.22	145.48



Index	Period Ending										
	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
S.Y. Bancorp, Inc.	100.00	119.25	126.28	151.62	132.98	156.99	125.61	148.66	128.49	145.18	213.23
Russell 2000	100.00	118.33	123.72	146.44	144.15	95.44	121.38	153.97	147.54	171.67	238.31
SNL Midwest Bank	100.00	112.84	108.73	125.68	97.96	64.44	54.61	67.82	64.06	77.10	105.55
SNL Bank NASDAQ	100.00	114.61	111.12	124.75	97.94	71.13	57.70	68.08	60.40	71.99	103.48

Item 6. Selected Financial Data
Selected Consolidated Financial Data

(Amounts in thousands except
per share data and ratios)

	Years ended December 31				
	2013	2012	2011	2010	2009
Income statement data					
Interest income	\$ 86,464	\$ 86,901	\$ 86,039	\$ 86,146	\$ 83,856
Interest expense	9,166	12,951	15,307	19,267	25,181
Net interest income	77,298	73,950	70,732	66,879	58,675
Provision for loan losses	6,550	11,500	12,600	11,469	12,775
Non-interest income	39,002	38,457	33,244	33,739	30,036
Non-interest expenses	71,352	65,472	59,581	57,131	52,695
Income before income taxes	38,398	35,435	31,795	32,018	23,241
Income tax expense	11,228	9,634	8,191	9,065	6,933
Net income	\$ 27,170	\$ 25,801	\$ 23,604	\$ 22,953	\$ 16,308
Per share data					
Net income, basic	\$ 1.91	\$ 1.86	\$ 1.71	\$ 1.68	\$ 1.20
Net income, diluted	1.89	1.85	1.71	1.67	1.19
Cash dividends declared	0.81	0.77	0.72	0.69	0.68
Book value	15.71	14.74	13.58	12.37	11.29
Market value	31.92	22.42	20.53	24.55	21.35
Weighted average common and common equivalent shares - diluted	14,353	13,932	13,834	13,779	13,689
Balance Sheet data					
Total assets	\$ 2,389,262	\$ 2,148,262	\$ 2,053,097	\$ 1,902,945	\$ 1,791,479
Loans	1,721,350	1,584,594	1,544,845	1,508,425	1,435,462
Allowance for loan losses	28,522	31,881	29,745	25,543	20,000
Available for sale securities	490,031	386,440	352,185	245,352	228,260
Deposits	1,980,937	1,781,693	1,617,739	1,493,468	1,418,184
Federal Home Loan Bank advances	34,329	31,882	60,431	60,442	60,453
Subordinated debentures	—	30,900	40,900	40,900	40,930
Stockholders' equity	229,444	205,075	187,686	169,861	153,614
Average balances					
Stockholders' equity	\$ 220,107	\$ 197,551	\$ 179,638	\$ 163,572	\$ 150,721
Assets	2,232,868	2,070,967	1,959,609	1,847,452	1,717,474
Federal Home Loan Bank advances	32,518	60,113	60,436	69,159	80,904
Long-term debt	30,477	31,474	40,900	40,901	40,930
Selected ratios					
Return on average assets	1.22%	1.25%	1.20%	1.24%	0.95%
Return on average stockholders' equity	12.34	13.06	13.14	14.03	10.82
Average stockholders' equity to average assets	9.86	9.54	9.17	8.85	8.78
Net interest rate spread	3.59	3.74	3.79	3.74	3.43
Net interest rate margin, fully tax-equivalent	3.74	3.94	3.99	3.99	3.74
Efficiency ratio	60.82	57.38	56.47	56.01	58.70
Non-performing loans to total loans	1.33	1.90	1.51	1.28	0.84
Non-performing assets to total assets	1.19	1.74	1.51	1.30	0.77
Net charge offs to average loans	0.60	0.60	0.55	0.40	0.59
Allowance for loan losses to total loans	1.66	2.01	1.93	1.69	1.39

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Financial Section Roadmap

The financial section of this Form 10-K includes management’s discussion and analysis, consolidated financial statements, and the notes to those financial statements. Bancorp has prepared the following summary, or “roadmap,” to assist in your review of the financial section. It is designed to give you an overview of S.Y. Bancorp, Inc. and summarize some of the more important activities and events that occurred during 2013.

The financial section includes the following:

Management’s discussion and analysis, or MD&A (pages 13 through 44) — provides information as to the analysis of the consolidated financial condition and results of operations of Bancorp. It contains management’s view about industry trends, risks, uncertainties, accounting policies that Bancorp views as critical in light of its business, results of operations including discussion of the key performance drivers, financial position, cash flows, commitments and contingencies, important events, transactions that have occurred over the last three years, and forward-looking information, as appropriate.

Financial statements (pages 45 through 49) — include Consolidated Balance Sheets as of the end of the last two years, and Consolidated Statements of Income, Comprehensive Income, Cash Flows, and Changes in Stockholders’ Equity, for each of the last three years. Bancorp’s financial statements are prepared in accordance with US GAAP.

Notes to the financial statements (pages 50 through 92) — provide insight into, and are an integral part of, the financial statements. The notes contain explanations of significant accounting policies, details about certain captions on the financial statements, information about significant events or transactions that have occurred, discussions about legal proceedings, commitments and contingencies, and selected financial information relating to business segments. The notes to the financial statements also are prepared in accordance with US GAAP.

Reports related to the financial statements and internal control over financial reporting (pages 93 through 97) — include the following:

- A report from KPMG LLP, an independent registered public accounting firm, which includes their opinion on the presentation of Bancorp’s consolidated financial statements based on their audits;
- A report from management indicating Bancorp’s responsibility for financial reporting and the financial statements;
- A report from management indicating Bancorp’s responsibility for the system of internal control over financial reporting, including an assessment of the effectiveness of those controls; and
- A report from KPMG LLP, which includes their opinion on the effectiveness of Bancorp’s internal control over financial reporting.

Our Business

S.Y. Bancorp, Inc. (“Bancorp”), incorporated in 1988, and its business is substantially the same as that of its wholly owned subsidiary, Stock Yards Bank & Trust Company (“the Bank”). The Bank has operated continuously since it opened in 1904. The Bank conducted business at one location for 85 years and began branching in 1989. At December 31, 2013, the Bank had 28 full service banking locations in the Louisville MSA, three full service banking locations in the Indianapolis MSA, and three full service banking locations in the Cincinnati MSA. Bancorp’s focus on flexible, attentive customer service has been key to its growth and profitability. The wide range of services added by investment management and trust, securities brokerage, and mortgage origination helps support the corporate philosophy of capitalizing on full service customer relationships.

On April 30, 2013, Bancorp completed the acquisition of 100% of the outstanding shares of THE BANCORP, Inc. (“Oldham”), parent company of THE BANK — Oldham County, Inc. As a result of the transaction, THE BANK — Oldham County merged into Stock Yards Bank & Trust Company. Since the acquisition date, results of operations acquired in the Oldham transaction have been included in Bancorp’s financial results.

Forward-Looking Statements

This report contains forward-looking statements under the Private Securities Litigation Reform Act that involve risks and uncertainties. These forward-looking statements may be identified by the use of words such as “expect”, “anticipate”, “plan”, “foresee”, “believe” or other words with similar meaning. Although Bancorp believes the assumptions underlying the forward-looking statements contained herein are reasonable, any of these assumptions could be inaccurate. Factors that could cause actual results to differ from results discussed in forward-looking statements include, but are not limited to: economic conditions both generally and more specifically in the markets in which Bancorp and its subsidiaries operate; competition for Bancorp’s customers from other providers of financial services; government legislation and regulation which change from time to time and over which Bancorp has no control; changes in interest rates; material unforeseen changes in liquidity, deterioration in the real estate market, results of operations or financial condition of Bancorp’s customers; or other risks detailed in Bancorp’s filings with the Securities and Exchange Commission and Item 1A of this Form 10-K all of which are difficult to predict and many of which are beyond the control of Bancorp.

Critical Accounting Policies

Bancorp has prepared the consolidated financial information in this report in accordance with US GAAP. In preparing the consolidated financial statements in accordance with US GAAP, Bancorp makes estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. There can be no assurances that actual results will not differ from those estimates.

Management has identified the accounting policy related to the allowance and provision for loan losses as critical to the understanding of Bancorp’s results of operations and discussed this conclusion with the Audit Committee of the Board of Directors. Since the application of this policy requires significant management assumptions and estimates, it could result in materially different amounts to be reported if conditions or underlying circumstances were to change. Assumptions include many factors such as changes in borrowers’ financial condition which can change quickly or historical loss ratios related to certain loan portfolios which may or may not be indicative of future losses. To the extent that management’s assumptions prove incorrect, the results from operations could be materially affected. The impact and any associated risks related to this policy on Bancorp’s business operations are discussed in the “Allowance for Loan Losses” section below.

The allowance for loan losses is management’s estimate of probable losses in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Prior to the third quarter of 2013, management measured the appropriateness of the allowance for loan losses in its entirety using (a) quantitative (historical loss rates) and qualitative factors (management adjustment factors); (b) specific allocations on impaired loans, and (c) an unallocated amount. The unallocated amount was evaluated on the loan portfolio in its entirety and was based on additional factors, such as national and local economic trends and conditions, changes in volume and severity of past due loans, volume of non-accrual loans, volume and severity of adversely classified or graded loans and other factors and trends that affect specific loans and categories of loans, such as a heightened risk in the commercial and industrial loan portfolios. Bancorp utilized the sum of all allowance amounts derived as described above, including a reasonable unallocated allowance, as an indicator of the appropriate level of allowance for loan and lease losses.

During the third quarter of 2013, Bancorp refined its allowance calculation whereby it “allocated” the portion of the allowance that was previously deemed to be unallocated allowance based on management’s determination of the appropriate qualitative adjustment. This refined allowance calculation includes specific

allowance allocations to loan portfolio segments at December 31, 2013 for qualitative factors including, among other factors, (i) national and local economic and business conditions, (ii) the quality and experience of lending staff and management, (iii) changes in lending policies and procedures, (iv) changes in volume and severity of past due loans, classified loans and non-performing loans, (v) potential impact of any concentrations of credit, (vi) changes in the nature and terms of loans such as growth rates and utilization rates, (vii) changes in the value of underlying collateral for collateral-dependent loans, considering Bancorp's disposition bias, and (viii) the effect of other external factors such as the legal and regulatory environment. Bancorp may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, changes in Bancorp's loan review process. Changes in the criteria used in this evaluation or the availability of new information could cause the allowance to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to the allowance for loan and lease losses based on their judgments and estimates.

Additionally, management has identified the accounting policy related to accounting for income taxes as critical to the understanding of Bancorp's results of operations and discussed this conclusion with the Audit Committee of the Board of Directors. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in Bancorp's financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences, including the effects of IRS examinations and examinations by other state agencies, could materially impact Bancorp's financial position and its results from operations. Additional information regarding income taxes is discussed in the "Income Taxes" section below.

Overview of 2013

The following discussion should be read in conjunction with Bancorp's consolidated financial statements and accompanying notes and other schedules presented elsewhere in this report.

In 2013, Bancorp completed a year of asset and deposit growth with net income totaling \$27,170,000, an increase of 5% over 2012, and the fourth consecutive year of increased net income. Increased profitability was primarily due to an increase in net interest income, a decline in the provision for loan losses, an increase in non-interest income, partially offset by higher non-interest expenses and higher income tax expense. Diluted earnings per share for 2013 increased 2% over 2012 to \$1.89, exceeding the highest amount recorded in any prior year. Bancorp's results for 2013 included the effect of several non-core items. These items are discussed in the "Non-Interest Income and Non-Interest Expenses" section below. Excluding these items, net income for 2013, was \$28.3 million or \$1.97 per diluted share. See the "Non-GAAP Financial Measures" section for details on reconciliation to US GAAP measures.

On April 30, 2013, Bancorp completed the acquisition of 100% of the outstanding shares of THE BANCORP, Inc. ("Oldham"), parent company of THE BANK — Oldham County, Inc. As a result of the transaction, THE BANK — Oldham County merged into Stock Yards Bank & Trust Company. Since the acquisition date, results of operations acquired in the Oldham transaction have been included in Bancorp's financial results. The Oldham transaction has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration transferred were recorded at estimated fair value on the acquisition date. The fair value adjustments resulted in net assets acquired in excess of the consideration paid. Accordingly, a non-taxable gain of \$449,000 was recognized. In connection with the Oldham acquisition, Bancorp incurred expenses totaling \$1,548,000 related to executing the transaction and integrating and conforming acquired operations with and into Bancorp.

As is the case with most banks, the primary source of Bancorp's revenue is net interest income and fees from various financial services provided to customers. Net interest income is the difference between interest income earned on loans, investment securities and other interest earning assets less interest expense on deposit accounts and other interest bearing liabilities. Loan volume and the interest rates earned on those loans are critical to overall profitability. Similarly deposit volume is crucial to funding loans and rates paid on deposits directly impact profitability. Business volumes are influenced by overall economic factors including

market interest rates, business spending, consumer confidence and competitive conditions within the marketplace.

Bancorp's loan portfolio increased \$137 million, or 9%, during 2013 to \$1.7 billion. Excluding \$40 million of loans acquired in the Oldham transaction, core loan growth was 6% for 2013. Record loan production of approximately \$489 million was largely offset by loan payoffs, including the effects of normal payoffs and paydowns and increased competition from banks and non-bank financial firms. Increased loan volume contributed to higher interest income in 2013, but the increase resulting from volume was more than offset by declining interest rates on loans and investments over the past year. Primarily as a result, interest income for 2013 decreased \$437,000 over 2012. Despite significant deposit growth, interest expense declined due to lower funding costs on deposits and borrowings. While rates paid on liabilities decreased, rates on earning assets decreased slightly more, resulting in a decreased net interest spread and net interest margin compared to 2012. Net interest margin in 2013 reflected prepayment fees associated with loan refinancing activity. Adjusting for these sources of additional income, Bancorp's more normalized or core net interest margin has trended downward throughout 2013, declining to 3.66% for 2013 from 3.88% for 2012. (See "Non-GAAP Financial Measures" section for reconciliation of non-GAAP measures to US GAAP measures.)

Total non-interest income in 2013 increased \$545,000 compared to 2012, and remained consistent at 34% of total revenues, reflecting increases in investment management and trust services, service charges on deposit accounts, bankcard transaction revenue, and the gain on the Oldham acquisition, partially offset by a decrease in mortgage banking revenue and brokerage commissions.

Higher non-interest expenses for 2013 resulted from one-time acquisition costs related to the Oldham transaction, write-off of debt issuance costs related to redemption of trust preferred securities, increases in salaries and benefits and data processing expenses, partially offset by decreases in losses on foreclosed assets, furniture and equipment, and FDIC insurance expense. Bancorp's efficiency ratio for 2013 of 60.8% increased from 57.4% in 2012.

Also favorably impacting 2013 results, Bancorp's provision for loan losses decreased to \$6,550,000 compared to \$11,500,000 for 2012, in response to Bancorp's assessment of risk in the loan portfolio. The provision for loan losses is calculated after considering credit quality factors, and ultimately relies on an overall internal analysis of the risk in the loan portfolio. Bancorp's allowance for loan losses was 1.66% of total loans at December 31, 2013, compared with 2.01% of total loans at December 31, 2012.

Bancorp's effective tax rate increased to 29.2% in 2013 from 27.2% in 2012. The increase in income tax expense from 2012 to 2013 is the result of reduced tax exempt interest in 2013 as well as the recognition of certain federal historic rehabilitation tax credits related to an investment in redevelopment of a Louisville landmark in 2012.

Tangible common equity (TCE), a non-GAAP measure, is a measure of a company's capital which is useful in evaluating the quality and adequacy of capital. It is calculated by subtracting the value of intangible assets and any preferred equity from the book value of Bancorp.

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A summary of Bancorp's TCE ratios at December 31, 2013 and 2012 is shown in the following table.

<u>(in thousands, except per share data and ratios)</u>	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Total equity	\$ 229,444	\$ 205,075
Less core deposit intangible	(2,151)	—
Less goodwill	(682)	(682)
Tangible common equity	<u>\$ 226,611</u>	<u>\$ 204,393</u>
Total assets	\$ 2,389,262	\$ 2,148,262
Less core deposit intangible	(2,151)	—
Less goodwill	(682)	(682)
Total tangible assets	<u>\$ 2,386,429</u>	<u>\$ 2,147,580</u>
Tangible common equity ratio	<u>9.50%</u>	<u>9.52%</u>
Number of outstanding shares	<u>14,609</u>	<u>13,915</u>
Tangible common equity per share	<u>\$ 15.51</u>	<u>\$ 14.69</u>

See "Non-GAAP Financial Measures" section for reconciliation of TCE to US GAAP measures.

Challenges for 2014 will include, maintaining a stable net interest margin, achieving continued loan growth, managing credit quality and increasing regulatory requirements.

- Bancorp expects net interest margin to improve in 2014 as the interest expense from the redeemed trust preferred securities is eliminated. Other than this, the margin is expected to remain consistent, as rates are expected to be largely unchanged through the fourth quarter of 2014. Loan prepayments are expected to diminish while prevailing rates for new loans will likely result in a relatively unchanged net interest margin for 2014. Considering prevailing rates, management expects little margin compression to continue in 2014. However, increased deposit and loan rate competition could negatively impact this expectation, as could a decrease in longer term interest rates.
- The Federal Reserve Board lowered its key short term rate in 2008 to unprecedentedly low levels, and rates have remained low through 2013. Indications are that the Federal Reserve will likely keep short term rates low through 2014 and into 2015. Approximately 35% of Bancorp's loans are indexed to the prime interest rate and reprice immediately with Federal Reserve rate changes. However, approximately 55% of variable rate loans have reached their contractual floor of 4% or higher, meaning they will not reprice immediately when the prime rate increases. Deposit rates generally do not reprice as quickly as loans. Once rates begin to rise, Bancorp's net interest margin likely will be negatively affected until the increase in the prime rate exceeds 75 basis points from today's levels.
- Bancorp's goals for 2014 include net loan growth at a pace similar to that experienced in 2013, excluding the loans acquired in the Oldham transaction. This will be impacted by competition, prevailing economic conditions, and the impact of prepayments in the loan portfolio. Bancorp believes there is an opportunity for growth, and Bancorp's ability to deliver attractive growth over the long-term is linked to Bancorp's success in each market.
- Management is concerned that the slow economic recovery could still revert back to recessionary conditions which will cause a higher level of non-performing loans and potentially lower loan demand, both of which would negatively impact net income. Until sustained improvement in the economy is noted, particularly as it relates to housing and employment, certain borrowers will continue to experience stressed financial conditions.

- Bancorp expects a decrease in non-interest income for 2014 in gains on sales of mortgage loans held for sale, as the volume of refinance activity will not continue at the pace experienced in early 2013. Bancorp has experienced a larger volume of loans to purchase homes, a sign of improving housing markets, which should partially offset effects of decreased refinance activity.
- Bancorp expects year-over-year increases in non-interest expense including personnel, data processing and occupancy expenses. Bancorp also anticipates higher non-interest expenses to meet the ongoing and increasing burden of additional regulatory requirements.

The following sections provide more details on subjects presented in this overview.

Results of Operations

Net income was \$27,170,000 or \$1.89 per share on a diluted basis for 2013 compared to \$25,801,000 or \$1.85 per share for 2012 and \$23,604,000 or \$1.71 per share for 2011. Net income for 2013 was positively impacted by:

- a \$3.3 million or 5% increase in net interest income.
- a \$5.0 million or 43% decrease in provision for loan losses.
- a \$0.5 million or 1% increase in non-interest income.

Net income for 2013 was negatively impacted by:

- a \$5.9 million or 9% increase in non-interest expenses.
- a \$1.6 million or 17% increase in income tax expense.

The following paragraphs provide a more detailed analysis of the significant factors affecting operating results.

Net Interest Income

Net interest income, the most significant component of Bancorp's earnings, represents total interest income less total interest expense. Net interest spread is the difference between the taxable equivalent rate earned on average interest earning assets and the rate expensed on average interest bearing liabilities. Net interest margin represents net interest income on a taxable equivalent basis as a percentage of average earning assets. Net interest margin is affected by both the interest rate spread and the level of non-interest bearing sources of funds. The level of net interest income is determined by the mix and volume of interest earning assets, interest bearing deposits and interest bearing liabilities and by changes in interest rates. The discussion that follows is based on tax-equivalent interest data.

Comparative information regarding net interest income follows:

<u>(Dollars in thousands)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2013/2012 Change</u>	<u>2012/2011 Change</u>
Net interest income, tax-equivalent basis	\$ 78,306	\$ 75,653	\$ 72,262	3.5%	4.7%
Net interest spread	3.59%	3.74%	3.79%	(15)bp	(5)bp
Net interest margin	3.74%	3.94%	3.99%	(20)bp	(5)bp
Average earning assets	\$ 2,096,088	\$ 1,922,134	\$ 1,809,043	9.1%	6.3%
Five year Treasury bond rate at year end	1.75%	0.73%	0.83%	102bp	(10)bp
Average five year Treasury bond rate	1.17%	0.75%	1.50%	42bp	(75)bp
Prime rate at year end	3.25%	3.25%	3.25%	0bp	0bp
Average prime rate	3.25%	3.25%	3.25%	0bp	0bp

bp = basis point = 1/100th of a percent

All references above to net interest margin and net interest spread exclude the sold portion of participation loans from calculations. Such loans remain on Bancorp's balance sheet as required by US GAAP principles because Bancorp retains some form of effective control; however, Bancorp receives no interest income on the sold portion of these loans. These participation loans sold are excluded in the calculation of margins, which Bancorp believes provides a more accurate determination of the performance of its loan portfolio.

Prime rate and the five year Treasury bond rate are included above to provide a general indication of the interest rate environment in which Bancorp operated. Approximately \$598 million, or 35%, of Bancorp's loans are variable rate; most of these loans are indexed to the prime rate and may reprice as that rate changes. However, approximately \$328 million of variable rate loans, have reached their contractual floor of 4% or higher. Approximately \$112 million of variable rate loans have contractual floors below 4%. The remaining \$158 million of variable rate loans have no contractual floor. Bancorp intends to establish floors whenever possible upon acquisition of new customers. Bancorp's variable rate loans are primarily comprised of commercial lines of credit and real estate loans. At inception, most of Bancorp's fixed rate loans are priced in relation to the five year Treasury bond.

Average loan balances increased \$110 million or 7.2% in 2013; however, the declining interest rate environment drove average loan yields lower by 43 basis points. Bancorp grew average interest bearing deposits \$121 million or 9.2%. Average interest costs on interest bearing deposits decreased 19 basis points, again reflecting the declining interest rate market and a more favorable mix of deposits. Average Federal Home Loan Bank ("FHLB") advances decreased by \$27.6 million or 45.9%, with average rates decreasing by 136 basis points. In the fourth quarter of 2012, Bancorp prepaid \$30 million of fixed rate advances, incurring \$1.06 million in prepayment penalties, which were recorded as interest expense. Rate changes, combined with volume changes on loans, deposits and FHLB advances, resulted in higher net interest income, but a lower net interest margin for 2013 compared to 2012.

Management anticipates a stable prime rate for 2014. Time deposit maturities of approximately \$111 million, or 32% of total time deposits, in the first two quarters are not likely to spark improvement in interest expense as prevailing market rates are similar to existing rates on those deposits. The redemption of the \$30 million trust preferred securities, which paid 10%, will provide an improvement in interest expense. This will be somewhat offset by declining overall rates in the loan portfolio as persistent low prevailing rates are expected to continue to erode the overall yield on loans. The margin could be further affected negatively if competition causes increases in deposit rates or a greater than expected decline in loan pricing in Bancorp's markets.

Net interest margin in 2013 reflected a higher amount of prepayment fees associated with loan refinancing activity. Adjusting for these sources of additional income, Bancorp's more normalized or core net interest margin has trended downward throughout 2013, declining to 3.66% for 2013 from 3.88% for 2012. (See "Non-GAAP Financial Measures" section for reconciliation of non-GAAP measures to US GAAP measures.) Management believes these core margins better reveal the pressure of a low interest rate environment and a highly competitive loan market, and it expects margin compression to diminish in 2013.

Asset/Liability Management and Interest Rate Risk

Managing interest rate risk is fundamental for the financial services industry. The primary objective of interest rate risk management is to neutralize effects of interest rate changes on net income. By considering both on and off-balance sheet financial instruments, management evaluates interest rate sensitivity while attempting to optimize net interest income within the constraints of prudent capital adequacy, liquidity needs, market opportunities and customer requirements.

Interest Rate Simulation Sensitivity Analysis

Bancorp uses an earnings simulation model to estimate and evaluate the impact of an immediate change in interest rates on earnings in a one year forecast. The simulation model is designed to reflect the dynamics of interest earning assets, interest bearing liabilities and off-balance sheet financial instruments. By estimating the effects of interest rate increases and decreases, the model can reveal approximate interest rate risk exposure. The simulation model is used by management to gauge approximate results given a specific change in interest rates at a given point in time. The model is therefore a tool to indicate earnings trends in given interest rate scenarios and does not indicate actual expected results.

The December 31, 2013 simulation analysis, which shows very little interest rate sensitivity, indicates that an increase in interest rates of 100 to 200 basis points would have a negative effect on net interest income, and a decrease of 100 basis points in interest rates would also have a slightly negative effect on net interest income. These estimates are summarized below.

	<u>Net interest income % change</u>
Increase 200 bp	(5.48)
Increase 100 bp	(3.84)
Decrease 100 bp	(2.08)
Decrease 200 bp	N/A

Loans indexed to the prime rate, with floors of 4% or higher, comprise approximately 19% of total loans. Since the prime rate is currently 3.25%, rates would have to increase more than 75 bp before the rates on such loans will rise. This effect, captured in the simulation analysis above, negatively impacts the effect of rising rates.

The scenario of rates decreasing 200 bp is not reasonably possible given current low rates for short-term instruments and most deposits.

Undesignated derivative instruments described in Note 21 to Bancorp's consolidated financial statements are recognized on the consolidated balance sheet at fair value, with changes in fair value, due to changes in prevailing interest rates, recorded in other non-interest income. Because of matching terms of offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in fair value subsequent to initial recognition have a minimal effect on earnings, and are therefore not included in the simulation analysis results above.

Derivatives designated as cash flow hedges described in Note 21 to Bancorp's consolidated financial statements are recognized on the consolidated balance sheet at fair value, with changes in fair value, due to changes in prevailing interest rates, recorded net of tax in other comprehensive income.

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The following table presents the increases in net interest income due to changes in rate and volume computed on a tax-equivalent basis and indicates how net interest income in 2013 and 2012 was impacted by volume increases and the lower average interest rate environment. The tax-equivalent adjustments are based on a 35% federal tax rate. The change in interest due to both rate and volume has been allocated to the change due to rate and the change due to volume in proportion to the relationship of the absolute dollar amounts of the change in each.

Taxable Equivalent Rate/Volume Analysis

(In thousands)	2013/2012			2012/2011		
	Net change	Increase (decrease) due to Rate	Volume	Net change	Increase (decrease) due to Rate	Volume
Interest income						
Loans	\$ (1,376)	\$ (6,932)	\$ 5,556	\$ 586	\$ (1,494)	\$ 2,080
Federal funds sold	(25)	3	(28)	65	—	65
Mortgage loans held for sale	(125)	(2)	(123)	113	(32)	145
Securities						
Taxable	442	(1,199)	1,641	483	(841)	1,324
Tax-exempt	(48)	(205)	157	(212)	(204)	(8)
Total interest income	(1,132)	(8,335)	7,203	1,035	(2,571)	3,606
Interest expense						
Deposits						
Interest bearing demand deposits	(126)	(231)	105	(86)	(155)	69
Savings deposits	(22)	(34)	12	(48)	(60)	12
Money market deposits	(569)	(712)	143	(804)	(987)	183
Time deposits	(1,438)	(1,214)	(224)	(2,001)	(1,457)	(544)
Securities sold under agreements to repurchase	(34)	(37)	3	(73)	(66)	(7)
Federal funds purchased and other short-term borrowings	1	1	—	(7)	(3)	(4)
Federal Home Loan						
Bank advances	(1,574)	(663)	(911)	1,001	1,009	(8)
Long-term debt	(23)	77	(100)	(338)	536	(874)
Total interest expense	(3,785)	(2,813)	(972)	(2,356)	(1,183)	(1,173)
Net interest income	\$ 2,653	\$ (5,522)	\$ 8,175	\$ 3,391	\$ (1,388)	\$ 4,779

Bancorp's tax equivalent net interest income increased \$2.7 million for the year ended December 31, 2013 compared to the same period of 2012 while 2012 increased \$3.4 million compared to 2011. Net interest income for 2013 compared to 2012 was positively impacted by an increase in loan and securities volume and a decrease in deposit rates, a more favorable mix of deposits, and decreases in volume and rates of FHLB advances. Net interest income was negatively impacted by a decline in the average rate earned on assets. Volume increases of loans and securities boosted net interest income by \$7.2 million and declining rates on deposits, particularly time deposits, contributed \$2.2 million to the increase of net interest income. Partially

offsetting the increases, declining rates on loans and securities negatively impacted net interest income by \$8.3 million. FHLB advance interest decreased \$1.6 million attributable to both volume and rate decreases.

For the year 2012 compared to 2011, net interest income was positively impacted by an increase in loan and securities volume and a decrease in deposit rates, a more favorable mix of deposits, and the volume of interest-bearing liabilities. In the fourth quarter of 2012, Bancorp prepaid \$30 million of fixed rate FHLB advances, incurring \$1.06 million in prepayment penalties, which were recorded as interest expense. Net interest income was negatively impacted by a decline in the average rate earned on assets. Loan volume increases boosted net interest income by \$2.1 million and declining rates on deposits, particularly time deposits, contributed \$2.7 million to the increase of net interest income. Partially offsetting the increases, declining rates on loans and securities negatively impacted net interest income by \$2.6 million.

Provision for Loan Losses

In determining the provision for loan losses, management considers many factors. Among these are the quality and underlying collateral of the loan portfolio, previous loss experience, the size and composition of the loan portfolio and an assessment of the impact of current economic conditions on borrowers' ability to pay. The provision for loan losses and resulting ratios is summarized below:

(Dollars in thousands)	2013	2012	2011
Provision for loan losses	\$ 6,550	\$ 11,500	\$ 12,600
Allowance to loans at year end	1.66%	2.01%	1.93%
Allowance to average loans for year	1.72%	2.04%	1.94%

The provision for loan losses is determined by Bancorp's assessment of inherent risk in the loan portfolio. The allowance for loan losses is calculated after considering credit quality factors, and ultimately relies on an overall internal analysis of the risk in the loan portfolio. Based on this analysis, provisions for loan losses are determined and recorded. The provision reflects an allowance methodology that is driven by risk ratings. The pace of loan downgrades continues to slow and an increasing number of loans are being upgraded. Bancorp intends to continue with its historically conservative stance toward credit quality, remaining cautious in assessing the potential risk in the loan portfolio. More information on this process can be found in the "Allowance for loan losses" section on page 33.

Non-performing loans decreased to \$22.9 million at December 31, 2013 from \$30.0 million at year-end 2012, primarily due to a decrease in non-accrual loans and loans classified as troubled debt restructurings (TDRs), reflecting a limited number of partial charge-offs of collateral-dependent loans. The ratio of non-performing loans to total loans was 1.33% at December 31, 2013, down from 1.90% at December 31, 2012. TDRs, which are currently accruing interest, decreased from \$11.0 million at December 31, 2012 to \$7.2 million at December 31, 2013, as two loans secured by commercial real estate totaling \$2.9 million experienced foreclosure during 2013. Net charge-offs totaled 0.60% of average loans at year-end 2013, consistent with year-end 2012. See "Financial Condition-Non-performing Loans and Assets" for further discussion of non-performing loans. See "Financial Condition-Summary of Loan Loss Experience" for further discussion of loans charged off during the year.

Bancorp's loan portfolio is diversified with no significant concentrations of credit. Geographically, most loans are extended to borrowers in the metropolitan areas of Louisville, Indianapolis and Cincinnati. The adequacy of the allowance is monitored on an ongoing basis and it is the opinion of management that the balance of the allowance for loan losses at December 31, 2013 is adequate to absorb probable losses inherent in the loan portfolio as of the financial statement date. See "Financial Condition-Allowance for Loan Losses" for more information on the allowance for loan losses.

Non-Interest Income and Non-Interest Expenses

The following table provides a comparison of the components of non-interest income for 2013, 2012 and 2011. Below the table is a discussion of significant changes and trends.

(Dollars in thousands)	2013	2012	2011	2013/2012		2012/2011	
				Change	%	Change	%
Investment management and trust services	\$ 16,287	\$ 14,278	\$ 13,841	\$ 2,009	14.1%	\$ 437	3.2%
Service charges on deposit accounts	8,986	8,516	8,348	470	5.5	168	2.0
Bankcard transaction revenue	4,378	3,985	3,722	393	9.9	263	7.1
Mortgage banking revenue	3,978	5,771	3,049	(1,793)	(31.1)	2,722	89.3
Loss on sales of securities available for sale	(5)	—	—	(5)	100.0	—	—
Brokerage commissions and fees	2,159	2,593	2,219	(434)	(16.7)	374	16.9
Bank owned life insurance income	1,031	1,006	1,019	25	2.5	(13)	(1.3)
Gain on acquisition	449	—	—	449	100.0	—	—
Other	1,739	2,308	1,046	(569)	(24.7)	1,262	120.7
	<u>\$ 39,002</u>	<u>\$ 38,457</u>	<u>\$ 33,244</u>	<u>\$ 545</u>	<u>1.4%</u>	<u>\$ 5,213</u>	<u>15.7%</u>

The largest component of non-interest income is investment management and trust revenue. The magnitude of investment management and trust revenue distinguishes Bancorp from other community banks of similar asset size. Along with the effects of improving investment market conditions in 2012 and 2013, this area of Bancorp continued to grow through attraction of new business and retention of existing business. Trust assets under management totaled \$2.23 billion at December 31, 2013, compared to \$1.96 billion at December 31, 2012. Investment management and trust services income, which constitutes an average of 40% of non-interest income, increased \$2,009,000, or 14.1%, for 2013 compared to 2012, primarily due to an increased market value of assets under management, net new business, and, to a lesser extent, an increase in one-time executor fees. Recurring fees, which generally make up over 95% of the investment management and trust revenue, increased 12% for 2013, compared to 2012. Most recurring fees earned for managing accounts are based on a percentage of market value on a monthly basis. While fees are based on market values, they typically do not fluctuate directly with the overall stock market. Accounts usually contain fixed income and equity asset classes, which generally react inversely to each other. Some revenues of the investment management and trust department, most notably executor, insurance, and some employee benefit plan-related fees, are non-recurring in nature and the timing of these revenues corresponds with the related administrative activities. Non-recurring fees increased \$328,000 for 2013 compared to 2012. For 2013, 2012 and 2011 executor fees totaled approximately \$437,000, \$106,000 and \$362,000, respectively.

Service charges on deposit accounts increased \$470,000 or 5.5%, for the year ended December 31, 2013 compared to the same period a year ago. Service charge income is driven by transaction volume, which can fluctuate throughout the year, and increased in the latter half of 2013 primarily due to addition of accounts in the Oldham transaction in the second quarter. A significant component of service charges is related to fees earned on overdrawn checking accounts. While this source of income has experienced a modest increase over the past two years, management expects it to decline slightly in 2014 due to anticipated changes in customer behavior and increased regulatory restrictions.

Bankcard transaction revenue primarily represents income Bancorp derives from customers' use of debit cards. This category reflects a change in the manner in which bankcard revenue and expense are received and recorded by Bancorp, related to the selection of a new bankcard processor. Bancorp's new processor

provided more detailed information regarding related income and expense. As a result, beginning in mid-2013, information previously recorded as net revenue has been grossed up to more accurately reflect income and expense. This more detailed information is not available for prior periods and thus impacts the comparability of the information on an absolute basis for revenue and expense. It is, however, comparable on a net basis. Bankcard income, net of bankcard expenses which are recorded in data processing expenses, was \$2,844,000, \$2,896,000 and \$2,734,000 for 2013, 2012 and 2011, respectively. The net decrease in 2013 primarily reflects a decrease in the rates received, partially offset by increased volume of transactions. Most of this revenue is interchange income based on rates set by service providers in a competitive market. Beginning in October 2011, this rate was set by the Federal Reserve Board for banks with over \$10 billion in assets. While this threshold indicates Bancorp will not be directly affected, this change has affected Bancorp as vendors gravitate to lower cost interchanges. While there are many uncertainties about its effect or ultimately when these changes may take place, the Dodd-Frank legislation will negatively affect this source of income. Volume, which is dependent on consumer behavior, is expected to increase at a slower pace. However, management expects interchange rates to decrease, resulting in income from this source to remain consistent with levels experienced in 2013.

Mortgage banking revenue primarily includes gains on sales of mortgage loans. Bancorp's mortgage banking department originates residential mortgage loans to be sold in the secondary market. Interest rates on the loans sold are locked with the borrower and investor prior to closing the loans, thus Bancorp bears no interest rate risk related to these loans. The department offers conventional, VA and FHA financing, for purchases and refinances, as well as programs for first time home buyers. Interest rates on mortgage loans directly impact the volume of business transacted by the mortgage banking division. Mortgage banking revenue decreased \$1,793,000, or 31.1%, in 2013 compared to 2012. In the second quarter of 2013, market rates for mortgage loans increased, resulting in 85% lower volume of refinance activity in 2013 compared to 2012. Origination of loans for purchase of homes, however, has continued to rise, with the number of purchase loans increasing 13% in 2013 compared to 2012.

In the second quarter of 2013, Bancorp sold investments it held in obligations of state and political subdivisions with total par value of \$685,000, generating a loss of \$5,000. These securities, acquired in the Oldham transaction, were sold in the ordinary course of investment management because they did not meet Bancorp's current investment strategy. No securities were sold in 2012 or 2011.

Brokerage commissions and fees decreased \$434,000, or 16.7%, in 2013 compared to 2012, corresponding to overall brokerage volume. In the second quarter of 2013, the departure of two brokers resulted in a decline of accounts, many of which included wrap fees. However, after consideration of related expenses, the decline in net income was approximately \$100,000 compared to 2012. Brokerage commissions and fees earned consist primarily of stock, bond and mutual fund sales as well as wrap fees on accounts. Wrap fees are charges for investment programs that bundle together a suite of services, such as brokerage, advisory, research, and management, and based on a percentage of assets. Bancorp deploys its brokers primarily through its branch network, while larger managed accounts are serviced in the investment management and trust department.

Income related to bank-owned life insurance ("BOLI") was \$1,031,000 in 2013 compared to \$1,006,000 for 2012. BOLI represents the cash surrender value for life insurance policies on certain key employees who have provided consent for Bancorp to be the beneficiary of a portion of such policies. Any proceeds received under the policies and the related change in cash surrender value are recorded as non-interest income. This income helps offset the cost of various employee benefits.

The Oldham transaction has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration transferred were recorded at estimated fair value on the acquisition date. See Note 3 to Bancorp's consolidated financial statements for information relating to the acquisition. The fair value adjustments resulted in net assets acquired in excess of the consideration paid. Accordingly, a non-taxable gain of \$449,000 was recognized.

Other non-interest income decreased \$569,000, or 24.7%, during 2013 compared to 2012, primarily due to a \$627,000 increase in the value of the domestic private investment fund in the first quarter of 2012. Management liquidated its investment in this fund effective March 31, 2012. This decrease was partially offset by a variety of other factors, none of which were individually significant.

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The following table provides a comparison of the components of non-interest expenses for 2013, 2012 and 2011. Below the table is a discussion of significant changes and trends.

(Dollars in thousands)	2013	2012	2011	2013/2012		2012/2011	
				Change	%	Change	%
Salaries and employee benefits	\$ 41,145	\$ 37,960	\$ 33,125	\$ 3,185	8.4%	\$ 4,835	14.6%
Net occupancy expense	5,615	5,651	5,192	(36)	(0.6)	459	8.8
Data processing expense	6,319	5,278	5,014	1,041	19.7	264	5.3
Furniture and equipment expense	1,126	1,306	1,299	(180)	(13.8)	7	0.5
FDIC insurance	1,431	1,494	1,655	(63)	(4.2)	(161)	(9.7)
Loss on other real estate owned	652	1,410	1,716	(758)	(53.8)	(306)	(17.8)
Acquisition costs	1,548	—	—	1,548	100.0	—	—
Other	13,516	12,373	11,580	1,143	9.2	793	6.8
	<u>\$ 71,352</u>	<u>\$ 65,472</u>	<u>\$ 59,581</u>	<u>\$ 5,880</u>	<u>9.0%</u>	<u>\$ 5,891</u>	<u>9.9%</u>

* Ratio exceeds 100%

Salaries and benefits are the largest component of non-interest expenses and increased \$3,185,000 or 8.4% for 2013 compared to 2012, largely due to increased staffing levels, normal increases in salaries, higher health insurance costs, increased bonus accruals and stock-based compensation expense. Increased staffing levels included senior staff with higher per capita salaries in investment management and trust, lending and loan administration functions as well as staff increases resulting from the Oldham transaction. At December 31, 2013, Bancorp had 519 full-time equivalent employees compared to 495 at the same date in 2012 and 480 for 2011.

Net occupancy expense decreased \$36,000 or 0.6% from 2012 to 2013, largely due to a \$150,000 non-recurring rent refund on a leased facility which lowered rent expense in the first quarter of 2013, partially offset by increases in rent and depreciation expense attributable to four additional locations as a result of the Oldham transaction. At December 31, 2013 Bancorp had 34 banking center locations including the main office. In the second quarter of 2013, Bancorp closed one leased branch location in the Louisville MSA.

Data processing expense increased \$1,041,000 or 19.7% from 2012 to 2013 due to several factors. In the third quarter of 2013, Bancorp incurred \$144,000 data processing expense, as the Oldham customer account data was converted to Bancorp's system. The increase also reflected a \$208,000 refund received from one vendor who provides data processing services for Bancorp, which was included in the 2012 amounts. Also included is \$103,000 for reissuance of debit cards in the fourth quarter of 2013, an action related to the recent selection of a new bank card processor. As noted above during 2013, Bancorp began recording bank card revenue and expense gross; this information was previously conveyed net. As a result, Bancorp recorded approximately \$237,000 of data processing expense in 2013 due to the gross-up. This category also includes ongoing computer equipment maintenance costs related to investments in new technology needed to improve the pace of delivery channels and internal resources.

Furniture and equipment expense decreased \$180,000 or 13.8% in 2013, as compared to 2012, due to a variety of factors, none of which is individually significant. Costs of capital asset additions flow through the statement of income over the lives of the assets in the form of depreciation expense.

FDIC insurance expense decreased \$63,000, or 4.2% for the year ended December 31, 2013, as compared to the same period in 2012. The assessment is calculated and adjusted quarterly by the FDIC. The decline in expense is due primarily a reduction in the assessment rate, which was driven by improved credit metrics in 2013.

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Losses on other real estate owned (OREO) totaled \$652,000 for the year ended December 31, 2013, compared to \$1,410,000 for the same period in 2012. In 2013, Bancorp wrote off \$365,000 of OREO, as the maximum regulatory holding period of 10 years was reached. During 2012, Bancorp took additional charge-downs on certain OREO to target a shorter timeframe for the opportunistic disposition of these properties, thus helping limit Bancorp's exposure to market risk. As levels of OREO decreased in 2013, related disposition costs also decreased.

In connection with the Oldham acquisition, Bancorp incurred expenses in the second quarter of 2013 related to executing the transaction and integrating and conforming acquired operations with and into Bancorp. Those expenses consisted largely of conversion of systems and/or integration of operations, professional services, costs related to termination of existing contractual arrangements of Oldham to purchase various services; initial marketing and promotion expenses designed to introduce Bancorp to its new customers; and printing, postage, supplies, and other costs of completing the transaction. A summary of acquisition costs, all recorded in the second quarter of 2013, included in the consolidated statement of income follows:

(in thousands)

Data conversion expenses	\$	906
Consulting		262
Salaries and employee benefits		103
Legal		96
All other		181
Total acquisition costs	\$	1,548

Other non-interest expenses increased \$1,143,000, or 9.2% for the year ended December 31, 2013 compared to the same period of 2012. In conjunction with the redemption of its trust preferred securities in the fourth quarter of 2013, Bancorp wrote off the remaining \$1,306,000 of debt issuance costs. Other increases included \$392,000 in amortization of the core deposit intangible asset recorded as a result of the Oldham transaction, \$256,000 increase in capital-based state taxes, \$215,000 increase in mortgage servicing rights ("MSR") amortization, \$219,000 of debit card losses, and \$216,000 increase in advertising. Somewhat offsetting the increases in 2013 were a \$564,000 decrease in legal and professional fees, a one-time decrease of \$505,000 in marketing expense related to a debit card rewards program conversion, and decreases of \$355,000 in OREO maintenance expenses. This category also includes printing, mail and telecommunications, none of which had individually significant variances.

Income Taxes

A three year comparison of income tax expense and effective tax rate follows:

(Dollars in thousands)	2013	2012	2011
Income tax expense	\$ 11,228	\$ 9,634	\$ 8,191
Effective tax rate	29.2%	27.2%	25.8%

The increase in the effective tax rate from 2012 to 2013 is primarily the result of reduced tax exempt interest in 2013 as well as the recognition of certain federal historic rehabilitation tax credits related to an investment in redevelopment of a Louisville landmark in 2012. The increase in income tax expense from 2011 to 2012 is the result of an adjustment of approximately \$700,000 made in 2011 to Bancorp's deferred tax asset that relates to tax-advantaged investments that Bancorp has made in its primary market area over the years. For more information regarding income taxes and the effective tax rate see Note 8 to Bancorp's consolidated financial statements.

Financial Condition

Earning Assets and Interest Bearing Liabilities

Summary information with regard to Bancorp's financial condition follows:

(Dollars in thousands)	2013	2012	2011	2013/2012		2012/2011	
				Change	%	Change	%
Average earning assets	\$ 2,096,088	\$ 1,922,134	\$ 1,809,043	\$ 173,954	9.1%	\$ 113,091	6.3%
Average interest bearing liabilities	1,582,591	1,488,939	1,456,866	93,652	6.3	32,073	2.2
Average total assets	2,232,868	2,070,967	1,959,609	161,901	7.8	111,358	5.7
Total year end assets	2,389,262	2,148,262	2,053,097	241,000	11.2%	95,165	4.6%

Bancorp has experienced growth in earning assets over the last several years primarily in the area of loans. From 2012 to 2013, average loans increased 7.2%, or \$110.2 million, compared to 2.6% or \$39.3 million from 2011 to 2012. Record loan production of approximately \$489 million due to increased calling efforts was largely offset by loan payoffs, including the effects of normal payoffs and paydowns and increased competition from banks and non-bank financial firms. Average securities available for sale increased \$75.7 million, or 29.0% from 2012 to 2013, compared to \$47.5 million, or 22.2% from 2011 to 2012 as Bancorp deployed funds from deposit growth into longer-term earning assets.

The increase in average interest bearing liabilities from 2012 to 2013 occurred primarily in money market and demand deposits as clients have excess cash and few short-term investment alternatives in the current environment. Average total interest bearing deposit accounts increased 9.2% and non-interest bearing deposit accounts increased 18.3% in 2013. Time deposits decreased 4.9% or \$18.7 million in 2013, as Bancorp intentionally did not renew higher cost deposits and customers migrated from time deposits to demand deposits due to low rates. Bancorp continued to utilize fixed rate advances from the FHLB during 2013 as they compared favorably to similar term time deposits. Bancorp had an average of \$32.5 million in outstanding FHLB advances in 2013 compared to \$60.1 million and \$60.4 million in 2012 and 2011, respectively. In the fourth quarter of 2012, Bancorp prepaid \$30 million of fixed rate advances, resulting in \$1.1 million in prepayment penalties, but results in savings of approximately \$2.1 million in interest expense over the next six years. At December 31, 2013 and 2012, federal funds purchased from correspondent banks totaled \$55.3 million and \$16.6 million, respectively.

Average Balances and Interest Rates — Taxable Equivalent Basis

(Dollars in thousands)	Year 2013			Year 2012			Year 2011		
	Average balances	Interest	Average rate	Average balances	Interest	Average rate	Average balances	Interest	Average rate
Earning assets									
Federal funds sold	\$ 99,381	\$ 295	0.30%	\$ 108,828	\$ 320	0.29%	\$ 86,600	\$ 255	0.29%
Mortgage loans held for sale	5,885	219	3.72%	9,191	344	3.74%	5,394	231	4.28%
Securities									
Taxable	281,734	5,836	2.07%	210,948	5,419	2.57%	163,230	4,954	3.03%
Tax-exempt	55,385	1,643	2.97%	50,430	1,691	3.35%	50,644	1,903	3.76%
FHLB stock and other securities	6,916	263	3.80%	6,117	238	3.89%	5,900	220	3.73%
Loans, net of unearned income	1,646,787	79,216	4.81%	1,536,620	80,592	5.24%	1,497,275	80,006	5.34%
Total earning assets	2,096,088	87,472	4.17%	1,922,134	88,604	4.61%	1,809,043	87,569	4.84%
Less allowance for loan losses	32,282			31,890			27,950		
	2,063,806			1,890,244			1,781,093		
Non-earning assets									
Cash and due from banks	33,888			31,695			27,240		
Premises and equipment	38,691			37,634			34,589		
Accrued interest receivable and other assets	96,483			111,394			116,687		
Total assets	\$ 2,232,868			\$ 2,070,967			\$ 1,959,609		
(Dollars in thousands)	Year 2013			Year 2012			Year 2011		
	Average balances	Interest	Average rate	Average balances	Interest	Average rate	Average balances	Interest	Average rate
Interest bearing liabilities									
Deposits									
Interest bearing demand deposits	\$ 392,939	\$ 388	0.10%	\$ 317,017	\$ 514	0.16%	\$ 281,566	\$ 600	0.21%
Savings deposits	96,515	39	0.04%	78,640	61	0.08%	70,290	109	0.16%
Money market deposits	585,512	1,228	0.21%	539,395	1,797	0.33%	501,792	2,601	0.52%
Time deposits	364,347	3,356	0.92%	383,008	4,794	1.25%	418,750	6,795	1.62%
Securities sold under agreements to repurchase	60,737	146	0.24%	59,861	180	0.30%	61,595	253	0.41%
Federal funds purchased and other short-term borrowings	19,546	32	0.16%	19,431	31	0.16%	21,537	38	0.18%
FHLB advances	32,518	887	2.73%	60,113	2,461	4.09%	60,436	1,460	2.42%
Long-term debt	30,477	3,090	10.14%	31,474	3,113	9.89%	40,900	3,451	8.44%
Total interest bearing liabilities	1,582,591	9,166	0.58%	1,488,939	12,951	0.87%	1,456,866	15,307	1.05%
Non-interest bearing liabilities									
Non-interest bearing demand deposits	404,113			341,534			277,310		
Accrued interest payable and other liabilities	26,057			42,943			45,795		
Total liabilities	2,012,761			1,873,416			1,779,971		
Stockholders' equity	220,107			197,551			179,638		
Total liabilities and stockholders' equity	\$ 2,232,868			\$ 2,070,967			\$ 1,959,609		
Net interest income		\$ 78,306			\$ 75,653			\$ 72,262	
Net interest spread			3.59%			3.74%			3.79%
Net interest margin			3.74%			3.94%			3.99%

Notes:

- Yields on municipal securities have been computed on a fully tax-equivalent basis using the federal income tax rate of 35%.
- The approximate tax-equivalent adjustments to interest income were \$1,008,000, \$1,703,000 and \$1,530,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

- Average balances for loans include the principal balance of non-accrual loans and exclude participation loans accounted for as secured borrowings.
- Loan interest income includes loan fees and is computed on a fully tax-equivalent basis using the federal income tax rate of 35%. Loan fees, net of deferred costs, included in interest income amounted to \$1,390,000, \$1,916,000 and \$585,000 in 2013, 2012 and 2011, respectively. For 2012, \$1,060,000 of the loans fees represented the prepayment penalty on a tax-equivalent basis of one loan payoff.

Securities

The primary purpose of the securities portfolio is to provide another source of interest income, as well as liquidity management. In managing the composition of the balance sheet, Bancorp seeks a balance between earnings sources and credit and liquidity considerations.

Securities available for sale include securities that may be sold in response to changes in interest rates, resultant prepayment risk and other factors related to interest rate and prepayment risk changes. Securities available for sale are carried at fair value with unrealized gains or losses, net of tax effect, included in stockholders' equity.

The carrying value of securities available for sale is summarized as follows:

(In thousands)	December 31	
	2013	2012
U.S. Treasury and other U.S. government obligations	\$ 110,000	\$ 98,000
Government sponsored enterprise obligations	137,845	85,748
Mortgage-backed securities — government agencies	172,693	140,881
Obligations of states and political subdivisions	69,493	60,793
Trust preferred securities of financial institutions	—	1,018
	<u>\$ 490,031</u>	<u>\$ 386,440</u>

There were no securities held to maturity as of December 30, 2013, 2012 or 2011.

The maturity distribution and weighted average interest rates of securities available for sale at December 31, 2013, are as follows:

(Dollars in thousands)	Within one year		After one but within five years		After five but within ten years		After ten years	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
U.S. Treasury and other U.S. government obligations	\$ 110,000	-0.01%	—	—	\$ —	—	\$ —	—
Government sponsored enterprise obligations	36	—	95,742	1.80%	10,611	1.65%	31,456	2.35%
Mortgage-backed securities — government agencies	70	—	524	1.74%	29,543	1.82%	142,556	2.51%
Obligations of states and political subdivisions	10,448	1.58%	33,956	1.63%	25,089	2.94%	—	—
	<u>\$ 120,554</u>	<u>0.12%</u>	<u>\$ 130,222</u>	<u>1.75%</u>	<u>\$ 65,243</u>	<u>2.22%</u>	<u>\$ 174,012</u>	<u>2.48%</u>

The \$110 million of U.S. Treasury securities consisted of short-term treasury bills, which matured in January 2014, purchased over year-end as a tax strategy. Tax savings exceeded lost principal generated by negative yield on these securities.

Loan Portfolio

Bancorp's primary source of income is interest on loans. The composition of loans as of the end of the last five years follows:

(In thousands)	December 31				
	2013	2012	2011	2010	2009
Commercial and industrial	\$ 510,739	\$ 426,930	\$ 393,729	\$ 343,956	\$ 336,889
Construction and development, excluding undeveloped land	91,719	85,456	116,622	131,346	190,622
Undeveloped land (1)	37,871	45,797	31,015	28,136	14,031
Real estate mortgage:					
Commercial investment	430,047	414,084	399,655	343,163	326,421
Owner occupied commercial	329,422	304,114	297,121	336,032	230,001
1-4 family residential	183,700	166,280	154,565	157,983	147,342
Home equity - first lien	40,251	39,363	38,637	39,449	41,644
Home equity - junior lien	63,403	65,790	76,687	91,813	108,398
Subtotal: Real estate mortgage	1,046,823	989,631	966,665	968,440	853,806
Consumer	34,198	36,780	36,814	36,547	40,114
	<u>\$ 1,721,350</u>	<u>\$ 1,584,594</u>	<u>\$ 1,544,845</u>	<u>\$ 1,508,425</u>	<u>\$ 1,435,462</u>

(1) Undeveloped land consists of land initially acquired for development by the borrower, but for which no development has taken place.

In the fourth quarter of 2013, as a result of analyses of non-performing loan metrics, Bancorp expanded the classifications for loans to include undeveloped land, which was previously recorded within construction and development loans. The increases in the commercial and industrial and commercial real estate categories are the result of a consistent relationship-driven business strategy to serve existing and new clients in Bancorp's local markets. The decrease in the construction and development category since 2009 reflects migration of loan types as project completions resulted in permanent financing. Bancorp's focus has not been on housing and commercial construction lending, as both are sources of increased credit risk in the current environment.

Junior lien home equity loans, which comprise 4% of the loan portfolio at December 31, 2013, are typically underwritten with consideration of the borrower's overall financial strength as a primary payment source, with some reliance on the value of the collateral. The overall level of home equity junior liens as a percentage of the overall portfolio and the level of related outstanding commitments have been declining over the last several years. Demand has declined as consumers push to refinance entire debt into first-lien position loans at historic low rates. Bancorp continues to aggressively market this product.

Bancorp occasionally enters into loan participation agreements with other banks to diversify credit risk. For certain sold participation loans, Bancorp has retained effective control of the loans, typically by restricting the participating institutions from pledging or selling their share of the loan without permission from Bancorp. US GAAP requires the participated portion of these loans to be recorded as secured borrowings. These participated loans are included in the commercial and industrial and real estate mortgage loan totals above, and a corresponding liability is recorded in other liabilities. At December 31, 2013 and 2012, the total participated portions of loans of this nature were \$9.4 million and \$7.7 million respectively.

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The following tables detail the amounts of commercial and industrial loans, and construction and development loans, including undeveloped land, at December 31, 2013 which, based on remaining scheduled repayments of principal, are due in the periods indicated. Also shown are the commercial and industrial loans due after one year classified according to sensitivity to changes in interest rates.

(In thousands)	Maturing			
	Within one year	After one but within five years	After five years	Total
Commercial and industrial	\$ 194,697	\$ 233,449	\$ 82,593	\$ 510,739
Construction and development including undeveloped land	49,124	49,837	30,629	129,590

Commercial and industrial loans (In thousands)	Interest Sensitivity	
	Fixed rate	Variable rate
Due after one but within five years	\$ 173,323	\$ 60,126
Due after five years	67,572	15,021
	<u>\$ 240,895</u>	<u>\$ 75,147</u>

Non-performing Loans and Assets

Information summarizing non-performing assets, including non-accrual loans follows:

(Dollars in thousands)	December 31				
	2013	2012	2011	2010	2009
Non-accrual loans	\$ 15,258	\$ 18,360	\$ 18,737	\$ 14,388	\$ 10,455
Troubled debt restructuring	7,249	10,969	3,402	2,882	753
Loans past due 90 days or more and still accruing	437	719	1,160	2,044	893
Non-performing loans	22,944	30,048	23,299	19,314	12,101
Foreclosed property	5,592	7,364	7,773	5,445	1,616
Non-performing assets	<u>\$ 28,536</u>	<u>\$ 37,412</u>	<u>\$ 31,072</u>	<u>\$ 24,759</u>	<u>\$ 13,717</u>
Non-performing loans as a percentage of total loans	1.33%	1.90%	1.51%	1.28%	0.84%
Non-performing assets as a percentage of total assets	1.19%	1.74%	1.51%	1.30%	0.77%
Allowance for loan loss as a percentage of non-performing loans	<u>124%</u>	<u>106%</u>	<u>128%</u>	<u>132%</u>	<u>165%</u>

At December 31, 2013, loans accounted for as TDR included those for which there had been modifications from original terms due to bankruptcy proceedings, modifications of amortization periods or temporary suspension of principal payments due to customer financial difficulties, and limited forgiveness of principal. To the extent that Bancorp chooses to work with borrowers by providing reasonable concessions, rather than initiating collection, this would result in an increase in loans accounted for as TDR. The decrease in TDRs

from 2012 to 2013 is primarily due to two loans secured by commercial real estate totaling \$2.9 million which experienced foreclosure and moved to OREO during 2013. Loans accounted for as TDR, which have not defaulted, are individually evaluated for impairment and at December 31, 2013, had a total allowance allocation of \$942,000, compared to \$295,000 at December 31, 2012.

The following table sets forth the major classifications of non-accrual loans:

Non-accrual loans by type (in thousands)	December 31, 2013	December 31, 2012
Commercial and industrial	\$ 846	\$ 1,554
Construction and development, excluding undeveloped land	26	551
Undeveloped land	7,340	10,312
Real estate mortgage - commercial investment	1,921	2,077
Real estate mortgage - owner occupied commercial	2,582	1,529
Real estate mortgage - 1-4 family residential	2,391	2,278
Home equity	152	55
Consumer	—	4
Total	\$ 15,258	\$ 18,360

Bancorp has two relationships, both in its primary market, who account for \$7.9 million or 52% of total non-accrual loans at December 31, 2013. Each of these loans is secured predominantly by commercial or residential real estate, and management estimates minimal loss exposure after consideration of collateral. The remaining balance of non-accrual loans, totaling \$7.4 million, is comprised of a larger number of borrowers with smaller balances. Each non-accrual loan is individually evaluated for impairment in conjunction with the overall allowance methodology.

Loans are placed in a non-accrual income status when the prospects for recovering both principal and accrued interest are considered doubtful or when a default of principal or interest has existed for 90 days or more unless such a loan is well secured and in the process of collection. Interest income recorded on non-accrual loans was \$185,000, \$157,000, and \$391,000 for 2013, 2012, and 2011, respectively. Interest income that would have been recorded if non-accrual loans were on a current basis in accordance with their original terms was \$1,248,000, \$1,167,000, and \$1,104,000 for 2013, 2012, and 2011, respectively.

In addition to the non-performing loans discussed above, there were loans, which are accruing interest, for which payments were current or less than 90 days past due where borrowers are experiencing significant financial difficulties. These potential problem loans totaled approximately \$22,262,000, \$38,957,000, and \$46,148,000 at December 31, 2013, 2012, and 2011, respectively. These relationships are monitored closely for possible future inclusion in non-performing loans. Management believes it has adequately reflected the exposure in these loans in its determination of the allowance for loan losses.

Non-performing assets as a percentage of total assets decreased 55 basis points from 2012 to 2013, reflecting decreases in non-accrual loans, loans classified as troubled debt restructuring, and foreclosed property. At December 31, 2013 and December 31, 2012, the carrying value of other real estate owned was \$5.6 million and \$7.4 million, respectively. In 2013, Bancorp recorded impairment charges totaling \$904,000, compared to \$1,479,000 in 2012 and \$1,737,000 in 2011.

Allowance for Loan Losses

An allowance for loan losses has been established to provide for probable losses on loans that may not be fully repaid. The allowance for loan losses is increased by provisions charged to expense and decreased by charge-offs, net of recoveries. Loans are typically charged off when management deems them uncollectible and after underlying collateral has been liquidated; however, collection efforts continue and future recoveries may occur. Periodically, loans are partially charged off to the net realizable value based upon evaluation of related collateral, including Bancorp's bias for resolution.

Bancorp's lending policies and procedures center on controlling credit risk and include procedures to identify and measure this risk. These procedures begin with lenders assigning a risk rating to each of their credits, and this rating is confirmed in the loan approval process. Internal loan review, through a year-round process of examining individually significant obligor relationships as well as a sample of each lender's portfolio, tests the reliability of these risk assessments. Additionally, a review of this process is an integral part of regulatory bank examinations.

Adversely rated credits are included on a loan watch list. This list also includes loans requiring closer monitoring due to borrower's circumstances. However, these loans have generally not reached a level of adversity which would cause them to be criticized credits by regulators. Loans are added to the watch list when circumstances are detected which might affect the borrower's ability to comply with terms of the loan. This could include any of the following:

- Delinquency of a scheduled loan payment,
- Severe deterioration in the borrower's or guarantor's financial condition identified in a review of periodic financial statements,
- Decrease in the value of collateral securing the loan, or
- Change in the economic environment in which the borrower operates.

Loans on the watch list require detailed status reports, including recommended corrective actions, prepared periodically by the responsible loan officer. These reports are reviewed by management. The watch list is also discussed in quarterly meetings with Bancorp's Executive Loan Committee.

Changes in loan risk ratings are typically initiated by the responsible loan officer, but may also be initiated by internal loan review or Bancorp's Loan Committees at any time.

In determining the allowance and related provision for loan losses, these principal elements are considered:

- Specific allocations are based upon probable losses on individually evaluated impaired loans. These loans are measured based on the present value of future cash flows discounted at the loans' effective interest rate or at the estimated fair value of the loans' collateral, if applicable. Other objective factors such as payment history and financial condition of the borrower or guarantor may be used as well.
- Allocations for individually significant loans not defined as impaired are based on estimates needed for pools of loans with similar risk based upon Bancorp's historical net loss percentages by loan type.
- Additional allowance allocations based on subjective factors not necessarily associated with a specific credit or loan category and represent management's effort to ensure that the overall allowance for loan losses appropriately reflects a margin for the imprecision necessarily inherent in the estimates of credit losses. Management considers a number of subjective factors, including local and general economic business factors and trends and portfolio concentrations.

Based on this quantitative and qualitative analysis, provisions are made to the allowance for loan losses. Such provisions are reflected as a charge against current earnings in Bancorp's consolidated statements of income.

The allocation of the allowance for loan losses by loan category is a result of the analysis above. The same procedures used to determine requirements for the allowance for loan losses establish the distribution of the allowance by loan category. The distribution of the allowance will change from period to period due to changes in the identified risk in each loan in the portfolio, changes in the aggregate loan balances by loan

category, and changes in management's view of the subjective factors noted above. Although the allowance for loan losses is comprised of specific and general allocations the entire allowance is available to absorb any credit losses.

Historical net loss percentages are updated quarterly based on actual losses experienced by each loan type. The reallocations among different categories of loans between periods are the result of the redistribution of the individual loans that comprise the aggregate portfolio as described above. However, the perception of risk with respect to particular loans within the portfolio will change over time as a result of the characteristics and performance of those loans, overall economic and market trends, and the actual and expected trends in non-performing loans.

Prior to September 30, 2013, Bancorp utilized the sum of all allowance amounts derived as described above, including a reasonable unallocated allowance, as an indicator of the appropriate level of allowance for loan and lease losses. During the third quarter of 2013, Bancorp refined its allowance calculation whereby it "allocated" the portion of the allowance that was previously deemed to be unallocated allowance based on management's determination of the appropriate qualitative adjustment. This refined allowance calculation includes specific allowance allocations to loan portfolio segments at December 31, 2013 for qualitative factors including, among other factors, (i) national and local economic and business conditions, (ii) the quality and experience of lending staff and management, (iii) changes in lending policies and procedures, (iv) changes in volume and severity of past due loans, classified loans and non-performing loans, (v) potential impact of any concentrations of credit, (vi) changes in the nature and terms of loans such as growth rates and utilization rates, (vii) changes in the value of underlying collateral for collateral-dependent loans, considering Bancorp's disposition bias, and (viii) the effect of other external factors such as the legal and regulatory environment. Bancorp may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, changes in Bancorp's loan review process. Changes in the criteria used in this evaluation or the availability of new information could cause the allowance to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to the allowance for loan and lease losses based on their judgments and estimates.

The adequacy of the allowance for loan losses is monitored by the internal loan review staff and reported quarterly to the Executive Loan Committee and the Audit Committee of the Board of Directors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of Bancorp's allowance for loan losses. Such agencies may require Bancorp to make additional provisions to the allowance based upon their judgments about information available to them at the time of their examinations. Management believes that the allowance for loan losses is adequate to absorb probable inherent losses on existing loans that may become uncollectible. See "Provision for Loan Losses" for further discussion of the allowance for loan losses.

Summary of Loan Loss Experience

The following table summarizes average loans outstanding, changes in the allowance for loan losses arising from loans charged off and recoveries on loans previously charged off by loan category and additions to the allowance charged to expense.

(Dollars in thousands)	Year ended December 31				
	2013	2012	2011	2010	2009
Average Loans	<u>\$ 1,656,777</u>	<u>\$ 1,563,918</u>	<u>\$ 1,529,556</u>	<u>\$ 1,469,116</u>	<u>\$ 1,391,644</u>
Balance of allowance for loan losses at beginning of year	\$ 31,881	\$ 29,745	\$ 25,543	\$ 20,000	\$ 15,381
Loans charged off					
Commercial and industrial	457	4,523	1,015	1,418	4,904
Construction and development excluding undeveloped land	25	149	1,502	1,461	273
Undeveloped land	7,961	1,577	600	750	1,100
Real estate mortgage	2,758	3,451	5,331	2,450	1,765
Consumer	763	798	673	687	1,075
Total loans charged off	<u>11,964</u>	<u>10,498</u>	<u>9,121</u>	<u>6,766</u>	<u>9,117</u>
Recoveries of loans previously charged off					
Commercial and industrial	569	84	108	115	57
Construction and development excluding undeveloped land	163	—	—	26	2
Undeveloped land	81	—	—	—	—
Real estate mortgage	584	249	158	163	392
Consumer	658	801	457	536	510
Total recoveries	<u>2,055</u>	<u>1,134</u>	<u>723</u>	<u>840</u>	<u>961</u>
Net loans charged off	<u>9,909</u>	<u>9,364</u>	<u>8,398</u>	<u>5,926</u>	<u>8,156</u>
Additions to allowance charged to expense	6,550	11,500	12,600	11,469	12,775
Balance at end of year	<u>\$ 28,522</u>	<u>\$ 31,881</u>	<u>\$ 29,745</u>	<u>\$ 25,543</u>	<u>\$ 20,000</u>
Ratio of net charge-offs during year to average loans	<u>0.60%</u>	<u>0.60%</u>	<u>0.55%</u>	<u>0.40%</u>	<u>0.59%</u>

See “Provision for Loan Losses” for discussion of the provision for loan losses and 2013 charge-offs.

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The following table sets forth the allocation of the allowance for loan losses for the loan categories shown. Although specific allocations exist, the entire allowance is available to absorb losses in any particular loan category.

(In thousands)	December 31				
	2013	2012	2011	2010	2009
Commercial and industrial	\$ 7,644	\$ 5,949	\$ 7,364	\$ 2,796	\$ 4,091
Construction and development excluding undeveloped land	2,555	1,638	3,536	3,630	1,098
Undeveloped land	5,376	2,898	10	—	420
Real estate mortgage	12,604	14,288	11,182	12,203	6,513
Consumer	343	362	540	623	947
Unallocated	—	6,746	7,113	6,291	6,931
	<u>\$ 28,522</u>	<u>\$ 31,881</u>	<u>\$ 29,745</u>	<u>\$ 25,543</u>	<u>\$ 20,000</u>

Changes in the allocation of the allowance from year to year in various categories are influenced by the level of net charge-offs in the respective categories and other factors including, but not limited to, an evaluation of the impact of current economic conditions and trends, risk allocations tied to specific loans or groups of loans and changes in qualitative allocations. Management believes that allocations for each loan category are reflective of the risk inherent in the portfolio.

Selected ratios relating to the allowance for loan losses follow:

	Years ended December 31		
	2013	2012	2011
Provision for loan losses to average loans	0.40%	0.74%	0.82%
Net charge-offs to average loans	0.60%	0.60%	0.55%
Allowance for loan losses to average loans	1.72%	2.04%	1.94%
Allowance for loan losses to year end loans	1.66%	2.01%	1.93%

Deposits

Bancorp's core deposits consist of non-interest and interest bearing demand deposits, savings deposits, certificates of deposit under \$250,000 and IRAs. These deposits, along with other borrowed funds, are used by Bancorp to support its asset base. By adjusting rates offered to depositors, Bancorp is able to influence the amounts of deposits needed to meet its funding requirements.

Average amounts of deposits in Bancorp and average rates paid on such deposits for the years indicated are summarized as follows:

(Dollars in thousands)	Years ended December 31					
	2013		2012		2011	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
Non-interest bearing demand deposits	\$ 404,113	—	\$ 341,534	—	\$ 277,310	—
Interest bearing demand deposits	392,939	0.10%	317,017	0.16%	281,566	0.21%
Savings deposits	96,515	0.04%	78,640	0.08%	70,290	0.16%
Money market deposits	585,512	0.21%	539,395	0.33%	501,792	0.52%
Time deposits	364,347	0.92%	383,008	1.25%	418,750	1.62%
	<u>\$ 1,843,426</u>		<u>\$ 1,659,594</u>		<u>\$ 1,549,708</u>	

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Maturities of time deposits of \$250,000 or more outstanding at December 31, 2013, are summarized as follows:

<u>(In thousands)</u>	<u>Amount</u>
3 months or less	\$ 8,634
Over 3 through 6 months	4,860
Over 6 through 12 months	9,959
Over 12 months	17,151
	<u>\$ 40,604</u>

Securities Sold Under Agreement to Repurchase

Securities sold under agreements to repurchase represent excess funds from commercial customers as part of a cash management service. These agreements generally have maturities of one business day from the transaction date. Bancorp considers these core fundings since they represent excess cash balances of full relationship business customers.

Information regarding securities sold under agreements to repurchase follows:

<u>(Dollars in thousands)</u>	<u>Years ended December 31</u>					
	<u>2013</u>		<u>2012</u>		<u>2011</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Securities sold under agreements to repurchase						
Year end	\$ 62,615	0.23%	\$ 59,045	0.28%	\$ 66,026	0.30%
Average during year	60,737	0.24%	59,861	0.30%	61,595	0.41%
Maximum month end balance during year	<u>\$ 68,383</u>		<u>\$ 64,582</u>		<u>\$ 69,818</u>	

Subordinated Debentures

Subordinated debentures are classified as long term debt. In light of pressures on the economy and uncertainties in the banking industry, S.Y. Bancorp further strengthened its balance sheet during 2008 with the sale of \$30,000,000 of 10% cumulative trust preferred securities in an over-subscribed public offering. The trust preferred securities, which qualified as Tier 1 capital, were callable by Bancorp on or after December 31, 2013. On December 31, 2013, Bancorp redeemed these securities at par value. Remaining unamortized issuance costs of \$1,306,000 were recognized as non-interest expense in the fourth quarter of 2013.

Also in 2008, Bancorp issued \$10 million of subordinated debt, with a 10 year maturity, and a call option to Bancorp two years after issuance. In 2012, Bancorp exercised its call option and prepaid the subordinated debt without penalty. See Note 12 to Bancorp's consolidated financial statements for further information regarding subordinated debentures.

Liquidity

The role of liquidity management is to ensure funds are available to meet depositors' withdrawal and borrowers' credit demands while at the same time maximizing profitability. This is accomplished by balancing changes in demand for funds with changes in the supply of those funds. Liquidity is provided by short-term liquid assets that can be converted to cash, investment securities available for sale, various lines of credit available to Bancorp, and ability to attract funds from external sources, principally deposits.

Management believes it has the ability to increase deposits at any time by offering rates slightly higher than market rates.

Bancorp's Asset/Liability Committee is primarily made up of senior management and has direct oversight responsibility for Bancorp's liquidity position and profile. A combination of daily, weekly and monthly reports provided to management detail the following: internal liquidity metrics, composition and level of the liquid asset portfolio, timing differences in short-term cash flow obligations, and exposure to contingent draws on Bancorp's liquidity.

Bancorp's most liquid assets are comprised of cash and due from banks, available for sale marketable investment securities and federal funds sold. Federal funds sold totaled \$36.3 million at December 31, 2013. These investments normally have overnight maturities and are used for general daily liquidity purposes. The fair value of the available for sale investment portfolio was \$490.0 million at December 31, 2013. The portfolio includes maturities of approximately \$120.2 million over the next twelve months, including \$110 million of short-term securities which matured in January 2014. Combined with federal funds sold, these offer substantial resources to meet either new loan demand or reductions in Bancorp's deposit funding base. Bancorp pledges portions of its investment securities portfolio to secure public fund deposits, cash balances of certain investment management and trust accounts, and securities sold under agreements to repurchase. At December 31, 2013, total investment securities pledged for these purposes comprised 50% of the available for sale investment portfolio, leaving \$246.6 million of unpledged securities.

Bancorp has a large base of core customer deposits, defined as demand, savings, and money market deposit accounts. At December 31, 2013, such deposits totaled \$1.631 billion and represented 82% of Bancorp's total deposits. Because these core deposits are less volatile and are often tied to other products of Bancorp through long lasting relationships they do not put heavy pressure on liquidity. However, many of Bancorp's overall deposit balances are historically high. When market conditions improve, these balances will likely decrease, putting some strain on Bancorp's liquidity position. As of December 31, 2013, Bancorp had only \$4.3 million or 0.2% of total deposits, in brokered deposits, which are predominantly comprised of Certificate of Deposit Account Registry Service (CDARs) deposits, a program which allows Bancorp to offer FDIC insurance up to \$50 million in deposits per customer through reciprocal agreements with other network participating banks.

Other sources of funds available to meet daily needs include the sales of securities under agreements to repurchase. Also, Bancorp is a member of the FHLB of Cincinnati. As a member of the FHLB, Bancorp has access to credit products of the FHLB. Bancorp views these borrowings as a low cost alternative to other time deposits. At December 31, 2013, the amount of available credit from the FHLB totaled \$361 million. See Note 11 to Bancorp's consolidated financial statements for further information regarding advances from the Federal Home Loan Bank. Also, Bancorp has available federal funds purchased lines with correspondent banks totaling \$45 million. Bancorp also is eligible to borrow from the Federal Reserve Bank of St. Louis based upon value of posted collateral.

Over the normal course of business, Bancorp enters into certain forms of off-balance sheet transactions, including unfunded loan commitments and letters of credit. These transactions are managed through Bancorp's various risk management processes. Management considers both on-balance sheet and off-balance sheet transactions in its evaluation of Bancorp's liquidity.

Sources and Uses of Cash

Cash flow is provided primarily through financing activities of Bancorp which include raising deposits and borrowing of funds from institutional sources such as advances from FHLB and fed funds purchased as well as scheduled loan repayments. These funds are then primarily used to facilitate investment activities of Bancorp which include making loans and purchasing securities for the investment portfolio. Another important source of cash is from the net income of the Bank from operating activities. As discussed in Note 17 to Bancorp's consolidated financial statements, as of January 1 of any year the Bank may pay dividends in an amount equal to the Bank's net income of the prior two years less any dividends paid for the same two years. Regulatory approval is required for dividends exceeding these amounts. Prior to declaration of dividends, management considers the effect such payments will have on total stockholders' equity and capital

ratios. For more specific information, see the consolidated statement of cash flows in Bancorp's consolidated financial statements.

Commitments

In the normal course of business, Bancorp is party to activities that contain credit, market and operational risk that are not reflected in whole or in part in Bancorp's consolidated financial statements. Such activities include: traditional off-balance sheet credit-related financial instruments, commitments under operating leases and long-term debt.

Bancorp provides customers with off-balance sheet credit support through loan commitments and standby letters of credit. Summarized credit-related financial instruments, including both commitments to extend credit and letters of credit at December 31, 2013 are as follows:

(In thousands)	Amount of commitment expiration per period				
	Total	Less than 1 year	1-3 Years	3-5 Years	Over 5 Years
Unused loan commitments	\$ 454,290	\$ 289,509	\$ 72,816	\$ 58,023	\$ 33,942
Standby letters of credit	15,224	12,664	2,509	51	—

Since some of the unused commitments are expected to expire or may not be fully used, the total amount of commitments in the preceding table does not necessarily represent future cash requirements.

In addition to owned banking facilities, Bancorp has entered into long-term leasing arrangements for certain branch facilities. Bancorp also has required future payments for a defined benefit retirement plan, long-term debt and the maturity of time deposits. In 2009, Bancorp executed an agreement to acquire marketing rights for a sports and entertainment venue. Bancorp receives revenue from the relationship which offsets a portion of the expenses over the term of the agreement. See Note 11, Note 15 and Note 18 to Bancorp's consolidated financial statements for further information on Federal Home Loan Bank advances, the defined benefit retirement plan and operating leases.

Required payments under such commitments at December 31, 2013 are as follows:

(In thousands)	Payments due by period				
	Total	Less than 1 year	1-3 Years	3-5 Years	Over 5 Years
Operating leases	\$ 8,628	\$ 1,594	\$ 2,591	\$ 2,190	\$ 2,253
Defined benefit retirement plan	3,866	84	168	168	3,446
Time deposit maturities	349,958	228,459	101,842	19,657	—
Federal Home Loan Bank advances	34,329	10,179	20,340	353	3,457
Other	2,400	400	800	800	400

Capital

Information pertaining to Bancorp's capital balances and ratios follows:

(Dollars in thousands, except share data)	Years ended December 31		
	2013	2012	2011
Stockholders' equity	\$ 229,444	\$ 205,075	\$ 187,686
Dividends per share	0.81	0.77	0.72
Tier 1 risk-based capital	12.29%	13.17%	12.77%
Total risk-based capital	13.54%	14.42%	14.63%
Leverage ratio	9.75%	10.79%	10.53%

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Since 2008, Bancorp has had no share buyback plan, choosing instead to continue to grow its capital in the face of uncertain economic times and regulatory environment. S.Y. Bancorp increased its cash payout to stockholders during 2013 to an annual dividend of \$0.81, up from \$0.77 per share in 2012. This represents a payout ratio of 42.41% based on basic EPS and an annual yield of 2.63% based upon an annualized fourth quarter dividend rate and year-end closing stock price.

Bank holding companies and their subsidiary banks are required by regulators to meet risk-based capital standards. These standards, or ratios, measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The value of both balance sheet and off-balance sheet items are adjusted to reflect credit risks. Bancorp issued \$12.2 million of common stock during 2013 for the Oldham transaction. On December 31, 2013, Bancorp redeemed at par all of its 10% fixed-rate cumulative trust preferred securities, or \$30 million. The redemption caused capital ratios to fall somewhat at December 31, 2013, compared with those of December 31, 2012, but all ratios remain well above regulatory thresholds. The increase in Tier 1 risk-based and leverage capital ratios from 2011 to 2012 resulted largely from the growth of retained earnings. The total risk-based capital ratio declined slightly from 2011 to 2012, as a result of Bancorp's first quarter 2012 prepayment of \$10 million of subordinated debentures that qualified as Tier 2 capital. See Note 12 to Bancorp's consolidated financial statements for more detail regarding the subordinated debenture component of capital. Note 22 to the consolidated financial statements provides more details of regulatory capital requirements, as well as capital ratios of Bancorp and the Bank. Bancorp and the Bank exceed regulatory capital ratios required to be well capitalized. Management considers the effects of growth on capital ratios as it contemplates plans for expansion.

One component of equity is accumulated other comprehensive income (loss) which, for Bancorp, consists of net unrealized gains or losses on securities available for sale and a minimum pension liability, both net of taxes. Accumulated other comprehensive (loss) income was (\$2,217,000) and \$5,421,000 at December 31, 2013 and 2012, respectively. The \$7,638,000 decrease is primarily a reflection of the effect of the changing interest rate environment during fiscal year 2013 on the valuation of Bancorp's portfolio of securities available for sale.

The following table presents various key financial ratios:

	Years ended December 31		
	2013	2012	2011
Return on average assets	1.22%	1.25%	1.20%
Return on average stockholders' equity	12.34%	13.06%	13.14%
Dividend payout ratio, based on basic EPS	42.41%	41.40%	42.11%
Average stockholders' equity to average assets	9.86%	9.54%	9.17%

Fair Value Measurements

Bancorp follows the provisions of authoritative guidance for fair value measurements. This guidance is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by US GAAP. It prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in US GAAP.

Authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. The guidance, which requires fair value measurements to be classified as Level 1 (quoted prices), Level 2 (based on observable inputs) or Level 3 (based on unobservable, internally-derived inputs), is discussed in more detail in Note 19 to the consolidated financial statements.

Bancorp's investment securities available for sale and interest rate swaps are recorded at fair value on a recurring basis. Other accounts including mortgage loans held for sale, mortgage servicing rights, impaired loans and other real estate owned may be recorded at fair value on a non-recurring basis, generally in the application of lower of cost or market adjustments or write-downs of specific assets.

The portfolio of investment securities available for sale is comprised of U.S. Treasury and other U.S government obligations, debt securities of U.S. government-sponsored corporations, mortgage-backed securities and obligations of state and political subdivisions. Trust preferred securities are priced using quoted prices of identical securities in an active market. These measurements are classified as Level 1 in the hierarchy above. All other securities are priced using standard industry models or matrices with various assumptions such as yield curves, volatility, prepayment speeds, default rates, time value, credit rating and market prices for the instruments. These assumptions are generally observable in the market place and can be derived from or supported by observable data. These measurements are classified as Level 2 in the hierarchy above.

Interest rate swaps are valued using primarily Level 2 inputs. Fair value measurements are obtained from an outside pricing service. Prices obtained are generally based on dealer quotes, benchmark forward yield curves, and other relevant observable market data. For purposes of potential valuation adjustments to derivative positions, Bancorp evaluates the credit risk of its counterparties as well as its own credit risk. To date, Bancorp has not realized any losses due to a counterparty's inability to perform and the change in value of derivative assets and liabilities attributable to credit risk was not significant during 2013.

Mortgage loans held for sale are recorded at the lower of cost or market value. The portfolio is comprised of residential real estate loans and fair value is based on specific prices of underlying contracts for sales to investors. These measurements are classified as Level 2.

MSRs, carried in other assets, are recorded at fair value upon capitalization, are amortized to correspond with estimated servicing income, and are periodically assessed for impairment based on fair value at the reporting date. Fair value is based on a valuation model that calculates the present value of estimated net servicing income. The model incorporates assumptions that market participants would use in estimating future net servicing income. These measurements are classified as Level 3. At December 31, 2013 and 2012 there was no valuation allowance for MSRs, as fair value exceeded carrying value.

Other real estate owned, which is carried in other assets at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. At December 31, 2013 and December 31, 2012, the carrying value of other real estate owned was \$5,590,000 and \$7,364,000, respectively.

Loans are measured for impairment and, if indicated, a specific allocation is established based on the value of underlying collateral. Impaired loans include non-accrual loans and loans accounted for as troubled debt restructuring. For impaired loans, fair value is calculated as the carrying value of loans with a specific valuation allowance, less the specific allowance. At December 31, 2013 and December 31, 2012, carrying value of impaired loans was \$9,129,000 and \$11,625,000, respectively. These measurements are classified as Level 3.

See Note 19 to Bancorp's consolidated financial statements for details of fair value measurements.

Non-GAAP Financial Measures

In addition to capital ratios defined by banking regulators, Bancorp considers various ratios when evaluating capital adequacy, including tangible common equity to tangible assets, and tangible common equity per share, all of which are non-GAAP measures. Bancorp believes these ratios are important because of their widespread use by investors as means to evaluate capital adequacy, as they reflect the level of capital

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available to withstand unexpected market conditions. Because US GAAP does not include capital ratio measures, there are no US GAAP financial measures comparable to these ratios.

The following table reconciles Bancorp's calculation of the measures to amounts reported under US GAAP.

(in thousands, except per share data)	December 31,	
	2013	2012
Total equity	\$ 229,444	\$ 205,075
Less core deposit intangible	(2,151)	—
Less goodwill	(682)	(682)
Tangible common equity	\$ 226,611	\$ 204,393
Total assets	\$ 2,389,262	\$ 2,148,262
Less core deposit intangible	(2,151)	—
Less goodwill	(682)	(682)
Total tangible assets	\$ 2,386,429	\$ 2,147,580
Total shareholders' equity to total assets	9.60%	9.55%
Tangible common equity ratio	9.50%	9.52%
Number of outstanding shares	14,609	13,915
Book value per share	\$ 15.71	\$ 14.74
Tangible common equity per share	15.51	14.69

The following table provides a reconciliation of net interest margin in accordance with US GAAP to normalized net interest margin. Bancorp provides this information to illustrate the trend in net interest margin sequentially from 2011 through 2013 and to show the impact of prepayment fees and late charges on net interest margin.

Reconciliation of Net Interest Margin to Normalized

	2013	2012	2011
Net interest margin	3.74%	3.94%	3.99%
Prepayment penalties / late charges	(0.08)	(0.06)	0.02
Normalized net interest margin	3.66%	3.88%	4.01%

The following table provides a reconciliation of net income and earnings per diluted share to adjusted net income and adjusted earnings per diluted share, both non-GAAP measures. Bancorp provides non-GAAP earnings information to improve the comparability of its results and provide additional insight into the strength of Bancorp's operations.

Reconciliation of Net Income and Earnings per share

(amounts in thousands, net of tax)

	2013	2012	2011
Net income as reported	\$ 27,170	\$ 25,801	\$ 23,604
Write-off of debt issuance costs	835	—	—
Acquisition costs, net of gain on acquisition	613	—	—
Other	(331)	—	—
Adjusted net income	\$ 28,287	\$ 25,801	\$ 23,604
	2013	2012	2011
Earnings per diluted share, as reported	\$ 1.89	\$ 1.85	\$ 1.71
Write-off of debt issuance costs	0.06	—	—
Acquisition costs, net of gain on acquisition	0.04	—	—
Other	(0.02)	—	—
Adjusted earnings per diluted share	\$ 1.97	\$ 1.85	\$ 1.71

Recently Issued Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, which requires entities to disclose additional information about items reclassified out of accumulated other comprehensive income (AOCI). The ASU requires disclosures of changes of AOCI balances by component in the financial statements or the footnotes, and it requires significant items reclassified out of AOCI to be disclosed on the face of the income statement or as a separate footnote. The ASU is effective for fiscal years and interim periods beginning after December 15, 2012. The adoption of ASU 2013-02 did not have an impact on Bancorp’s financial statements.

In January 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-01, *Investments — Equity Method and Joint Ventures — Accounting for Investments in Qualified Affordable Housing Projects*, which allows investors in qualified affordable housing projects through limited liability entities that meet specified conditions to recognize the amortization of the investments as a component of income tax expense. Under the proportional amortization method, as defined in the ASU, the cost of the investments will be amortized in proportion to (and over the same period as) the total expected tax benefits, including the tax credits and other tax benefits, as they are realized on the tax return. The ASU is required to be applied retrospectively, for those investors electing the proportional amortization method. However, if an investor uses the effective yield method to account for its investments in qualified affordable housing projects, it may continue to apply the effective yield method for those preexisting investments. The ASU is effective for annual and interim periods beginning after December 15, 2014. Because Bancorp accounts for its investments in affordable housing projects under the effective yield method, the adoption of ASU 2014-01 is not expected to have a material impact on Bancorp’s operations or financial statements.

In January 2014, the FASB issued ASU No. 2014-04, *Receivables—Troubled Debt Restructurings by Creditor*, which clarifies in-substance foreclosures by defining when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan. The ASU also requires disclosure of amount of foreclosed residential real estate properties and of the recorded investment in consumer mortgage loans secured by residential real estate properties that are in the process of

foreclosure. The ASU is effective for annual and interim periods beginning after December 15, 2014. The adoption of ASU 2014-04 is not expected to have an impact on Bancorp's operations. The adoption of ASU 2014-04 is expected to result in additional disclosures in Bancorp's financial statements.

In January 2014, five federal agencies approved an interim final rule to permit banking entities to retain interests in certain collateralized debt obligations backed primarily by trust preferred securities ("TruPS CDOs") as they are deemed exempt from the investment prohibitions of section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, known as the Volcker rule. Because Bancorp does not have any investments in TRuPS CDOs, the interim final rule will not have an impact on Bancorp's operations or financial statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information required by this item is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K.

Item 8. Financial Statements and Supplementary Data

The following consolidated financial statements of Bancorp, and reports of independent registered public accounting firm and management are included below:

[Consolidated Balance Sheets - December 31, 2013 and 2012](#)

[Consolidated Statements of Income - years ended December 31, 2013, 2012 and 2011](#)

[Consolidated Statements of Comprehensive Income - years ended December 31, 2013, 2012 and 2011](#)

[Consolidated Statements of Cash Flows - years ended December 31, 2013, 2012 and 2011](#)

[Consolidated Statements of Changes in Stockholders' Equity - years ended December 31, 2013, 2012 and 2011](#)

[Notes to Consolidated Financial Statements](#)

Report of Independent Registered Public Accounting Firm

Management's Report on Consolidated Financial Statements

Consolidated Balance Sheets

(Dollars in thousands)	December 31,	
	2013	2012
Assets		
Cash and due from banks	\$ 34,519	\$ 42,610
Federal funds sold and interest bearing due from banks	36,251	25,093
Mortgage loans held for sale	1,757	14,047
Securities available for sale (amortized cost of \$493,066 in 2013 and \$377,383 in 2012)	490,031	386,440
Federal Home Loan Bank stock	6,334	5,180
Other securities	1,013	1,000
Loans	1,721,350	1,584,594
Less allowance for loan losses	28,522	31,881
Net loans	1,692,828	1,552,713
Premises and equipment, net	39,813	36,532
Bank owned life insurance	29,180	28,149
Accrued interest receivable	5,712	5,091
Other assets	51,824	51,407
Total assets	\$ 2,389,262	\$ 2,148,262
Liabilities		
Deposits		
Non-interest bearing	\$ 423,350	\$ 396,159
Interest bearing	1,557,587	1,385,534
Total deposits	1,980,937	1,781,693
Securities sold under agreements to repurchase	62,615	59,045
Federal funds purchased	55,295	16,552
Accrued interest payable	128	166
Other liabilities	26,514	22,949
Federal Home Loan Bank advances	34,329	31,882
Subordinated debentures	—	30,900
Total liabilities	2,159,818	1,943,187
Stockholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized; no shares issued or outstanding	—	—
Common stock, no par value; 20,000,000 shares authorized; issued and outstanding 14,608,556 shares in 2013 and 13,915,265 shares in 2012	9,581	7,273
Additional paid-in capital	33,255	17,731
Retained earnings	188,825	174,650
Accumulated other comprehensive (loss) income	(2,217)	5,421
Total stockholders' equity	229,444	205,075
Total liabilities and stockholders' equity	\$ 2,389,262	\$ 2,148,262

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

(In thousands, except per share data)	Years ended December 31,		
	2013	2012	2011
Interest income			
Loans	\$ 78,703	\$ 79,398	\$ 79,049
Federal funds sold	295	320	255
Mortgage loans held for sale	219	344	231
Securities			
Taxable	6,099	5,657	5,174
Tax-exempt	1,148	1,182	1,330
Total interest income	86,464	86,901	86,039
Interest expense			
Deposits	5,011	7,166	10,105
Securities sold under agreements to repurchase	146	180	253
Federal funds purchased	32	31	38
Federal Home Loan Bank advances	887	2,461	1,460
Subordinated debentures	3,090	3,113	3,451
Total interest expense	9,166	12,951	15,307
Net interest income	77,298	73,950	70,732
Provision for loan losses	6,550	11,500	12,600
Net interest income after provision for loan losses	70,748	62,450	58,132
Non-interest income			
Investment management and trust services	16,287	14,278	13,841
Service charges on deposit accounts	8,986	8,516	8,348
Bankcard transaction revenue	4,378	3,985	3,722
Mortgage banking revenue	3,978	5,771	3,049
Loss on sales of securities available for sale	(5)	—	—
Brokerage commissions and fees	2,159	2,593	2,219
Bank owned life insurance income	1,031	1,006	1,019
Gain on acquisition	449	—	—
Other	1,739	2,308	1,046
Total non-interest income	39,002	38,457	33,244
Non-interest expenses			
Salaries and employee benefits	41,145	37,960	33,125
Net occupancy expense	5,615	5,651	5,192
Data processing expense	6,319	5,278	5,014
Furniture and equipment expense	1,126	1,306	1,299
FDIC insurance	1,431	1,494	1,655
Acquisition costs	1,548	—	—
Loss on other real estate owned	652	1,410	1,716
Other	13,516	12,373	11,580
Total non-interest expenses	71,352	65,472	59,581
Income before income taxes	38,398	35,435	31,795
Income tax expense	11,228	9,634	8,191
Net income	\$ 27,170	\$ 25,801	\$ 23,604
Net income per share, basic	\$ 1.91	\$ 1.86	\$ 1.71
Net income per share, diluted	\$ 1.89	\$ 1.85	\$ 1.71

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(In thousands)	Years ended December 31,		
	2013	2012	2011
Net income	\$ 27,170	\$ 25,801	\$ 23,604
Other comprehensive (loss) income, net of tax:			
Unrealized (losses) gains on securities available for sale:			
Unrealized (losses) gains arising during the period (net of tax of \$(4,234), \$(24), and \$1,362, respectively)	(7,863)	(45)	2,530
Unrealized gains on hedging instruments:			
Unrealized gains arising during the period (net of tax of \$8, \$0, and \$0, respectively)	16	—	—
Reclassification adjustment for securities losses realized in income (net of tax of \$2, \$0, and \$0, respectively)	3	—	—
Minimum pension liability adjustment (net of tax of \$111, \$2, and \$(111), respectively)	206	4	(207)
Other comprehensive (loss) income	(7,638)	(41)	2,323
Comprehensive income	<u>\$ 19,532</u>	<u>\$ 25,760</u>	<u>\$ 25,927</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)	Years ended December 31		
	2013	2012	2011
Operating activities			
Net income	\$ 27,170	\$ 25,801	\$ 23,604
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	6,550	11,500	12,600
Depreciation, amortization and accretion, net	7,969	4,964	4,019
Deferred income tax expense (benefit)	570	(2,933)	(2,068)
Loss on sale of securities available for sale	5	—	—
Gains on sales of mortgage loans held for sale	(2,657)	(4,321)	(2,122)
Origination of mortgage loans held for sale	(149,745)	(241,128)	(126,306)
Proceeds from sale of mortgage loans held for sale	164,692	235,783	136,434
Bank owned life insurance income	(1,031)	(1,006)	(1,019)
(Increase) decrease in value of private investment fund	—	(637)	421
Proceeds from liquidation of private investment fund	—	2,846	—
Loss on other real estate owned	652	1,410	1,716
Loss on the disposal of equipment	51	190	382
Gain on acquisition	(449)	—	—
Stock compensation expense	1,940	1,481	1,165
Excess tax benefits from share-based compensation arrangements	(265)	(83)	(125)
Decrease in accrued interest receivable and other assets	736	769	3,533
Increase (decrease) in accrued interest payable and other liabilities	2,141	(19,840)	(7,805)
Net cash provided by operating activities	58,329	14,796	44,429
Investing activities			
Purchases of securities available for sale	(443,969)	(488,390)	(404,514)
Proceeds from sale of securities available for sale	696	—	—
Proceeds from maturities of securities available for sale	406,385	452,447	300,620
Proceeds from maturities of securities held to maturity	—	—	20
Net increase in loans	(112,156)	(53,599)	(57,037)
Purchases of premises and equipment	(2,365)	(3,301)	(8,249)
Acquisition, net of cash acquired	8,963	—	—
Proceeds from disposal of equipment	—	3	7
Proceeds from sale of foreclosed assets	6,578	2,976	7,206
Net cash used in investing activities	(135,868)	(89,864)	(161,947)
Financing activities			
Net increase in deposits	78,809	163,954	124,271
Net increase (decrease) in securities sold under agreements to repurchase and federal funds purchased	39,551	(27,702)	17,788
Net decrease in other short-term borrowings	—	—	(1,998)
Proceeds from Federal Home Loan Bank advances	12,510	31,462	—
Repayments of Federal Home Loan Bank advances	(10,063)	(60,011)	(11)
Repayments of subordinated debentures	(30,900)	(10,000)	—
Issuance of common stock for options and dividend reinvestment plan	2,435	961	705
Excess tax benefits from share-based compensation arrangements	265	83	125
Common stock repurchases	(331)	(205)	(167)
Cash dividends paid	(11,670)	(10,691)	(9,930)
Net cash provided by financing activities	80,606	87,851	130,783
Net increase in cash and cash equivalents	3,067	12,783	13,265
Cash and cash equivalents at beginning of year	67,703	54,920	41,655
Cash and cash equivalents at end of period	\$ 70,770	\$ 67,703	\$ 54,920

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

(In thousands, except per share data)	Three years ended December 31, 2013					
	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Number of shares	Amount				
Balance December 31, 2010	13,737	\$ 6,679	\$ 12,206	\$ 147,837	\$ 3,139	\$ 169,861
Net income	—	—	—	23,604	—	23,604
Other comprehensive income, net of tax	—	—	—	—	2,323	2,323
Stock compensation expense	—	—	1,165	—	—	1,165
Stock issued for exercise of stock options and dividend reinvestment plan, net of withholdings to satisfy employee tax obligations upon vesting of stock awards	48	159	504	—	—	663
Shares issued for non-vested restricted stock	42	140	866	(1,006)	—	—
Cash dividends, \$0.72 per share	—	—	—	(9,930)	—	(9,930)
Shares repurchased and cancelled	(8)	(25)	(142)	167	—	—
Balance December 31, 2011	13,819	\$ 6,953	\$ 14,599	\$ 160,672	\$ 5,462	\$ 187,686
Net income	—	—	—	25,801	—	25,801
Other comprehensive loss, net of tax	—	—	—	—	(41)	(41)
Stock compensation expense	—	—	1,481	—	—	1,481
Stock issued for exercise of stock options and dividend reinvestment plan, net of withholdings to satisfy employee tax obligations upon vesting of stock awards	70	233	1,166	(2)	—	1,397
Shares issued for non-vested restricted stock	57	190	1,108	(1,298)	—	—
Cash dividends, \$0.77 per share	—	—	—	(10,691)	—	(10,691)
Shares repurchased and cancelled	(31)	(103)	(623)	168	—	(558)
Balance December 31, 2012	13,915	\$ 7,273	\$ 17,731	\$ 174,650	\$ 5,421	\$ 205,075
Net income	—	—	—	27,170	—	27,170
Other comprehensive loss, net of tax	—	—	—	—	(7,638)	(7,638)
Stock compensation expense	—	—	1,940	—	—	1,940
Stock issued for exercise of stock options and dividend reinvestment plan, net of withholdings to satisfy employee tax obligations upon vesting of stock awards	151	503	3,041	(169)	—	3,375
Shares issued for non-vested restricted stock	55	184	1,083	(1,267)	—	—
Stock issued for acquisition	531	1,769	10,429	—	—	12,198
Cash dividends, \$0.81 per share	—	—	—	(11,670)	—	(11,670)
Shares repurchased and cancelled	(43)	(148)	(969)	111	—	(1,006)
Balance December 31, 2013	14,609	\$ 9,581	\$ 33,255	\$ 188,825	\$ (2,217)	\$ 229,444

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements**(1) Summary of Significant Accounting Policies****Principles of Consolidation and Nature of Operations**

The consolidated financial statements include the accounts of S.Y. Bancorp, Inc. (“Bancorp”) and its wholly owned subsidiary, Stock Yards Bank & Trust Company (“the Bank”). S.Y. Bancorp Capital Trust II was dissolved subsequent to the redemption of trust preferred securities on December 31, 2013. It was a Delaware statutory trust that was a wholly-owned unconsolidated finance subsidiary of S.Y. Bancorp, Inc. See Note 12 to the consolidated financial statements. Significant intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the 2013 presentation. Bancorp has evaluated subsequent events for recognition or disclosure up to the date on which financial statements were issued and determined there were none.

In addition to traditional commercial and personal banking activities, Bancorp has an investment management and trust department offering a wide range of trust administration, investment management, retirement planning, estate administration and financial planning services. Bancorp’s primary market area is Louisville, Kentucky and surrounding communities including southern Indiana. Other markets include Indianapolis, Indiana where Bancorp has three full service branches, and Cincinnati, Ohio where Bancorp has three full service branches.

Basis of Financial Statement Presentation and Use of Estimates

The consolidated financial statements of Bancorp and its subsidiaries have been prepared in conformity with U.S. generally accepted accounting principles (US GAAP) and conform to predominant practices within the banking industry. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of related revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the valuation of other real estate owned, determination of the allowance for loan losses and income tax assets, estimated liabilities and expense.

Cash Equivalents and Cash Flows

Cash and cash equivalents include cash and due from banks and Federal funds sold as segregated in the accompanying consolidated balance sheets. The following supplemental cash flow information addresses certain cash payments and noncash transactions for each of the years in the three-year period ended December 31, 2013 as follows:

(in thousands)	Years ended December 31		
	2013	2012	2011
Cash payments:			
Income tax payments	\$ 8,350	\$ 10,685	\$ 4,611
Cash paid for interest	9,210	13,017	15,379
Non-cash transactions:			
Transfers from loans to other real estate owned	\$ 5,246	\$ 4,486	\$ 12,219

Securities

Securities available for sale include securities that may be sold in response to changes in interest rates, resultant prepayment risk and other factors related to interest rate and prepayment risk changes. Securities available for sale are carried at fair value with unrealized gains or losses, net of tax effect, included in stockholders' equity. Amortization of premiums and accretion of discounts are recorded using the interest method over the life of the security. Gains or losses on sales of securities are computed on a specific identification cost basis for securities. Declines in fair value of investment securities available for sale (with certain exceptions for debt securities noted below) that are deemed to be other-than-temporary are charged to earnings as a realized loss, and a new cost basis for the securities is established. In evaluating other-than-temporary impairment, management considers the length of time and extent to which fair value has been less than cost, financial condition and near-term prospects of the issuer, and the intent and ability of Bancorp to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. Declines in fair value of debt securities below amortized cost are deemed to be other-than-temporary in circumstances where: (1) Bancorp has the intent to sell a security; (2) it is more likely than not that Bancorp will be required to sell the security before recovery of its amortized cost basis; or (3) Bancorp does not expect to recover the entire amortized cost basis of the security. If Bancorp intends to sell a security or if it is more likely than not that Bancorp will be required to sell the security before recovery, an other-than-temporary impairment write-down is recognized in earnings equal to the difference between the security's amortized cost basis and its fair value. If Bancorp does not intend to sell the security or it is not more likely than not that it will be required to sell the security before recovery, the other-than-temporary impairment write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income. Declines in value judged to be other-than-temporary are included in gains (losses) on sales of securities available for sale in the consolidated statements of income. See Note 4 to Bancorp's consolidated financial statements for additional information on investment securities.

Mortgage Loans Held for Sale

Mortgage loans held for sale are initially recorded at the lower of cost or market value on an individual loan basis. All these loans are covered by investor commitments, so gains on sales of mortgage loans are recorded at the time of disbursement of loan proceeds at the difference between the sales proceeds and the loan's carrying value net of any origination costs.

Loans

Loans are stated at the unpaid principal balance less net deferred loan fees or costs. Loan fees, net of any costs, are deferred and amortized over the life of the related loan on an effective yield basis. Interest income on loans is recorded on the accrual basis except for those loans in a non-accrual income status. Loans are placed in a non-accrual income status when prospects for recovering both principal and accrued interest are considered doubtful or when a default of principal or interest has existed for 90 days or more unless such a loan is well secured and in the process of collection. When a loan is placed on non-accrual status, any interest previously accrued but not yet collected is reversed against current income. Interest income is recorded on a cash basis during the period a loan is on non-accrual status so long as the recovery of principal is reasonably assured. Non-accrual loans may be returned to accrual status once prospects for recovering both principal and accrued interest are reasonably assured. Loans are accounted for as troubled debt restructuring when Bancorp, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. If a loan is restructured at a market rate for a new loan with comparable risk, and the loan is not impaired based on the terms specified by the restructuring agreement, it shall be removed from restructured status generally after six months of performance.

Loans are classified as impaired when it is probable Bancorp will be unable to collect interest and principal according to the terms of the loan agreement. These loans are measured based on the present value of future cash flows discounted at the loans' effective interest rate or at the estimated fair value of the loans' collateral, if applicable. Impaired loans consist of loans in non-accrual status or loans accounted for as troubled debt restructuring.

Allowance for Loan Losses

The allowance for loan losses is management's estimate of probable losses in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Prior to the third quarter of 2013, management measured the appropriateness of the allowance for loan losses in its entirety using (a) quantitative (historical loss rates) and qualitative factors (management adjustment factors); (b) specific allocations on impaired loans, and (c) an unallocated amount. The unallocated amount was evaluated on the loan portfolio in its entirety and was based on additional factors, such as national and local economic trends and conditions, changes in volume and severity of past due loans, volume of non-accrual loans, volume and severity of adversely classified or graded loans and other factors and trends that affect specific loans and categories of loans, such as a heightened risk in the commercial and industrial loan portfolios. Bancorp utilized the sum of all allowance amounts derived as described above, including a reasonable unallocated allowance, as an indicator of the appropriate level of allowance for loan and lease losses.

During the third quarter of 2013, Bancorp refined its allowance calculation whereby it "allocated" the portion of the allowance that was previously deemed to be unallocated allowance based on management's determination of the appropriate qualitative adjustment. This refined allowance calculation includes specific allowance allocations to loan portfolio segments at December 31, 2013 for qualitative factors including, among other factors, (i) national and local economic and business conditions, (ii) the quality and experience of lending staff and management, (iii) changes in lending policies and procedures, (iv) changes in volume and severity of past due loans, classified loans and non-performing loans, (v) potential impact of any concentrations of credit, (vi) changes in the nature and terms of loans such as growth rates and utilization rates, (vii) changes in the value of underlying collateral for collateral-dependent loans, considering Bancorp's disposition bias, and (viii) the effect of other external factors such as the legal and regulatory environment. Bancorp may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, changes in Bancorp's loan review process. Changes in the criteria used in this evaluation or the availability of new information could cause the allowance to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to the allowance for loan and lease losses based on their judgments and estimates.

Based on this quantitative and qualitative analysis, provisions are made to the allowance for loan losses. Such provisions are reflected as a charge against current earnings in Bancorp's consolidated statements of income.

The adequacy of the allowance for loan losses is monitored by the internal loan review staff and reported quarterly to the Executive Loan Committee and the Audit Committee of the Board of Directors. Various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of Bancorp's allowance for loan losses. Such agencies may require Bancorp to make additional provisions to the allowance based upon their judgments about information available to them at the time of their examinations.

Acquired loans

Bancorp acquired loans in the second quarter of 2013 as part of the acquisition referenced in Note 2 to the consolidated financial statements. Acquired loans were initially recorded at their acquisition date fair values. US GAAP prohibits carryover of the allowance for loan losses as any credit losses in the loans are included in the determination of the fair value of the loans at the acquisition date. Fair values for acquired loans were based on a discounted cash flow methodology that involves assumptions and judgments as to credit risk, default rates, loss severity, collateral values, discount rates, payment speeds, prepayment risk, and liquidity risk at the time of acquisition.

Acquired loans that had evidence of deterioration in credit quality since origination and for which it was probable, at acquisition, that Bancorp will be unable to collect all contractually required payments were specifically identified and analyzed. The excess of cash flows expected at acquisition over the estimated fair value is referred to as accretable discount and will be recognized as interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as non-accretable discount. The non-accretable discount represents

estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows require Bancorp to evaluate the need for an allowance for loan losses on these loans. Subsequent improvements in expected cash flows will result in the reversal of a corresponding amount of the non-accretable discount which Bancorp will reclassify as an accretable discount that will be recognized into interest income over the remaining life of the loan using the interest method. Bancorp's evaluation of the amount of future cash flows that it expects to collect is performed in a similar manner as that used to determine its allowance for loan losses. Charge-offs of the principal amount on credit-impaired acquired loans would be first applied to non-accretable discount.

For acquired loans that are not deemed impaired at acquisition, the methods used to estimate the required allowance for loan losses for acquired loans is the same for originated loans.

Premises and Equipment

Premises and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation of premises and equipment is computed using straight-line methods over the estimated useful lives of the assets ranging from 3 to 40 years. Leasehold improvements are amortized on the straight-line method over the terms of the related leases, including expected renewals, or over the useful lives of the improvements, whichever is shorter. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized.

Other Assets

Bank-owned life insurance (BOLI) is carried at net realizable value, which considers any applicable surrender charges. Also, Bancorp maintains life insurance policies other than BOLI in conjunction with its non-qualified defined benefit and non-qualified compensation plans.

Other real estate is carried at the lower of cost or estimated fair value minus estimated selling costs. Any write downs to fair value at the date of acquisition are charged to the allowance for loan losses. In certain situations, improvements to prepare assets for sale are capitalized if those costs increase the estimated fair value of the asset. Expenses incurred in maintaining assets, write downs to reflect subsequent declines in value, and realized gains or losses are reflected in operations and are included in non-interest income and expense.

Bancorp's investment in a domestic private investment fund was comprised of bank and other financial industry securities and was accounted for as an equity-method investment in accordance with US GAAP.

MSRs are amortized in proportion to and over the period of estimated net servicing income, considering appropriate prepayment assumptions. MSRs are evaluated quarterly for impairment by comparing the carrying value to the fair value.

Goodwill is measured and evaluated at least annually for impairment. No impairment charges have been deemed necessary or recorded to date, as the fair value is substantially in excess of the carrying value.

Securities Sold Under Agreements to Repurchase

Bancorp enters into sales of securities under agreement to repurchase at a specified future date. Such repurchase agreements are considered financing agreements and, accordingly, the obligation to repurchase assets sold is reflected as a liability in the consolidated balance sheets of Bancorp. Repurchase agreements are collateralized by debt securities which are owned and under the control of Bancorp. These agreements are used in conjunction with collateralized corporate cash management accounts.

Repurchased Shares of Common Stock

The repurchase of Bancorp's common stock is recorded at cost, and repurchased shares are returned to the status of authorized, but unissued. Amounts recorded in common stock are based on the stated value of the shares, as there is no par value. Residual amounts are recorded in additional paid in capital.

Income Taxes

Bancorp accounts for income taxes using the asset and liability method. The objective of the asset and liability method is to establish deferred tax assets and liabilities for temporary differences between the financial reporting and the tax bases of Bancorp's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of income in the period that includes the enactment date.

No valuation allowance for deferred tax assets was recorded as of December 31, 2013 and 2012 because Bancorp has sufficient prior taxable income, future projected taxable income, and tax planning strategies to allow for utilization of the deductible temporary differences and capital loss carryforwards within the carryforward period. Management believes it is more likely than not that all deferred tax assets will be realized.

To the extent unrecognized income tax benefits become realized or the related accrued interest is no longer necessary, Bancorp's provision for income taxes would be favorably impacted. As of December 31, 2013 and 2012, the gross amount of unrecognized tax benefits was \$40,000 and \$70,000, respectively. If recognized, the tax benefits would reduce tax expense and accordingly, increase net income. The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to statutes of limitation, changes in management's judgment about the level of uncertainty, status of examination, litigation and legislative activity and the addition or elimination of uncertain tax positions.

Bancorp's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of December 31, 2013 and 2012, the amount accrued for the potential payment of interest and penalties was \$2,000 and \$4,000, respectively.

Bancorp invests in certain partnerships that yield low-income housing, historic and new market tax credits as well as tax deductible losses. These tax benefits are recognized in income tax expense using an effective yield method over the life of the investment.

Net Income Per Share

Basic net income per common share is determined by dividing net income by the weighted average number of shares of common stock outstanding. Diluted net income per share is determined by dividing net income by the weighted average number of shares of common stock outstanding plus the weighted average number of shares that would be issued upon exercise of dilutive options and stock appreciation rights, assuming proceeds are used to repurchase shares under the treasury stock method.

Comprehensive Income

Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. For Bancorp, this includes net income, changes in unrealized gains and losses on available for sale investment securities and cash flow hedging instruments, net of taxes, and minimum pension liability adjustments, net of taxes.

Segment Information

Bancorp provides a broad range of financial services to individuals, corporations and others through its thirty-four full service banking locations as of December 31, 2013. These services include lending and deposit services, cash management services, securities brokerage activities, mortgage origination and investment

management and trust activities. Bancorp's operations are considered by management to be aggregated in two reportable operating segments: commercial banking and investment management and trust.

Stock-Based Compensation

For all awards, stock-based compensation expense recognized is based on the fair value of the portion of stock-based payment awards that are ultimately expected to vest, reduced for estimated forfeitures. US GAAP requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

Derivatives

Bancorp uses derivative financial instruments as part of its interest rate risk management, including interest rate swaps. US GAAP establishes accounting and reporting standards for derivative instruments and hedging activities. As required by US GAAP, Bancorp's interest rate swaps are recognized as other assets and liabilities in the consolidated balance sheet at fair value. Accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. To qualify for hedge accounting, Bancorp must comply with detailed rules and documentation requirements at inception of the hedge, and hedge effectiveness is assessed at inception and periodically throughout the life of each hedging relationship. Hedge ineffectiveness, if any, is measured periodically throughout the life of the hedging relationship.

For derivatives designated as cash flow hedges, the effective portion of changes in fair value of the derivative is initially reported in other comprehensive income and subsequently reclassified to interest income or expense when the hedged transaction affects earnings, while the ineffective portion of changes in fair value of derivative, if any, is recognized immediately in other noninterest income. Bancorp assesses effectiveness of each hedging relationship by comparing the cumulative changes in cash flows of the derivative hedging instrument with the cumulative changes in cash flows of the designated hedged item or transaction. No component of the change in the fair value of the hedging instrument is excluded from the assessment of hedge effectiveness.

Bancorp offers interest rate swaps to customers desiring long-term fixed rate lending whereby Bancorp receives interest at a fixed rate and pays interest at a variable rate. Simultaneously, Bancorp enters into an interest rate swap agreement with an unrelated counterparty whereby Bancorp pays interest at a fixed rate and receives interest at a variable rate. Because of matching terms of offsetting contracts and the collateral provisions mitigating any non-performance risk, changes in fair value subsequent to initial recognition have an insignificant effect on earnings. Because these derivative instruments have not been designated as hedging instruments, the derivative instruments are recognized on the consolidated balance sheet at fair value, with changes in fair value, due to changes in prevailing interest rates, recorded in other noninterest income.

Bancorp had no fair value hedging relationships at December 31, 2013 or 2012. Bancorp does not use derivatives for trading or speculative purposes.

(2) Restrictions on Cash and Due from Banks

Bancorp is required to maintain an average reserve balance in cash or with the Federal Reserve Bank relating to customer deposits. The amount of those required reserve balances was approximately \$1,105,000 and \$859,000 at December 31, 2013 and 2012, respectively.

(3) Acquisition

On April 30, 2013, Bancorp completed the acquisition of 100% of the outstanding shares of THE BANCORP, Inc. ("Oldham"), parent company of THE BANK — Oldham County, Inc. As a result of the transaction, THE BANK — Oldham County merged into Stock Yards Bank & Trust Company. Since the acquisition date, results of operations acquired in the Oldham transaction have been included in Bancorp's financial results.

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The Oldham transaction has been accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration transferred were recorded at estimated fair value on the acquisition date. Assets acquired totaled approximately \$146.0 million, including \$39.8 million of loans and leases. Liabilities assumed totaled \$125.1 million, including \$120.4 million of deposits. Fair value adjustments resulted in net assets acquired in excess of the consideration paid. Accordingly, a non-taxable gain of \$449,000 was recognized.

The following table summarizes the consideration paid and the amounts of assets acquired and liabilities assumed, adjusted for fair value at the acquisition date.

(amounts in thousands)

Purchase price:

Cash	\$	8,297
Equity instruments (531,288 common shares of Bancorp)		<u>12,198</u>
Total purchase price		20,495

Identifiable assets:

Cash and federal funds sold	17,260
Investment securities	81,827
Loans	39,755
Premises and equipment	4,008
Core deposit intangible	2,543
Other assets	<u>605</u>
Total identifiable assets	145,998

Identifiable liabilities:

Deposits	120,435
Securities sold under agreement to repurchase	2,762
Other liabilities	<u>1,857</u>
Total identifiable liabilities	<u>125,054</u>

Net gain resulting from acquisition

	\$	<u>449</u>
Acquisition costs (included in non-interest expenses in Bancorp's income statement for the year ended December 31, 2013)	\$	<u>1,548</u>

Fair value of the common shares issued as part of the consideration paid was determined based on the closing market price of Bancorp's common shares on the acquisition date.

In the second quarter of 2013, Bancorp recorded a core deposit intangible of \$2,543,000 which is being amortized over a ten year period using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. At December 31, 2013, the unamortized core deposit intangible was \$2,151,000.

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In many cases, determining fair value of acquired assets and assumed liabilities required Bancorp to estimate cash flows expected to result from those assets and liabilities and to discount those cash flows at appropriate rates of interest. The most significant of these determinations related to valuation of acquired loans.

(in thousands)	Acquired impaired loans	Acquired non- impaired loans	Total acquired loans
Contractually required principal and interest at acquisition	\$ 3,285	\$ 37,763	\$ 41,048
Contractual cash flows not expected to be collected	(372)	(723)	(1,095)
Expected cash flows at acquisition	2,913	37,040	39,953
Interest component of expected cash flows	(174)	(24)	(198)
Basis in acquired loans at acquisition - estimated fair value	<u>\$ 2,739</u>	<u>\$ 37,016</u>	<u>\$ 39,755</u>

Fair values of checking, savings and money market deposit accounts acquired from Oldham were assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. Certificate of deposit accounts were valued at the present value of the certificates' expected contractual payments discounted at market rates for similar certificates.

In connection with the Oldham acquisition, Bancorp incurred expenses related to executing the transaction and integrating and conforming acquired operations with and into Bancorp. Those expenses consisted largely of conversion of systems and/or integration of operations, professional services, costs related to termination of existing contractual arrangements of Oldham to purchase various services; initial marketing and promotion expenses designed to introduce Bancorp to its new customers; and printing, postage, supplies, and other costs of completing the transaction.

A summary of acquisition costs, all recorded in the second quarter 2013 consolidated statement of income, follows:

(in thousands)	
Data conversion	\$ 906
Consulting	262
Salaries and employee benefits	103
Legal	96
All other	181
Total	<u>\$ 1,548</u>

(4) Securities

The amortized cost, unrealized gains and losses, and fair value of securities available for sale follow:

(in thousands) December 31, 2013	Amortized cost	Unrealized		Fair value
		Gains	Losses	
U.S. Treasury and other U.S. government obligations	\$ 110,000	\$ —	\$ —	\$ 110,000
Government sponsored enterprise obligations	138,094	1,623	1,872	137,845
Mortgage-backed securities - government agencies	176,524	1,391	5,222	172,693
Obligations of states and political subdivisions	68,448	1,473	428	69,493
Total securities available for sale	<u>\$ 493,066</u>	<u>\$ 4,487</u>	<u>\$ 7,522</u>	<u>\$ 490,031</u>

(in thousands) December 31, 2012	Amortized cost	Unrealized		Fair value
		Gains	Losses	
U.S. Treasury and other U.S. government obligations	\$ 98,000	\$ —	\$ —	\$ 98,000
Government sponsored enterprise obligations	83,015	2,789	56	85,748
Mortgage-backed securities - government agencies	137,407	3,594	120	140,881
Obligations of states and political subdivisions	57,961	2,844	12	60,793
Trust preferred securities of financial institutions	1,000	18	—	1,018
Total securities available for sale	<u>\$ 377,383</u>	<u>\$ 9,245</u>	<u>\$ 188</u>	<u>\$ 386,440</u>

There are no securities held to maturity as of December 31, 2013 or 2012.

In the second quarter of 2013, Bancorp sold obligations of state and political subdivisions with a total par value of \$685,000, generating a loss of \$5,000. These securities, acquired in the Oldham transaction, were sold in the ordinary course of investment management because they did not meet Bancorp's current investment strategy. Management has the intent and ability to hold all remaining investment securities available for sale for the foreseeable future. No securities were sold in 2012.

In addition to the available for sale portfolio, investment securities held by Bancorp include certain securities which are not readily marketable, and are carried at cost. This category includes holdings of Federal Home Loan Bank of Cincinnati (FHLB) stock which are required for access to FHLB borrowing availability, and are classified as restricted securities. Other securities consist of a Community Reinvestment Act (CRA) investment which matures in 2014, which is fully collateralized with a government agency security of similar duration, and holdings of stock in a correspondent bank Bancorp utilized for various services. Bancorp reviewed the investment in FHLB stock as of December 31, 2013, considering the FHLB equity position, its continuance of dividend payments, liquidity position, and positive year-to-date net income. Based on this review, Bancorp believes its investment in FHLB stock is not impaired.

A summary of available for sale investment securities by maturity groupings as of December 31, 2013 is shown below. Actual maturities may differ from contractual maturities because some issuers have the right to

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call or prepay obligations. The investment portfolio includes mortgage-backed securities, all of which are guaranteed by agencies such as the FHLMC, FNMA, and GNMA. These securities differ from traditional debt securities primarily in that they may have uncertain principal payment dates and are priced based on estimated prepayment rates of the underlying collateral.

(in thousands)

Securities available for sale	Amortized cost	Fair value
Due within 1 year	\$ 120,183	\$ 120,234
Due after 1 but within 5 years	128,126	129,476
Due after 5 but within 10 years	35,980	36,172
Due after 10 years	32,253	31,456
Mortgage-backed securities	176,524	172,693
Total securities available for sale	<u>\$ 493,066</u>	<u>\$ 490,031</u>

Securities with a carrying value of approximately \$243.5 million at December 31, 2013 and \$158.2 million at December 31, 2012 were pledged to secure accounts of commercial depositors in cash management accounts, public deposits, and cash balances for certain investment management and trust accounts.

At year end 2013 and 2012, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Securities with unrealized losses at December 31, 2013 and 2012, not recognized in income are as follows:

(In thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2013						
Government sponsored enterprise obligations	\$ 76,755	\$ 1,429	\$ 4,353	\$ 443	\$ 81,108	\$ 1,872
Mortgage-backed securities - government agencies	112,652	4,400	8,752	822	121,404	5,222
Obligations of states and political subdivisions	22,092	405	1,211	23	23,303	428
Total temporarily impaired securities	<u>\$ 211,499</u>	<u>\$ 6,234</u>	<u>\$ 14,316</u>	<u>\$ 1,288</u>	<u>\$ 225,815</u>	<u>\$ 7,522</u>

(In thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2012						
enterprise obligations	\$ 29,996	\$ 56	\$ —	\$ —	\$ 29,996	56
Mortgage-backed securities - government agencies	16,609	120	—	—	16,609	120
Obligations of states and political subdivisions	2,292	12	—	—	2,292	12
Total temporarily impaired securities	<u>\$ 48,897</u>	<u>\$ 188</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 48,897</u>	<u>\$ 188</u>

Unrealized losses on Bancorp's investment securities portfolio have not been recognized in income because the securities are of high credit quality, and the decline in fair values is largely due to changes in the prevailing interest rate environment since the purchase date. Fair value is expected to recover as securities reach their maturity date and/or the interest rate environment returns to conditions similar to when these securities were purchased. These investments consist of 155 and 14 separate investment positions as of December 31, 2013 and 2012, respectively. Because management does not intend to sell the investments, and it is not likely that Bancorp will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Bancorp does not consider these securities to be other-than-temporarily impaired at December 31, 2013.

(5) Loans

The composition of loans by primary loan portfolio segment follows:

(In thousands)	December 31,	
	2013	2012
Commercial and industrial	\$ 510,739	\$ 426,930
Construction and development, excluding undeveloped land	91,719	85,456
Undeveloped land	37,871	45,797
Real estate mortgage	1,046,823	989,631
Consumer	34,198	36,780
	<u>\$ 1,721,350</u>	<u>\$ 1,584,594</u>

Loan balances include deferred loan origination fees, net of deferred loan costs. At December 31, 2013, net deferred loan costs exceeded deferred loan fees, resulting in net balances of (\$139,000), compared to \$47,000 at December 31, 2012. During 2013, deferred loan origination costs exceeded deferred fees for new loans, resulting in the net balance decrease.

Bancorp's credit exposure is diversified with secured and unsecured loans to individuals and businesses. No specific industry concentration exceeds ten percent of loans. While Bancorp has a diversified loan portfolio, a customer's ability to honor contracts is somewhat dependent upon the economic stability and/or industry in which that customer does business. Loans outstanding and related unfunded commitments are primarily concentrated within Bancorp's current market areas, which encompass the Louisville, Indianapolis and Cincinnati metropolitan markets.

Bancorp occasionally enters into loan participation agreements with other banks in the ordinary course of business to diversify credit risk. For most sold participation loans, Bancorp has retained effective control of the loans, typically by restricting the participating institutions from pledging or selling their share of the loan without permission from Bancorp. US GAAP requires the participated portion of these loans to be recorded as secured borrowings. The participated portions of these loans are included in the commercial and industrial loan totals above, and a corresponding liability is reflected in other liabilities. At December 31, 2013 and 2012, the total participated portions of loans of this nature were \$9,449,000 and \$7,658,000 respectively.

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Loans to directors and their associates, including loans to companies for which directors are principal owners, and executive officers are presented in the following table.

(in thousands) Loans to directors and executive officers	Year ended December 31,	
	2013	2012
Balance as of January 1	\$ 6,099	\$ 622
New loans and advances on lines of credit	10,006	6,691
Repayments on loans and lines of credit	7,438	1,214
Balance as of December 31	<u>\$ 8,667</u>	<u>\$ 6,099</u>

The higher amounts of advances and repayments in 2013 are primarily attributable to the utilization of daily sweep features on a working capital line of credit.

The following table presents the balance in the recorded investment in loans and allowance for loan losses by portfolio segment and based on impairment method as of December 31, 2013, 2012 and 2011.

(in thousands) December 31, 2013	Type of loan					Total	
	Commercial and industrial	Construction and development excluding undeveloped land	Undeveloped land	Real estate mortgage	Consumer		
Loans	\$ 510,739	\$ 91,719	\$ 37,871	\$ 1,046,823	\$ 34,198	\$ 1,721,350	
Loans individually evaluated for impairment	\$ 7,579	\$ 26	\$ 7,340	\$ 7,478	\$ 84	\$ 22,507	
Loans collectively evaluated for impairment	\$ 502,535	\$ 90,428	\$ 30,531	\$ 1,038,824	\$ 34,095	\$ 1,696,413	
Balance: loans acquired with deteriorated credit quality	\$ 625	\$ 1,265	\$ —	\$ 521	\$ 19	\$ 2,430	
	Commercial and industrial	Construction and development excluding undeveloped land	Undeveloped land	Real estate mortgage	Consumer	Unallocated	Total
Allowance for loan losses							
At December 31, 2012	\$ 5,949	\$ 4,536	\$ —	\$ 14,288	\$ 362	\$ 6,746	\$ 31,881
Provision	1,583	(2,119)	13,256	490	86	(6,746)	6,550
Charge-offs	(457)	(25)	(7,961)	(2,758)	(763)	—	(11,964)
Recoveries	569	163	81	584	658	—	2,055
At December 31, 2013	\$ 7,644	\$ 2,555	\$ 5,376	\$ 12,604	\$ 343	\$ —	\$ 28,522
Allowance for loans individually evaluated for impairment	\$ 762	\$ —	\$ —	\$ 606	\$ 84		\$ 1,452
Allowance for loans collectively evaluated for impairment	\$ 6,882	\$ 2,555	\$ 5,376	\$ 11,998	\$ 259	\$ —	\$ 27,070

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(in thousands) December 31, 2012	Type of loan					
	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Unallocated	Total
Loans	<u>\$ 426,930</u>	<u>\$ 131,253</u>	<u>\$ 989,631</u>	<u>\$ 36,780</u>		<u>\$1,584,594</u>
Loans individually evaluated for impairment	<u>\$ 8,667</u>	<u>\$ 10,863</u>	<u>\$ 9,795</u>	<u>\$ 4</u>		<u>\$ 29,329</u>
Loans collectively evaluated for impairment	<u>\$ 418,263</u>	<u>\$ 120,390</u>	<u>\$ 979,836</u>	<u>\$ 36,776</u>		<u>\$1,555,265</u>
	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Unallocated	Total
Allowance for loan losses						
At December 31, 2011	\$ 7,364	\$ 3,546	\$ 11,182	\$ 540	\$ 7,113	\$ 29,745
Provision	3,024	2,716	6,308	(181)	(367)	11,500
Charge-offs	(4,523)	(1,726)	(3,451)	(798)	—	(10,498)
Recoveries	84	—	249	801	—	1,134
At December 31, 2012	<u>\$ 5,949</u>	<u>\$ 4,536</u>	<u>\$ 14,288</u>	<u>\$ 362</u>	<u>\$ 6,746</u>	<u>\$ 31,881</u>
Allowance for loans individually evaluated for impairment	<u>\$ 156</u>	<u>\$ 2,898</u>	<u>\$ 563</u>	<u>\$ —</u>		<u>\$ 3,617</u>
Allowance for loans collectively evaluated for impairment	<u>\$ 5,793</u>	<u>\$ 1,638</u>	<u>\$ 13,725</u>	<u>\$ 362</u>	<u>\$ 6,746</u>	<u>\$ 28,264</u>
(in thousands) December 31, 2011	Type of loan					
	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Unallocated	Total
Loans	<u>\$ 393,729</u>	<u>\$ 147,637</u>	<u>\$ 966,665</u>	<u>\$ 36,814</u>		<u>\$1,544,845</u>
Loans individually evaluated for impairment	<u>\$ 5,459</u>	<u>\$ 2,416</u>	<u>\$ 14,170</u>	<u>\$ 94</u>		<u>\$ 22,139</u>
Loans collectively evaluated for impairment	<u>\$ 388,270</u>	<u>\$ 145,221</u>	<u>\$ 952,495</u>	<u>\$ 36,720</u>		<u>\$1,522,706</u>
	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Unallocated	Total
Allowance for loan losses						
At December 31, 2010	\$ 2,796	\$ 2,280	\$ 12,272	\$ 623	\$ 7,572	\$ 25,543
Provision	5,475	2,859	4,592	133	(459)	12,600
Charge-offs	(1,015)	(1,593)	(5,840)	(673)	—	(9,121)
Recoveries	108	—	158	457	—	723
At December 31, 2011	<u>\$ 7,364</u>	<u>\$ 3,546</u>	<u>\$ 11,182</u>	<u>\$ 540</u>	<u>\$ 7,113</u>	<u>\$ 29,745</u>
Allowance for loans individually evaluated for impairment	<u>\$ 954</u>	<u>\$ 10</u>	<u>\$ 1,597</u>	<u>\$ —</u>		<u>\$ 2,561</u>
Allowance for loans collectively evaluated for impairment	<u>\$ 6,410</u>	<u>\$ 3,536</u>	<u>\$ 9,585</u>	<u>\$ 540</u>	<u>\$ 7,113</u>	<u>\$ 27,184</u>

Prior to the third quarter of 2013, management measured the appropriateness of the allowance for loan losses in its entirety using (a) quantitative (historical loss rates) and qualitative factors (management adjustment factors); (b) specific allocations on impaired loans, and (c) an unallocated amount. The unallocated amount was evaluated on the loan portfolio in its entirety and was based on additional factors, such as national and local economic trends and conditions, changes in volume and severity of past due loans, volume of non-accrual loans, volume and severity of adversely classified or graded loans and other factors and trends that affect specific loans and categories of loans, such as a heightened risk in the commercial and industrial loan portfolios.

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During the third quarter of 2013, Bancorp refined its allowance calculation whereby it “allocated” the portion of the allowance that was previously deemed to be unallocated allowance based on management’s determination of the appropriate qualitative adjustments. This refined allowance calculation includes specific allowance allocations to loan portfolio segments at December 31, 2013 for qualitative factors including, among other factors, (i) national and local economic and business conditions, (ii) the quality and experience of lending staff and management, (iii) changes in lending policies and procedures, (iv) changes in volume and severity of past due loans, classified loans and non-performing loans, (v) potential impact of any concentrations of credit, (vi) changes in the nature and terms of loans such as growth rates and utilization rates, (vii) changes in the value of underlying collateral for collateral-dependent loans, considering Bancorp’s disposition bias, and (viii) the effect of other external factors such as the legal and regulatory environment. Bancorp may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, changes in Bancorp’s loan review process. Because Bancorp has refined its allowance calculation during 2013 such that it no longer maintains unallocated allowance at December 31, 2013, Bancorp’s allocation of its allowance at December 31, 2013 is not comparable with prior periods.

Management uses the following portfolio segments of loans when assessing and monitoring the risk and performance of the loan portfolio:

- Commercial and industrial
- Construction and development, excluding undeveloped land
- Undeveloped land
- Real estate mortgage
- Consumer

In the fourth quarter of 2013, as a result of analyses of non-performing loan metrics, Bancorp expanded the classifications for loans to include undeveloped land, which was previously recorded within construction and development loans.

Bancorp did not have any acquired loans with deteriorated credit quality at December 31, 2012. Bancorp has loans that were acquired in the Oldham acquisition in the second quarter of 2013, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is included in the balance sheet amounts of loans at December 31, 2013.

The changes in accretable discount related to credit impaired acquired loans are as follows:

(in thousands)

Balance at December 31, 2012	\$	—
Additions due to Oldham acquisition		174
Accretion		(37)
Reclassifications from (to) non-accretable difference		—
Disposals		—
Balance at December 31, 2013	\$	<u>137</u>

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The following table presents loans individually evaluated for impairment as of December 31, 2013 and 2012.

(in thousands) December 31, 2013	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment
Loans with no related allowance recorded				
Commercial and industrial	\$ 830	\$ 974	\$ —	\$ 4,499
Construction and development, excluding undeveloped land	26	151	—	54
Undeveloped land	7,340	9,932	—	3,272
Real estate mortgage	3,731	5,069	—	5,559
Consumer	—	—	—	3
Subtotal	11,927	16,126	—	13,387
Loans with an allowance recorded				
Commercial and industrial	\$ 6,749	\$ 6,749	\$ 762	\$ 3,806
Construction and development, excluding undeveloped land	—	—	—	259
Undeveloped land	—	—	—	7,152
Real estate mortgage	3,747	4,065	606	3,705
Consumer	84	84	84	34
Subtotal	10,580	10,898	1,452	14,956
Total				
Commercial and industrial	\$ 7,579	\$ 7,723	\$ 762	\$ 8,305
Construction and development, excluding undeveloped land	26	151	—	313
Undeveloped land	7,340	9,932	—	10,424
Real estate mortgage	7,478	9,134	606	9,264
Consumer	84	84	84	37
Total	\$ 22,507	\$ 27,024	\$ 1,452	\$ 28,343

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(in thousands) December 31, 2012	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment
Loans with no related allowance recorded				
Commercial and industrial	\$ 6,735	\$ 7,591	\$ —	\$ 6,226
Construction and development, excluding undeveloped land	118	381	—	158
Undeveloped land	234	1,806	—	886
Real estate mortgage	6,996	7,752	—	6,451
Consumer	4	25	—	21
Subtotal	14,087	17,555	—	13,742
Loans with an allowance recorded				
Commercial and industrial	1,932	5,103	156	3,294
Construction and development, excluding undeveloped land	433	433	—	260
Undeveloped land	10,078	10,702	2,898	7,232
Real estate mortgage	2,799	2,948	563	4,583
Consumer	—	—	—	—
Subtotal	15,242	19,186	3,617	15,369
Total				
Commercial and industrial	\$ 8,667	\$ 12,694	\$ 156	\$ 9,520
Construction and development, excluding undeveloped land	551	814	—	418
Undeveloped land	10,312	12,508	2,898	8,118
Real estate mortgage	9,795	10,700	563	11,034
Consumer	4	25	—	21
Total	\$ 29,329	\$ 36,741	\$ 3,617	\$ 29,111

Differences between recorded investment amounts and unpaid principal balance amounts are due to fair value adjustments recorded for loans acquired and partial charge-offs which have occurred over the life of loans.

Interest income on impaired or non-accrual loans (cash basis) was \$185,000, \$157,000 and \$391,000 in 2013, 2012, and 2011, respectively. Interest income that would have been recorded if non-accrual loans were on a current basis in accordance with their original terms was \$1,248,000, \$1,167,000 and \$1,104,000 in 2013, 2012 and 2011, respectively.

Impaired loans include non-accrual loans and loans accounted for as troubled debt restructurings (TDRs), which continue to accrue interest. Non-performing loans include the balance of impaired loans plus any loans over 90 days past due and still accruing interest. Loans past due more than 90 days or more and still accruing interest amounted to \$437,000 and \$719,000 at December 31, 2013 and 2012, respectively.

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The following table presents the recorded investment in non-accrual loans as of December 31, 2013 and 2012.

(In thousands)	2013	2012
Commercial and industrial	\$ 846	\$ 1,554
Construction and development, excluding undeveloped land	26	551
Undeveloped land	7,340	10,312
Real estate mortgage	7,046	5,939
Consumer	—	4
Total	\$ 15,258	\$ 18,360

On December 31, 2013 and 2012, Bancorp had \$7.2 million and \$11.0 million of loans classified as TDR, respectively. The following table presents the recorded investment in loans modified and classified as TDR during the years ended December 31, 2013 and 2012.

(dollars in thousands) December 31, 2013	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Commercial & industrial	1	\$ 796	\$ 796
Real estate mortgage	1	85	85
Total	2	\$ 881	\$ 881

(dollars in thousands) December 31, 2012	Number of contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Commercial & industrial	3	\$ 5,752	\$ 5,752
Real estate mortgage	5	3,862	3,862
Total	8	\$ 9,614	\$ 9,614

The following table presents the recorded investment in loans accounted for as TDR that were restructured and experienced a payment default during the year ending December 31, 2013 and 2012.

(dollars in thousands) December 31, 2013	Number of Contracts	Recorded investment
Commercial & industrial	1	\$ 790
Real estate mortgage	2	2,425
Total	3	\$ 3,215

(dollars in thousands) December 31, 2012	Number of Contracts	Recorded investment
Commercial & industrial	1	\$ 627
Real estate mortgage	1	295
Total	2	\$ 922

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At December 31, 2013, loans accounted for as TDR included modifications from original terms due to bankruptcy proceedings, modifications of amortization periods or temporary suspension of principal payments due to customer financial difficulties, and limited forgiveness of principal. Loans accounted for as TDR, which have not defaulted, are individually evaluated for impairment and, at December 31, 2013, had a total allowance allocation of \$942,000, compared to \$295,000 at December 31, 2012.

At December 31, 2013 and 2012, Bancorp had outstanding commitments to lend additional funds totaling \$262,000 and \$187,000, respectively, to borrowers whose loans have been modified as TDR.

The following table presents the aging of the recorded investment in past due loans as of December 31, 2013 and 2012.

(in thousands)	30-59 days past due	60-89 days past due	Greater than 90 days past due (includes non-accrual)	Total past due	Current	Total loans	Recorded investment > 90 days and accruing
December 31, 2013							
Commercial and industrial	\$ 808	\$ 201	\$ 1,268	\$ 2,277	\$ 508,462	\$ 510,739	\$ 421
Construction and development, excluding undeveloped land	429	—	26	455	91,264	91,719	—
Undeveloped land	—	—	7,340	7,340	30,531	37,871	—
Real estate mortgage	4,529	1,180	7,062	12,771	1,034,052	1,046,823	16
Consumer	110	—	—	110	34,088	34,198	—
Total	<u>\$ 5,876</u>	<u>\$ 1,381</u>	<u>\$ 15,696</u>	<u>\$ 22,953</u>	<u>\$ 1,698,397</u>	<u>\$ 1,721,350</u>	<u>\$ 437</u>
December 31, 2012							
Commercial and industrial	\$ 212	\$ 42	\$ 1,554	\$ 1,808	\$ 425,122	\$ 426,930	\$ —
Construction and development, excluding undeveloped land	—	—	551	551	84,905	85,456	—
Undeveloped land	—	4,284	10,312	14,596	31,201	45,797	—
Real estate mortgage	3,771	1,952	6,424	12,147	977,484	989,631	485
Consumer	79	—	238	317	36,463	36,780	234
Total	<u>\$ 4,062</u>	<u>\$ 6,278</u>	<u>\$ 19,079</u>	<u>\$ 29,419</u>	<u>\$ 1,555,175</u>	<u>\$ 1,584,594</u>	<u>\$ 719</u>

Bancorp categorizes loans into credit risk categories based on relevant information about ability of borrowers to service their debt such as current financial information, historical payment experience, credit documentation, public information and current economic trends. Pass-rated loans included all risk-rated loans other than those classified as special mention, substandard, and doubtful, which are defined below:

- **Special Mention:** Loans classified as special mention have a potential weakness that deserves management's close attention. These potential weaknesses may result in deterioration of repayment prospects for the loan or of Bancorp's credit position at some future date.
- **Substandard:** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize repayment of the debt. They are characterized by the distinct possibility that Bancorp will sustain some loss if the deficiencies are not corrected.

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- Substandard non-performing: Loans classified as substandard non-performing have all the characteristics of substandard loans and have been placed on non-accrual status or have been accounted for as troubled debt restructurings.
- Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

As of December 31, 2013 and 2012, balances in risk categories of loans were as follows:

Credit risk profile by internally assigned grade

(in thousands)	Commercial and industrial	Construction and development, excluding undeveloped land	Undeveloped land	Real estate mortgage	Consumer	Total
December 31, 2013						
Grade						
Pass	\$ 486,140	\$ 79,896	\$ 30,366	\$ 1,014,216	\$ 34,028	\$ 1,644,646
Special mention	12,983	7,091	—	17,916	86	38,076
Substandard	3,616	4,706	165	7,197	—	15,684
Substandard non- performing	8,000	26	7,340	7,494	84	22,944
Doubtful	—	—	—	—	—	—
Total	<u>\$ 510,739</u>	<u>\$ 91,719</u>	<u>\$ 37,871</u>	<u>\$ 1,046,823</u>	<u>\$ 34,198</u>	<u>\$ 1,721,350</u>
December 31, 2012						
Grade						
Pass	\$ 404,045	\$ 78,621	\$ 34,388	\$ 925,674	\$ 36,542	\$ 1,479,270
Special mention	11,097	6,284	547	26,770	—	44,698
Substandard	4,482	—	550	26,901	—	31,933
Substandard non- performing	7,306	551	10,312	10,286	238	28,693
Doubtful	—	—	—	—	—	—
Total	<u>\$ 426,930</u>	<u>\$ 85,456</u>	<u>\$ 45,797</u>	<u>\$ 989,631</u>	<u>\$ 36,780</u>	<u>\$ 1,584,594</u>

(6) Premises and Equipment

A summary of premises and equipment follows:

(In thousands)	December 31,	
	2013	2012
Land	\$ 6,803	\$ 4,586
Buildings and improvements	43,259	40,530
Furniture and equipment	17,149	15,998
Construction in progress	231	269
	67,442	61,383
Accumulated depreciation and amortization	(27,629)	(24,851)
	<u>\$ 39,813</u>	<u>\$ 36,532</u>

Depreciation expense related to premises and equipment was \$3,042,000 in 2013, \$3,147,000 in 2012 and \$2,914,000 in 2011.

(7) Other Assets

A summary of major components of other assets as of December 31, 2013 and 2012 follows:

(in thousands)	2013	2012
Net deferred tax asset	\$ 14,554	\$ 12,538
Cash surrender value of life insurance other than BOLI	10,949	9,614
Other real estate owned and other foreclosed property	5,592	7,364
Investments in tax credit related ventures	5,506	7,329
Core deposit intangible	2,151	—
Mortgage servicing rights (MSRs)	1,832	2,088
Other short term receivables	1,624	1,289
Goodwill	682	682
Investment in bank in expansion market	520	520
FDIC prepaid assessment	—	1,732
Common securities of S.Y. Bancorp Capital Trust II	—	900
Other	8,414	7,351
	<u>\$ 51,824</u>	<u>\$ 51,407</u>

Bancorp maintains life insurance policies other than BOLI in conjunction with its non-qualified defined benefit and non-qualified compensation plans.

In 2009, the FDIC required insured institutions to prepay three years of estimated insurance assessments, to strengthen the cash position of the Deposit Insurance Fund without immediately impacting earnings of the banking industry. Bancorp's prepaid assessment, paid in December 2009, totaled \$6,458,000 and was amortized based on quarterly FDIC assessments until the second quarter of 2013, when the prepaid assessment remaining balance totaling \$1,420,000 was returned to Bancorp.

MSRs are amortized in proportion to and over the period of estimated net servicing income, considering appropriate prepayment assumptions. MSRs are evaluated quarterly for impairment by comparing the carrying value to the fair value. Estimated fair values of MSRs at December 31, 2013 and 2012 were \$3,953,000 and \$2,702,000, respectively. Total outstanding principal balances of loans serviced for others were \$435,339,000 and \$374,079,000 at December 31, 2013, and 2012 respectively.

Changes in net carrying amount of MSRs for the years ended December 31, 2013 and 2012 are shown in the following table.

(in thousands)	2013	2012
Balance at January 1	\$ 2,088	\$ 1,630
Originations	776	1,274
Amortization	(1,032)	(816)
Balance at December 31	<u>\$ 1,832</u>	<u>\$ 2,088</u>

(8) Income Taxes

Components of income tax expense (benefit) from operations for the years ended December 31, 2013, 2012, and 2011 were as follows:

(In thousands)	Year ended December 31,		
	2013	2012	2011
Current tax expense			
Federal	\$ 10,322	\$ 11,895	\$ 9,748
State	336	672	511
Total current tax expense	10,658	12,567	10,259
Deferred tax benefit			
Federal	450	(2,800)	(1,934)
State	120	(133)	(134)
Total deferred tax benefit	570	(2,933)	(2,068)
Total income tax expense	\$ 11,228	\$ 9,634	\$ 8,191

Components of income tax (benefit) expense recorded directly to stockholders' equity for the years ended December 31, 2013, 2012, and 2011 were as follows:

(In thousands)	Year ended December 31,		
	2013	2012	2011
Unrealized (loss) gain on securities available for sale	\$ (4,234)	\$ (24)	\$ 1,362
Reclassification adjustment for securities losses realized in income	2	—	—
Unrealized gain on derivatives	8	—	—
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(265)	(83)	(125)
Minimum pension liability adjustment	111	2	(111)
Total income tax (benefit) expense recorded directly to stockholders' equity	\$ (4,378)	\$ (105)	\$ 1,126

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An analysis of the difference between the statutory and effective tax rates from operations for the years ended December 31, 2013, 2012, and 2011 were as follows:

	Year ended December 31,		
	2013	2012	2011
U.S. federal income tax rate	35.0%	35.0%	35.0%
Tax exempt interest income	(2.1)	(3.8)	(3.7)
Tax credits	(2.5)	(2.2)	(2.6)
Cash surrender value of life insurance	(2.0)	(1.9)	(1.5)
State income taxes	0.8	1.0	0.9
Nontaxable gain on acquisition	(0.4)	—	—
Nondeductible acquisition costs	0.2	—	—
Establish deferred taxes on tax credit investments	—	—	(2.2)
Other, net	0.2	(0.9)	(0.1)
	<u>29.2%</u>	<u>27.2%</u>	<u>25.8%</u>

The reduction of tax expense attributable to tax credits arises from Bancorp's policy to record both tax credits and amortization of the related investment in income tax expense using the effective yield method.

The increase in income tax expense from 2012 to 2013 is the result of reduced tax exempt interest in 2013 as well as the reflection of the recognition of certain federal historic rehabilitation tax credits related to an investment in redevelopment of a Louisville landmark in 2012.

The increase in income tax expense from 2011 to 2012 is the result of an adjustment of approximately \$700,000 made in 2011 to Bancorp's deferred tax asset that relates to tax-advantaged investments that Bancorp has made in its primary market area over the years.

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The effects of temporary differences that gave rise to significant portions of deferred tax assets and deferred tax liabilities for the years ended December 31, 2013 and 2012 were as follows:

(In thousands)	December 31,	
	2013	2012
Allowance for loan loss	\$ 10,236	\$ 11,495
Deferred compensation	4,778	3,950
Accrued expenses	1,604	1,451
Investments in partnerships	826	713
Write-downs and costs associated with other real estate owned	749	1,335
Loans	564	211
Other-than-temporary impairment	311	312
Other assets	299	324
Total deferred tax assets	19,367	19,791
Securities	354	4,088
Property and equipment	1,377	1,162
Loan costs	702	648
Prepayment penalty on modification of FHLB advances	156	263
Mortgage servicing rights	608	703
Leases	428	100
Core deposit intangible	772	—
Other liabilities	416	289
Total deferred tax liabilities	4,813	7,253
Net deferred tax asset	\$ 14,554	\$ 12,538

As a result of the acquisition of Oldham, Bancorp has a federal net operating loss carryforward of \$61,698 as of January 1, 2014. Bancorp expects to fully utilize this loss in 2014.

No valuation allowance for deferred tax assets was recorded as of December 31, 2013 and 2012 because Bancorp has sufficient prior taxable income, future projected taxable income, and tax planning strategies to allow for utilization of the deductible temporary differences, net operating losses and capital losses within the carryback and carryforward periods. Management believes it is more likely than not that all deferred tax assets will be realized.

US GAAP provides guidance on the financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. As of December 31, 2013 and 2012, the gross amount of unrecognized tax benefits was \$40,000 and \$70,000, respectively. If recognized, all of the tax benefits would increase net income, resulting in a decrease in the effective tax rate.

Bancorp is currently under IRS examination of its 2011 corporate income tax return. Management does not expect that the results of the examination will have a material effect on our financial condition. While management believes tax positions are appropriate, the IRS could challenge Bancorp's positions as a part of this examination. Federal and state income tax returns are subject to examination for the tax return years after 2009.

Bancorp's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of December 31, 2013 and 2012, the amount accrued for the potential payment of interest and penalties was \$2,000 and \$4,000, respectively.

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A reconciliation of the amount of unrecognized tax benefits for the years ended December 31, 2013 and 2012 follows:

(In thousands)	2013	2012
Balance as of January 1	\$ 70	\$ 101
Increases - current year tax positions	11	10
Lapse of statute of limitations	(41)	(41)
Balance as of December 31	<u>\$ 40</u>	<u>\$ 70</u>

(9) Deposits

The composition of interest bearing deposits follows:

(In thousands)	December 31,	
	2013	2012
Interest bearing demand	\$ 462,291	\$ 345,739
Savings	101,551	84,795
Money market	643,787	579,686
Time deposits greater than \$250,000	40,604	45,888
Other time deposits	309,354	329,426
	<u>\$ 1,557,587</u>	<u>\$ 1,385,534</u>

Interest expense related to certificates of deposit and other time deposits in denominations of \$100,000 or more was \$1,307,000, \$1,855,000, and \$2,575,000, respectively, for the years ended December 31, 2013, 2012 and 2011.

At December 31, 2013, the scheduled maturities of time deposits were as follows:

(In thousands)	
2014	\$ 228,459
2015	78,308
2016	23,534
2017	13,950
2018 and thereafter	5,707
	<u>\$ 349,958</u>

Deposits of directors and their associates, including deposits of companies for which directors are principal owners, and executive officers were \$19,088,000 and \$29,819,000 at December 31, 2013 and 2012, respectively.

At December 31, 2013 and 2012, Bancorp had \$986,000 and \$814,000, respectively, of deposits accounts in overdraft status and thus have been reclassified to loans on the accompanying consolidated balance sheets.

(10) Securities Sold Under Agreements to Repurchase and Other Short-Term Borrowings

Securities sold under agreements to repurchase are a funding source of Bancorp and are primarily used by commercial customers in conjunction with collateralized corporate cash management accounts. Such repurchase agreements are considered financing agreements and generally mature within one business day from the transaction date. Information concerning securities sold under agreements to repurchase is summarized as follows:

(Dollars in thousands)	December 31,	
	2013	2012
Average balance during the year	\$ 60,737	\$ 59,861
Average interest rate during the year	0.24%	0.30%
Maximum month-end balance during the year	\$ 68,383	\$ 64,582

(11) Advances from the Federal Home Loan Bank

Bancorp had outstanding borrowings of \$34.3 million at December 31, 2013, via seven separate advances. For two advances totaling \$30 million, both of which are non-callable, interest payments are due monthly, with principal due at maturity. For the final five advances totaling \$4,329,000, principal and interest payments are due monthly based on an amortization schedule.

Bancorp did not prepay any advances in 2013. In the third quarter of 2012, Bancorp restructured and extended terms on three advances with FHLB resulting in lower interest cost over the remaining term of these advances. Prepayment penalties totaling \$872,000 were incurred. In accordance with US GAAP, prepayment penalties associated with the modification of advances were amortized over the life of the new advances, and were recorded as interest expense, resulting in effective interest rates greater than the contractual rate paid to FHLB. In the fourth quarter of 2012, Bancorp prepaid these same three advances, incurring prepayment penalties totaling \$265,000. These new prepayment penalties and the remaining unamortized prepayment penalties totaling \$790,000 were each recorded as interest expense in the fourth quarter of 2012.

The following is a summary of the contractual maturities and average effective rates of outstanding advances:

(In thousands)	December 31, 2013		December 31, 2012	
	Advance	Rate	Advance	Rate
2013	\$ —	—	\$ 10,000	1.90%
2014	10,000	0.21%	—	—
2015	20,000	3.34%	20,000	3.34%
2020	1,931	2.23%		
2021	564	2.12%		
2024	408	2.40%	420	2.40%
2028	1,426	1.46%	1,462	1.46%
	<u>\$ 34,329</u>	<u>2.26%</u>	<u>\$ 31,882</u>	<u>2.79%</u>

Advances from the FHLB are collateralized by certain commercial and residential real estate mortgage loans under a blanket mortgage collateral agreement and FHLB stock. Bancorp views the borrowings as an effective alternative to higher cost time deposits to fund loan growth. At December 31, 2013, the amount of available credit from the FHLB totaled \$361.4 million.

(12) Subordinated Debentures

In 2008, Bancorp formed S.Y. Bancorp Capital Trust II (“the Trust”), a Delaware statutory trust and 100%-owned finance subsidiary. S.Y. Bancorp Capital Trust II issued \$30.0 million of 10% fixed rate cumulative trust preferred securities and invested the proceeds, along with \$900,000 received from the purchase of its common equity securities, in \$30.9 million of a fixed rate subordinated debenture of Bancorp. The principal asset of S.Y. Bancorp Capital Trust II was a \$30.9 million subordinated debenture of Bancorp. The interest rate on both the trust preferred securities and the subordinated debentures was fixed at 10.00%. The trust preferred securities, the assets of the Trust, and the common securities issued by the Trust were redeemable in whole or in part on or after December 31, 2013, or at any time in whole, but not in part, from the date of issuance upon the occurrence of certain events.

On December 31, 2013, Bancorp redeemed all of these securities at par value. Remaining unamortized issuance costs of \$1,306,000 were recognized as non-interest expense in the fourth quarter of 2013. The Trust has subsequently been dissolved.

(13) Preferred Stock

Bancorp has a class of preferred stock (no par value; 1,000,000 shares authorized), the relative rights, preferences and other terms of which or any series within the class will be determined by the Board of Directors prior to any issuance. None of this stock has been issued to date.

(14) Net Income per Share and Common Stock Dividends

The following table reflects the numerators (net income) and denominators (average shares outstanding) for the basic and diluted net income per share computations:

<u>(In thousands, except per share data)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net income, basic and diluted	<u>\$ 27,170</u>	<u>\$ 25,801</u>	<u>\$ 23,604</u>
Average shares outstanding	14,223	13,875	13,786
Effect of dilutive securities	<u>130</u>	<u>57</u>	<u>48</u>
Average shares outstanding including dilutive securities	<u>14,353</u>	<u>13,932</u>	<u>13,834</u>
Net income per share, basic	<u>\$ 1.91</u>	<u>\$ 1.86</u>	<u>\$ 1.71</u>
Net income per share, diluted	<u>\$ 1.89</u>	<u>\$ 1.85</u>	<u>\$ 1.71</u>

(15) Employee Benefit Plans

Bancorp has a combined employee stock ownership and profit sharing plan (“KSOP”). The plan is a defined contribution plan and is available to all employees meeting certain eligibility requirements. Employer expenses related to contributions to the plan for 2013, 2012, and 2011 were \$1,701,000, \$1,512,000, and \$1,449,000, respectively. Employee and employer contributions are made in accordance with the terms of the plan. As of December 31, 2013 and 2012, the KSOP held 497,958 and 484,075, respectively, shares of Bancorp stock.

In addition Bancorp has non-qualified “excess” plans into which directors and certain senior officers may defer director fees or salary. Bancorp matched certain executives’ contributions into the senior officers’ plan amounting to approximately \$205,000, \$146,000, and \$75,000 in 2013, 2012 and 2011 respectively. At December 31, 2013 and 2012, the amounts included in other liabilities in the consolidated financial

statements for this plan were \$3,981,000 and \$2,954,000, were comprised primarily of participants' contributions, and represented the fair value of mutual fund investments directed by participants.

Bancorp sponsors an unfunded, non-qualified, defined benefit retirement plan for four key officers (two current, and two retired), and has no plans to increase the number of participants. Benefits vest based on 20 years of service. Bancorp uses a December 31 measurement date for this plan. At December 31, 2013 and 2012, the accumulated benefit obligation for the plan included in other liabilities in the consolidated financial statements was \$1,949,000 and \$2,247,000, respectively. Discount rates of 4.72% and 3.79% were used in 2013 and 2012, respectively, in determining the actuarial present value of the projected benefit obligation. The actuarially determined pension costs are expensed and accrued over the service period, and benefits are paid from Bancorp's assets. Bancorp maintains life insurance policies, for which it is the ultimate beneficiary, on certain current and former executives. The income from these policies helps offset the cost of benefits. The liability for Bancorp's plan met the benefit obligation as of December 31, 2013 and 2012.

Information about the components of the net periodic benefit cost of the defined benefit plan follows:

(in thousands)	Year ended December 31,		
	2013	2012	2011
Components of net periodic benefit cost:			
Service cost	\$ —	\$ —	\$ —
Interest cost	90	83	86
Expected return on plan assets	—	—	—
Amortization of prior service cost	—	—	—
Amortization of net losses	36	60	56
Net periodic benefit cost	<u>\$ 126</u>	<u>\$ 143</u>	<u>\$ 142</u>

The benefits expected to be paid in each year from 2014 to 2018 are listed in the table below.

(In thousands)	Benefits
2014	\$ 84
2015	84
2016	84
2017	84
2018	84
Beyond 2018	3,446
Total future payments	<u>\$ 3,866</u>

The expected benefits to be paid are based on the same assumptions used to measure Bancorp's benefit obligation at December 31, 2013. There are no obligations for other post-retirement and post-employment benefits.

(16) Stock-Based Compensation

The fair value of all new and modified awards granted, net of estimated forfeitures, is recognized as compensation expense over the respective service period. Forfeiture estimates are based on historical experience.

Bancorp currently has one stock-based compensation plan. Initially, in the 2005 Stock Incentive Plan, there were 735,000 shares of common stock reserved for issuance of stock based awards. In 2010, shareholders

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approved an additional 700,000 shares of common stock for issuance under the plan. As of December 31, 2013, there were 513,026 shares available for future awards. Bancorp's 1995 Stock Incentive Plan expired in 2005; however, options granted under this plan expire as late as 2015.

Options and stock appreciation rights (SARs) granted generally have been subject to a vesting schedule of 20% per year. Restricted shares generally vest over three to five years. All awards have been granted at an exercise price equal to the market value of common stock at the time of grant; options and SARs expire ten years after the grant date unless forfeited due to employment termination.

Grants of restricted stock units (RSUs) to executive officers vest based upon service and a three-year performance period which begins January 1 of the first year of the performance period. Because grantees are not entitled to dividend payments during the performance period, the fair value of these RSUs is estimated based upon the fair value of the underlying shares on the date of the grant, adjusted for non-payment of dividends.

Bancorp has recognized stock-based compensation expense, within salaries and employee benefits in the consolidated statements of income, as follows:

(in thousands)	2013	2012	2011
Stock-based compensation expense before income taxes	\$ 1,940	\$ 1,481	\$ 1,165
Deferred tax benefit	679	518	408
Reduction of net income	<u>\$ 1,261</u>	<u>\$ 963</u>	<u>\$ 757</u>

As of December 31, 2013 Bancorp has \$3,132,000 of unrecognized stock-based compensation expense that will be recorded as compensation expense over the next five years as awards vest. Bancorp received cash of \$2,435,000, \$937,000 and \$692,000 from the exercise of options during 2013, 2012 and 2011, respectively.

The fair values of Bancorp's stock options and SARs are estimated at the date of grant using the Black-Scholes option pricing model, a leading formula for calculating the value of stock options and SARs. This model requires the input of subjective assumptions, changes to which can materially affect the fair value estimate. The fair value of restricted shares is determined by Bancorp's closing stock price on the date of grant. The following assumptions were used in option and SAR valuations:

Assumptions	2013	2012	2011
Dividend yield	2.80%	2.52%	2.48%
Expected volatility	22.54%	22.04%	22.64%
Risk free interest rate	1.26%	1.44%	2.90%
Forfeitures	6.40%	4.20%	6.07%
Expected life of options (in years)	6.6	7.6	7.5

The expected life of options and SARs is based on actual experience of past like-term stock options. Bancorp evaluates historical exercise and post-vesting termination behavior when determining the expected life. Dividend yield and expected volatility are based on historical information corresponding to the expected life of options and SARs granted. Expected volatility is the volatility of the underlying shares for the expected term on a monthly basis. The risk free interest rate is the implied yield currently available on U.S. Treasury issues with a remaining term equal to the expected life of the options.

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A summary of stock option and SARs activity and related information for the year ended December 31, 2013 follows.

<u>(in thousands, except price and years)</u>	<u>Options and SARs</u>	<u>Exercise price per share</u>	<u>Weighted average exercise price</u>	<u>Aggregate intrinsic value</u>	<u>Weighted average fair value</u>	<u>Weighted average remaining contractual life (years)</u>
At December 31, 2012						
Vested and exercisable	681	\$ 20.17-26.83	\$ 23.42	\$ 271	\$ 5.33	3.5
Unvested	246	21.03-26.83	22.62	77	4.67	7.9
Total outstanding	927	20.17-26.83	23.21	348	5.15	4.7
Granted	54	22.89	22.89	484	3.61	
Exercised	(180)	20.17-26.83	21.71	1,124	4.81	
Forfeited	(4)	21.03-23.76	22.78	32	4.88	
At December 31, 2013						
Vested and exercisable	579	20.25-26.83	23.83	4,685	5.43	3.4
Unvested	218	21.03-24.87	22.70	2,011	4.36	7.7
Total outstanding	797	20.25-26.83	23.52	\$ 6,696	5.14	4.6
Vested during year	79	21.03-24.87	22.56	\$ 743	4.81	

Intrinsic value for stock options and SARs is defined as the amount by which the current market price of the underlying stock exceeds the exercise price. The aggregate intrinsic value of stock options and SARs exercised in 2013, 2012 and 2011 was \$1,124,000, \$305,000 and \$524,000, respectively. The aggregate intrinsic value of stock options and SARs exercised was calculated as the difference in the closing price of Bancorp's common shares on the date of exercise and the exercise price, multiplied by the number of shares exercised.

The weighted average Black-Scholes fair values of SARs granted in 2013, 2012 and 2011 were \$3.61, \$3.93 and \$5.04, respectively. No stock options have been granted since 2007.

For the three year period ending December 31, 2013, Bancorp granted shares of restricted common stock as outlined in the following table:

	<u>Number</u>	<u>Grant date weighted- average cost</u>
Unvested at December 31, 2010	81,682	\$ 21.58
Shares awarded	41,991	23.96
Restrictions lapsed and shares released to employees/directors	(21,333)	21.82
Shares forfeited	(7,333)	22.61
Unvested at December 31, 2011	95,007	\$ 22.49
Shares awarded	57,156	22.71
Restrictions lapsed and shares released to employees/directors	(30,782)	22.66
Shares forfeited	(7,471)	22.59
Unvested at December 31, 2012	113,910	\$ 22.55
Shares awarded	55,275	22.93
Restrictions lapsed and shares released to employees/directors	(39,909)	22.29
Shares forfeited	(4,720)	23.45
Unvested at December 31, 2013	124,556	\$ 22.77

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Bancorp awarded performance-based restricted stock units (RSUs) to executive officers of Bancorp, the three-year performance period for which began January 1 of the award year. The following table outlines the RSU grants.

Grant year	Vesting period in years	Fair value	Expected shares to be awarded
2011	3	\$ 21.99	16,857
2012	3	20.57	22,668
2013	3	20.38	28,579

Options and SARs outstanding, stated in thousands, at December 31, 2013 were as follows:

Expiration	Number of options and SARs outstanding	Options and SARs exercisable	Weighted average exercise price of options and SARs outstanding
2014	92	92	22.69
2015	1	1	20.90
2016	144	144	24.07
2017	120	120	26.81
2018	73	73	23.37
2019	77	60	22.14
2020	77	45	21.03
2021	62	25	23.78
2022	97	19	22.87
2022	54	—	22.89
	<u>797</u>	<u>579</u>	<u>\$ 23.52</u>

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Bancorp does not have any equity compensation plans which have not been approved by security holders. The following table provides detail of the number of shares to be issued upon exercise of outstanding stock-based awards and remaining shares available for future issuance under all the Bancorp's equity compensation plans as of December 31, 2013.

Plan category (shares in thousands)	Number of shares to be issued upon exercise	Weighted average exercise price	Shares available for future issuance (a)
Equity compensation plans approved by security holders:			
Stock options	356	\$ 24.63	513
Stock appreciation rights (SARs)	(b)	(b)	(a)
Restricted stock	125	N/A	(a)
Restricted stock units	(c)	N/A	(a)
Total shares	481		513

- (a) Under the 2005 Stock Incentive plan, shares of stock are authorized for issuance as incentive and nonqualified stock options, SARs, restricted stock, and restricted stock units
- (b) At December 31, 2013, approximately 441,000 SARs were outstanding at a weighted average grant price of \$22.63. The number of shares to be issued upon exercise will be determined based on the difference between the grant price and the market price at the date of exercise.
- (c) The number of shares to be issued is dependent upon Bancorp achieving certain predefined performance targets and ranges from zero shares to approximately 110,000 shares.

(17) Dividend Restriction

Bancorp's principal source of cash revenues is dividends received from the Bank. On January 1 of any year, the Bank's regulatory dividend restriction represents the Bank's net income of the prior two years less any dividends paid for the same two years. At December 31, 2013, the Bank may pay an amount equal to \$20.0 million in dividends to Bancorp without regulatory approval subject to the ongoing capital requirements of the Bank.

(18) Commitments and Contingent Liabilities

As of December 31, 2013, Bancorp had various commitments outstanding that arose in the normal course of business, including standby letters of credit and commitments to extend credit, which are properly not reflected in the consolidated financial statements. In management's opinion, commitments to extend credit of \$469.5 million, including standby letters of credit of \$15.2 million, are not anticipated to result in significant losses as of December 31, 2013. Commitments to extend credit were \$401.1 million, including letters of credit of \$14.8 million, as of December 31, 2012. Bancorp's maximum exposure to credit loss in the event of nonperformance by the other party to these commitments is represented by the contractual amount of these instruments. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Commitments to extend credit are mainly comprised of commercial lines of credit, construction and home equity credit lines. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Bancorp uses the same credit and collateral policies in making commitments and conditional guarantees as for on-balance sheet instruments. Bancorp evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, equipment, and real estate.

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Standby letters of credit and financial guarantees written are conditional commitments issued by Bancorp to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Standby letters of credit generally have maturities of one to two years.

Bancorp leases certain facilities under non-cancelable operating leases. Future minimum lease commitments for these leases are outlined in the table below.

Year	Total amount
2014	\$ 1,594,000
2015	1,255,000
2016	1,336,000
2017	1,315,000
2018	875,000
Thereafter	2,253,000

Rent expense, net of sublease income, was \$1,693,000 in 2013, \$1,795,000 in 2012, and \$1,804,000 in 2011.

To provide service to commercial accounts, Bancorp aids customers with letters of credits with other financial institutions. Accordingly, Bancorp has entered into agreements to guarantee performance of several customers' contracts with other financial institutions. Bancorp will make payments under these agreements if a customer defaults on its obligations to the other financial institutions. The terms of the agreements range from 3 to 12 months. The maximum potential future payment guaranteed by Bancorp cannot be readily estimated because it is dependent upon the fair value of the contracts at the time of default. If an event of default on all contracts had occurred at December 31, 2013, Bancorp would have been required to make payments of approximately \$2.5 million. No payments have ever been required as a result of default on these contracts. These agreements are normally collateralized — generally with real properties, equipment, inventories and receivables — by the customer, which limits Bancorp's credit risk associated with the agreements.

Also, as of December 31, 2013, in the normal course of business, there were pending legal actions and proceedings in which claims for damages are asserted. Management, after discussion with legal counsel, believes the ultimate result of these legal actions and proceedings will not have a material adverse effect on the consolidated financial position or results of operations of Bancorp.

(19) Fair Value Measurements

Bancorp follows the provisions of authoritative guidance for fair value measurements. This guidance is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by US GAAP. It prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in US GAAP.

The authoritative guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between participants at the measurement date. It also establishes a hierarchy to group assets and liabilities carried at fair value in three levels based upon the markets in which the assets and liabilities trade and the reliability of assumptions used to determine fair value.

These levels are:

- Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

- Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions would reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques could include pricing models, discounted cash flows and other similar techniques.

Bancorp's policy is to maximize use of observable inputs and minimize use of unobservable inputs in fair value measurements. Where there exists limited or no observable market data, Bancorp uses its own estimates generally considering characteristics of the asset/liability, the current economic and competitive environment and other factors. For this reason, results cannot be determined with precision and may not be realized on an actual sale or immediate settlement of the asset or liability.

Bancorp's investment securities available for sale and interest rate swaps are recorded at fair value on a recurring basis. Other accounts including mortgage loans held for sale, mortgage servicing rights, impaired loans and other real estate owned may be recorded at fair value on a non-recurring basis, generally in the application of lower of cost or market adjustments or write-downs of specific assets.

The portfolio of investment securities available for sale is comprised of U.S. Treasury and other U.S government obligations, debt securities of U.S. government-sponsored corporations, mortgage-backed securities and obligations of state and political subdivisions. Trust preferred securities, included in the 2012 table, are priced using quoted prices of identical securities in an active market. These measurements are classified as Level 1 in the hierarchy above. All other securities are priced using standard industry models or matrices with various assumptions such as yield curves, volatility, prepayment speeds, default rates, time value, credit rating and market prices for the instruments. These assumptions are generally observable in the market place and can be derived from or supported by observable data. These measurements are classified as Level 2 in the hierarchy above.

Interest rate swaps are valued using primarily Level 2 inputs. Fair value measurements are obtained from an outside pricing service. Prices obtained are generally based on dealer quotes, benchmark forward yield curves, and other relevant observable market data. For purposes of potential valuation adjustments to derivative positions, Bancorp evaluates the credit risk of its counterparties as well as its own credit risk. To date, Bancorp has not realized any losses due to a counterparty's inability to perform and the change in value of derivative assets and liabilities attributable to credit risk was not significant during 2013.

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Below are carrying values of assets measured at fair value on a recurring basis (in thousands).

(in thousands)	Fair value at December 31, 2013			
	Total	Level 1	Level 2	Level 3
Assets				
Investment securities available for sale				
U.S. Treasury and other U.S. government obligations	\$ 110,000	\$ —	\$ 110,000	\$ —
Government sponsored enterprise obligations	137,845	—	\$ 137,845	—
Mortgage-backed securities - government agencies	172,693	—	172,693	—
Obligations of states and political subdivisions	69,493	—	69,493	—
Total investment securities available for sale	490,031	—	490,031	—
Interest rate swaps	299	—	299	—
Total assets	\$ 490,330	\$ —	\$ 490,330	\$ —
Liabilities				
Interest rate swaps	\$ 275	\$ —	\$ 275	\$ —

(in thousands)	Fair value at December 31, 2012			
	Total	Level 1	Level 2	Level 3
Assets				
Investment securities available for sale				
U.S. Treasury and other U.S. government obligations	\$ 98,000	\$ —	\$ 98,000	\$ —
Government sponsored enterprise obligations	85,748	—	\$ 85,748	—
Mortgage-backed securities - government agencies	140,881	—	140,881	—
Obligations of states and political subdivisions	60,793	—	60,793	—
Trust preferred securities of financial institutions	1,018	1,018	—	—
Total investment securities available for sale	386,440	1,018	385,422	—
Interest rate swaps	415	—	415	—
Total assets	\$ 386,855	\$ 1,018	\$ 385,837	\$ —
Liabilities				
Interest rate swaps	\$ 415	\$ —	\$ 415	\$ —

Bancorp did not have any financial instruments classified within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis at December 31, 2013 or 2012.

MSRs are recorded at fair value upon capitalization, are amortized to correspond with estimated servicing income, and are periodically assessed for impairment based on fair value at the reporting date. Fair value is based on a valuation model that calculates the present value of estimated net servicing income. The model incorporates assumptions that market participants would use in estimating future net servicing income. These measurements are classified as Level 3. At December 31, 2013 and 2012 there was no valuation allowance for the mortgage servicing rights, as the fair value exceeded the cost. Accordingly, the MSRs are not included in either table below for December 31, 2013 or 2012.

Mortgage loans held for sale are recorded at the lower of cost or market value. The portfolio is comprised of residential real estate loans and fair value is based on specific prices of underlying contracts for sales to investors. These measurements are classified as Level 2. Because the fair value of the loans held for sale exceeded carrying value, mortgage loans held for sale are not included in either table below for December 31, 2013 or 2012.

Other real estate owned, which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. At December 31, 2013 and 2012, the carrying value of other real estate owned was \$5,590,000 and \$7,364,000, respectively. Other real estate owned is not included in either table below, as the fair value of the properties exceeded their carrying value at December 31, 2013 and 2012.

For impaired loans in the table below, the fair value is calculated as the carrying value of only loans with a specific valuation allowance, less the specific allowance. As of December 31, 2013, total impaired loans with a valuation allowance were \$10.6 million, and the specific allowance totaled \$1.5 million, resulting in a fair value of \$9.1 million, compared to total impaired loans with a valuation allowance of \$15.2 million, and the specific allowance allocation totaling \$3.6 million, resulting in a fair value of \$11.6 million at December 31, 2012. The losses represent the change in the specific allowances for the period indicated.

Below are carrying values of assets measured at fair value on a non-recurring basis (in thousands).

(in thousands)	Fair value at December 31, 2013				Total losses
	Total	Level 1	Level 2	Level 3	
Impaired loans	\$ 9,128	\$ —	\$ —	\$ 9,128	\$ (992)
Total	\$ 9,128	\$ —	\$ —	\$ 9,128	\$ (992)

(in thousands)	Fair value at December 31, 2012				Total losses
	Total	Level 1	Level 2	Level 3	
Impaired loans	\$ 11,625	\$ —	\$ —	\$ 11,625	\$ (2,467)
Total	\$ 11,625	\$ —	\$ —	\$ 11,625	\$ (2,467)

In the case of the securities portfolio, Bancorp monitors the valuation technique utilized by pricing agencies to ascertain when transfers between levels have occurred. The nature of the remaining assets and liabilities is such that transfers in and out of any level are expected to be rare. For the twelve months ended December 31, 2013, there were no transfers between Levels 1, 2, or 3.

(20) Fair Value of Financial Instruments

The following table presents carrying amounts, estimated fair values, and placement in the fair value hierarchy of financial instruments at December 31, 2013 and 2012.

(in thousands)	Carrying amount	Fair value	Level 1	Level 2	Level 3
December 31, 2013					
Financial assets					
Cash and short-term investments	\$ 70,770	\$ 70,770	\$ 70,770	\$ —	\$ —
Mortgage loans held for sale	1,757	1,817	—	1,817	—
Federal Home Loan Bank stock and other securities	7,347	7,347	—	7,347	—
Loans, net	1,692,828	1,703,291	—	—	1,703,291
Accrued interest receivable	5,712	5,712	5,712	—	—
Financial liabilities					
Deposits	\$ 1,980,937	\$ 1,983,029	\$ —	\$ 1,983,029	\$ —
Short-term borrowings	117,910	117,910	—	117,910	—
Long-term borrowings	34,329	35,166	—	35,166	—
Accrued interest payable	128	128	128	—	—
December 31, 2012					
Financial assets					
Cash and short-term investments	\$ 67,703	\$ 67,703	\$ 67,703	\$ —	\$ —
Mortgage loans held for sale	14,047	14,431	—	14,431	—
Federal Home Loan Bank stock and other securities	6,180	6,180	—	6,180	—
Loans, net	1,552,713	1,583,018	—	—	1,583,018
Accrued interest receivable	5,091	5,091	5,091	—	—
Financial liabilities					
Deposits	\$ 1,781,693	\$ 1,786,046	\$ —	\$ 1,786,046	\$ —
Short-term borrowings	75,597	75,597	—	75,597	—
Long-term borrowings	62,782	62,826	—	62,826	—
Accrued interest payable	166	166	166	—	—

Management used the following methods and assumptions to estimate fair value of each class of financial instrument for which it is practicable to estimate the value.

Cash, Short-term investments, Accrued interest receivable/payable and Short-term borrowings

For these short-term instruments, carrying amount is a reasonable estimate of fair value.

Federal Home Loan Bank stock and other securities

For these securities without readily available market values, carrying amount is a reasonable estimate of fair value.

Mortgage loans held for sale

Fair value of mortgage loans held for sale is determined by market quotes for similar loans based on loan type, term, rate, size and the borrower's credit score.

Loans, net

US GAAP prescribes the exit price concept for estimating fair value of loans. Because there is not a liquid market (exit price) for trading predominant types of loans in Bancorp's portfolio, fair value of loans is estimated by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities (e.g. entrance price).

Deposits

Fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. Fair value of fixed-rate certificates of deposits is estimated by discounting future cash flows using rates currently offered for deposits of similar remaining maturities.

Long-term borrowings

Fair value of long-term borrowings is estimated by discounting future cash flows using estimates of current market rate for instruments with similar terms and remaining maturities.

Commitments to extend credit and standby letters of credit

Fair values of commitments to extend credit are estimated using fees currently charged to enter into similar agreements and the creditworthiness of the customers. Fair values of standby letters of credit are based on fees currently charged for similar agreements or estimated cost to terminate them or otherwise settle obligations with counterparties at the reporting date. Fair value of commitments to extend credit, letters of credit and lines of credit is not presented since management believes the fair value to be insignificant.

Limitations

Fair value estimates are made at a specific point in time based on relevant market information and information about financial instruments. Because no market exists for a significant portion of Bancorp's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Therefore, calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the instrument. Changes in assumptions could significantly affect estimates.

(21) Derivative Financial Instruments

Occasionally, Bancorp enters into free-standing interest rate swaps for the benefits of its commercial customers who desire to hedge their exposure to changing interest rates. Bancorp hedges its interest rate exposure on commercial customer transactions by entering into offsetting swap agreements with approved reputable independent counterparties with substantially matching terms. These undesignated derivative instruments are recognized on the consolidated balance sheet at fair value. Because of matching terms of offsetting contracts and the collateral provisions mitigating any non-performance risk, changes in fair value subsequent to initial recognition are expected to have an insignificant effect on earnings. Exchanges of cash flows related to the undesignated interest rate swap agreements for 2013 were offsetting and therefore had no net effect on Bancorp's earnings or cash flows.

Interest rate swap agreements derive their value from underlying interest rates. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Bancorp is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. Bancorp controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations.

At December 31, 2013 and 2012, Bancorp had outstanding undesignated interest rate swap contracts as follows:

(dollar amounts in thousands)	Receiving		Paying	
	December 31, 2013	December 31, 2012	December 31, 2013	December 31, 2012
Notional amount	\$ 5,159	\$ 4,459	\$ 5,159	\$ 4,459
Weighted average maturity (years)	6.4	6.3	6.4	6.3
Fair value	\$ (275)	\$ (415)	\$ 275	\$ 415

In December 2013, Bancorp entered into an interest rate swap to hedge cash flows of a \$10 million floating-rate FHLB borrowing. The interest rate swap involves exchange of Bancorp's floating rate interest payments on the underlying principal amount. This swap was designated, and qualified, for cash-flow hedge accounting. The term of the swap began December 6, 2013 and ends December 6, 2016. For derivative instruments that are designated and qualify as hedging instruments, the effective portion of gains or losses is reported as a component of other comprehensive income, and is subsequently reclassified into earnings as an adjustment to interest expense in periods in which the hedged forecasted transaction affects earnings. The following table details Bancorp's derivative positions designated as cash flow hedges as of December 31, 2013.

(dollars in thousands)

Notional amount	Effective date	Maturity date	Receive (variable) index	Pay fixed swap rate	Fair value of asset
\$ 10,000	12/6/2013	12/6/2016	US 3 Month LIBOR	0.715%	\$ 24

Bancorp did not have any derivative positions designated as cash flow hedges at December 31, 2012.

(22) Regulatory Matters

Bancorp and the Bank are subject to various capital requirements prescribed by banking regulations and administered by state and federal banking agencies. Under these requirements, Bancorp and the Bank must meet minimum amounts and percentages of Tier I and total capital, as defined, to risk weighted assets and Tier I capital to average assets. Risk weighted assets are determined by applying certain risk weightings prescribed by the regulations to various categories of assets and off-balance sheet commitments. Capital and risk weighted assets may be further subject to qualitative judgments by regulators as to components, risk weighting and other factors. Failure to meet the capital requirements can result in certain mandatory, and possibly discretionary, corrective actions prescribed by the regulations or determined to be necessary by the regulators, which could materially affect the consolidated financial statements. Management believes Bancorp and the Bank met all capital requirements to which they were subject as of December 31, 2013.

As of December 2013 and 2012, the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since those notifications that management believes have changed the Bank's capital categories.

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A summary of Bancorp's and the Bank's capital ratios at December 31, 2013 and 2012 follows:

(Dollars in thousands)	Actual		Minimum for adequately capitalized		Minimum for well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2013						
Total risk-based capital (1)						
Consolidated	\$ 252,171	13.54%	\$ 148,993	8.00%	NA	NA
Bank	239,577	12.90%	148,575	8.00%	\$ 185,719	10.00%
Tier I risk-based capital (1)						
Consolidated	\$ 228,827	12.29%	\$ 74,476	4.00%	NA	NA
Bank	219,299	11.65%	75,296	4.00%	\$ 112,944	6.00%
Leverage (2)						
Consolidated	\$ 228,827	9.75%	\$ 70,408	3.00%	NA	NA
Bank	219,299	9.24%	71,201	3.00%	\$ 118,668	5.00%
December 31, 2012						
Total risk-based capital (1)						
Consolidated	\$ 250,837	14.42%	\$ 139,161	8.00%	NA	NA
Bank	220,133	12.70%	138,666	8.00%	\$ 173,333	10.00%
Tier I risk-based capital (1)						
Consolidated	\$ 228,972	13.17%	\$ 69,544	4.00%	NA	NA
Bank	198,339	11.44%	69,349	4.00%	\$ 104,024	6.00%
Leverage (2)						
Consolidated	\$ 228,972	10.79%	\$ 63,662	3.00%	NA	NA
Bank	<u>198,339</u>	<u>9.37%</u>	<u>63,502</u>	<u>3.00%</u>	<u>\$ 105,837</u>	<u>5.00%</u>

(1) Ratio is computed in relation to risk-weighted assets.

(2) Ratio is computed in relation to average assets.

NA — Not applicable. Regulatory framework does not define well capitalized for holding companies..

Included in the capital at December 31, 2012 was \$30 million of subordinated debentures related to the trust preferred securities, which qualified as Tier 1 capital. Bancorp called the trust preferred securities in December 2013.

(23) S.Y. Bancorp, Inc. (parent company only)
Condensed Balance Sheets

(In thousands)	December 31,	
	2013	2012
Assets		
Cash on deposit with subsidiary bank	\$ 7,453	\$ 25,904
Investment in and receivable from subsidiaries	216,916	204,431
Securities available for sale (amortized cost of \$1,000 in 2012)	—	1,018
Other assets	5,234	4,707
Total assets	\$ 229,603	\$ 236,060
Liabilities and stockholders' equity		
Other liabilities	\$ 159	\$ 85
Subordinated debentures	—	30,900
Total stockholders' equity	229,444	205,075
Total liabilities and stockholders' equity	\$ 229,603	\$ 236,060

Condensed Statements of Income

(In thousands)	Years ended December 31,		
	2013	2012	2011
Income - dividends and interest from subsidiaries	\$ 30,090	\$ 10,090	\$ 90
Income - interest income from securities	27	80	104
Income (loss) - other	174	637	(402)
Expenses	7,260	5,130	4,654
Income (loss) before income taxes and equity in undistributed net income of subsidiary	23,031	5,677	(4,862)
Income tax benefit	(2,583)	(1,674)	(1,889)
Income (loss) before equity in undistributed net income of subsidiary	25,614	7,351	(2,973)
Equity in undistributed net income of subsidiary	1,556	18,450	26,577
Net income	\$ 27,170	\$ 25,801	\$ 23,604

Condensed Statements of Cash Flows

(in thousands)	Years ended December 31		
	2013	2012	2011
Operating activities			
Net income	\$ 27,170	\$ 25,801	\$ 23,604
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(1,556)	(18,450)	(26,577)
Decrease (increase) in receivable from subsidiaries	(21,896)	50	(101)
Stock compensation expense	1,940	1,481	1,165
Excess tax benefits from share- based compensation arrangements	(265)	(83)	(125)
Depreciation, amortization and accretion, net	1,396	—	9
Decrease in other assets	4,453	1,963	3,983
Increase (decrease) in other liabilities	545	28	(17)
Net cash provided by operating activities	11,787	10,790	1,941
Investing activities			
Proceeds from maturities of securities available for sale	1,000	—	3,630
Cash for acquisition, net of cash acquired	8,963	—	—
Net cash provided by investing activities	9,963	—	3,630
Financing activities			
Repayments of subordinated debentures	(30,900)	—	—
Proceeds from stock options	2,435	961	705
Excess tax benefit from share-based compensation arrangements	265	83	125
Common stock repurchases	(331)	(205)	(167)
Cash dividends paid	(11,670)	(10,691)	(9,930)
Net cash used in financing activities	(40,201)	(9,852)	(9,267)
Net (decrease) increase in cash	(18,451)	938	(3,696)
Cash at beginning of year	25,904	24,966	28,662
Cash at end of year	\$ 7,453	\$ 25,904	\$ 24,966

(24) Segments

Bancorp's, principal activities include commercial banking and investment management and trust. Commercial banking provides a full range of loan and deposit products to individual consumers and businesses. Commercial banking also includes Bancorp's mortgage origination and securities brokerage activity. Investment management and trust provides wealth management services including investment management, trust and estate administration, and retirement plan services.

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Financial information for each business segment reflects that which is specifically identifiable or allocated based on an internal allocation method. Income taxes are allocated based on the effective federal income tax rate adjusted for any tax exempt activity. All tax exempt activity and provision for loan losses have been allocated to the commercial banking segment. Measurement of performance of business segments is based on the management structure of Bancorp and is not necessarily comparable with similar information for any other financial institution. Information presented is also not necessarily indicative of the segments' operations if they were independent entities.

Principally, all of the net assets of S.Y. Bancorp, Inc. are involved in the commercial banking segment. Bancorp has goodwill of \$682,000 related to the 1996 purchase of a bank in southern Indiana. This purchase facilitated Bancorp's expansion in southern Indiana. Goodwill has been assigned to the commercial banking segment.

Selected financial information by business segment follows:

(In thousands)	Commercial banking	Investment management and trust	Total
Year ended December 31, 2013			
Net interest income	\$ 77,144	\$ 154	\$ 77,298
Provision for loan losses	6,550	—	6,550
Investment management and trust services	—	16,287	16,287
All other non-interest income	22,654	61	22,715
Non-interest expense	61,891	9,461	71,352
Income before income taxes	31,357	7,041	38,398
Tax expense	8,740	2,488	11,228
Net income	<u>\$ 22,617</u>	<u>\$ 4,553</u>	<u>\$ 27,170</u>
Year ended December 31, 2012			
Net interest income	\$ 73,800	\$ 150	\$ 73,950
Provision for loan losses	11,500	—	11,500
Investment management and trust services	—	14,278	14,278
All other non-interest income	24,110	69	24,179
Non-interest expense	57,323	8,149	65,472
Income before income taxes	29,087	6,348	35,435
Tax expense	7,412	2,222	9,634
Net income	<u>\$ 21,675</u>	<u>\$ 4,126</u>	<u>\$ 25,801</u>
Year ended December 31, 2011			
Net interest income	\$ 70,592	\$ 140	\$ 70,732
Provision for loan losses	12,600	—	12,600
Investment management and trust services	—	13,841	13,841
All other non-interest income	19,382	21	19,403
Non-interest expense	51,863	7,718	59,581
Income before income taxes	25,511	6,284	31,795
Tax expense	5,992	2,199	8,191
Net income	<u>\$ 19,519</u>	<u>\$ 4,085</u>	<u>\$ 23,604</u>

(25) Quarterly Operating Results (unaudited)

Following is a summary of quarterly operating results (unaudited) for 2013, 2012 and 2011:

(In thousands, except per share data)	2013			
	4th quarter	3rd quarter	2nd quarter	1st quarter
Interest income	\$ 22,069	\$ 22,267	\$ 21,293	\$ 20,835
Interest expense	2,226	2,250	2,318	2,372
Net interest income	19,843	20,017	18,975	18,463
Provision for loan losses	1,575	1,325	1,325	2,325
Net interest income after provision	18,268	18,692	17,650	16,138
Non-interest income	9,811	9,652	10,311	9,228
Non-interest expenses	19,380	17,571	18,822	15,579
Income before income taxes	8,699	10,773	9,139	9,787
Income tax expense	2,386	3,091	2,732	3,019
Net income	\$ 6,313	\$ 7,682	\$ 6,407	\$ 6,768
Basic earnings per share	\$ 0.44	\$ 0.53	\$ 0.45	\$ 0.49
Diluted earnings per share	0.43	0.53	0.45	0.49

	2012			
	4th quarter	3rd quarter	2nd quarter	1st quarter
Interest income	\$ 22,034	\$ 21,692	\$ 21,363	\$ 21,812
Interest expense	3,724	2,897	3,068	3,262
Net interest income	18,310	18,795	18,295	18,550
Provision for loan losses	2,475	2,475	2,475	4,075
Net interest income after provision	15,835	16,320	15,820	14,475
Non-interest income	10,127	9,795	9,290	9,245
Non-interest expenses	17,183	17,045	16,508	14,736
Income before income taxes	8,779	9,070	8,602	8,984
Income tax expense	2,265	2,388	2,499	2,482
Net income	\$ 6,514	\$ 6,682	\$ 6,103	\$ 6,502
Basic earnings per share	\$ 0.47	\$ 0.48	\$ 0.44	\$ 0.47
Diluted earnings per share	0.47	0.48	0.44	0.47

	2011			
	4th quarter	3rd quarter	2nd quarter	1st quarter
Interest income	\$ 21,569	\$ 21,616	\$ 21,566	\$ 21,288
Interest expense	3,553	3,826	3,955	3,973
Net interest income	18,016	17,790	17,611	17,315
Provision for loan losses	3,100	4,100	2,600	2,800
Net interest income after provision	14,916	13,690	15,011	14,515
Non-interest income	9,229	7,858	8,152	8,005
Non-interest expenses	16,727	13,302	14,725	14,827
Income before income taxes	7,418	8,246	8,438	7,693
Income tax expense	1,076	2,472	2,441	2,202
Net income				

	<u>\$ 6,342</u>	<u>\$ 5,774</u>	<u>\$ 5,997</u>	<u>\$ 5,491</u>
Basic earnings per share	\$ 0.46	\$ 0.42	\$ 0.43	\$ 0.40
Diluted earnings per share	<u>0.46</u>	<u>0.42</u>	<u>0.43</u>	<u>0.40</u>

Note: The sum of earnings per share of each of the quarters in 2013, 2012 and 2011 may not add to the year-to-date amount reported in Bancorp's consolidated financial statements due to rounding.

Report of Independent Registered Public Accounting Firm

**To the Board of Directors and Stockholders
S.Y. Bancorp, Inc.:**

We have audited the accompanying consolidated balance sheets of S.Y. Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, cash flows, and changes in stockholders' equity for each of the years in the three year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of S.Y. Bancorp, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), S.Y. Bancorp, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 7, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

(signed) KPMG LLP

Louisville, Kentucky
March 7, 2014

Management's Report on Consolidated Financial Statements

The accompanying consolidated financial statements and other financial data were prepared by the management of S.Y. Bancorp, Inc. (Bancorp), which has the responsibility for the integrity of the information presented. The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts that are the best estimates and judgments of management with consideration given to materiality.

Management is further responsible for maintaining a system of internal controls designed to provide reasonable assurance that the books and records reflect the transactions of Bancorp and that its established policies and procedures are carefully followed. Management believes that Bancorp's system, taken as a whole, provides reasonable assurance that transactions are executed in accordance with management's general or specific authorization; transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles and to maintain accountability for assets; access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Management also seeks to assure the objectivity and integrity of Bancorp's financial data by the careful selection and training of qualified personnel, an internal audit function and organizational arrangements that provide an appropriate division of responsibility.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements of Bancorp included in this Annual Report on Form 10-K, has issued a report on Bancorp's internal control over financial reporting as of December 31, 2013. The report expresses an unqualified opinion on the effectiveness of Bancorp's internal control over financial reporting as of December 31, 2013.

The Board of Directors provides its oversight role for the consolidated financial statements through the Audit Committee. The Audit Committee meets periodically with management, the internal auditors, and the independent auditors, each on a private basis, to review matters relating to financial reporting, the internal control systems, and the scope and results of audit efforts. The internal and independent auditors have unrestricted access to the Audit Committee, with and without the presence of management, to discuss accounting, auditing, and financial reporting matters. The Audit Committee also recommends the appointment of the independent auditors to Board of Directors, and ultimately has sole authority to appoint or replace the independent auditors.

/s/ David P. Heintzman

David P. Heintzman
Chairman and Chief Executive Officer

/s/ Nancy B. Davis

Nancy B. Davis
Executive Vice President and Chief Financial Officer

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Bancorp maintains disclosure controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the Securities and Exchange Commission (SEC), and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. Based on their evaluation of Bancorp's disclosure controls and procedures which took place as of December 31, 2013, the Chief Executive and Chief Financial Officers believe that these controls and procedures are effective to ensure that Bancorp is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

Based on the evaluation of Bancorp's disclosure controls and procedures by the Chief Executive and Chief Financial Officers, no changes occurred during the fiscal quarter ended December 31, 2013 in Bancorp's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Bancorp's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The management of S.Y. Bancorp, Inc. and subsidiaries (Bancorp) is responsible for establishing and maintaining adequate internal control over financial reporting. Bancorp's internal control over financial reporting is a process designed under the supervision of Bancorp's Chief Executive Officer and Chief Financial Officer, and effected by Bancorp's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. This process includes those policies and procedures that:

1. Pertain to the maintenance of records, that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Bancorp;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of Bancorp are being made only in accordance with authorizations of management and directors of Bancorp; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Bancorp's assets that could have a material effect on the financial statements.

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

Management has assessed the effectiveness of its internal control over financial reporting as of December 31, 2013, based on the control criteria established in a report entitled *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on such assessment, management has concluded that Bancorp's internal control over financial reporting is effective as of December 31, 2013.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements of Bancorp included in this Annual Report on Form 10-K, has issued a report on Bancorp's internal control over financial reporting as of December 31, 2013. The report expresses an unqualified opinion on the effectiveness of Bancorp's internal control over financial reporting as of December 31, 2013.

/s/ David P. Heintzman

David P. Heintzman
Chairman and Chief Executive Officer

/s/ Nancy B. Davis

Nancy B. Davis
Executive Vice President and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

**To the Board of Directors and Stockholders
S.Y. Bancorp, Inc.:**

We have audited S.Y. Bancorp, Inc.'s (the Company's) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, S.Y. Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control — Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of S.Y. Bancorp, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, cash flows, and changes in stockholders' equity for each of the years in the three-year period ended December 31, 2013, and our report dated March 7, 2014 expressed an unqualified opinion on those consolidated financial statements.

(signed) KPMG LLP

Louisville, Kentucky
March 7, 2014

Item 9B. Other Information

None

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding the directors and executive officers of Bancorp is incorporated herein by reference to the discussion under the headings, “ITEM 1. ELECTION OF ELEVEN DIRECTORS,” and “SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE” in Bancorp’s Proxy Statement to be filed with the Securities and Exchange Commission for the 2014 Annual Meeting of Shareholders (“Proxy Statement”) and the section captioned EXECUTIVE OFFICERS OF THE REGISTRANT in this Form 10-K.

Information regarding the Audit Committee is incorporated herein by reference to the discussion under the heading, “BOARD OF DIRECTORS’ MEETINGS AND COMMITTEES” in Bancorp’s Proxy Statement.

Information regarding principal occupation of directors of Bancorp follows:

Charles R. Edinger, III — President, J. Edinger & Son, Inc.;
David P. Heintzman — Chairman and Chief Executive Officer, S.Y. Bancorp, Inc. and Stock Yards Bank & Trust Company;
Carl G. Herde — Vice President of Finance and Chief Financial Officer, Baptist Healthcare System, Inc.;
James A. Hillebrand — President, S.Y. Bancorp, Inc. and Stock Yards Bank & Trust Company;
Richard A. Lechleiter — Retired. Former Executive Vice President and Chief Financial Officer, Kindred Healthcare, Inc.;
Bruce P. Madison — Chief Executive Officer, Plumbers Supply Company, Inc.;
Richard Northern — Partner, Wyatt, Tarrant & Combs
Stephen M. Priebe — President, Hall Contracting
Nicholas X. Simon — President and Chief Executive Officer, Publishers Printing Company, LLC;
Norman Tasman — President, Tasman Industries Inc. and Tasman Hide Processing Inc.;
Kathy C. Thompson — Senior Executive Vice President, S.Y. Bancorp, Inc. and Stock Yards Bank & Trust Company.

The Board of Directors of Bancorp has adopted a code of ethics for its chief executive officer and financial executives. A copy of the code of ethics is filed as an exhibit to this Annual Report.

Item 11. Executive Compensation

Information regarding the compensation of Bancorp’s executive officers and directors is incorporated herein by reference to the discussion under the heading, “EXECUTIVE COMPENSATION AND OTHER INFORMATION — REPORT ON EXECUTIVE COMPENSATION” in Bancorp’s Proxy Statement.

Information regarding the Compensation Committee is incorporated herein by reference to the discussion under the heading, “TRANSACTIONS WITH MANAGEMENT AND OTHERS” in Bancorp’s Proxy Statement. The report of the Compensation Committee shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed soliciting material or subject to Regulation 14A of the Exchange Act or incorporated by reference in any filing under the Exchange Act or the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to the discussion under the headings, “ITEM 1. ELECTION OF ELEVEN DIRECTORS” and “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT,” in Bancorp’s Proxy Statement.

The information required by this item concerning equity compensation plan information is included in Note 16 of the Notes to Consolidated Financial Statements.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is incorporated herein by reference to the discussion under the headings, “ITEM 1. ELECTION OF ELEVEN DIRECTORS” and “TRANSACTIONS WITH MANAGEMENT AND OTHERS,” in Bancorp’s Proxy Statement.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to the discussion under the heading, “REPORT OF THE AUDIT COMMITTEE” in Bancorp’s Proxy Statement.

Part IV

Item 15. Exhibits and Financial Statement Schedules

- (a) 1. The following financial statements are included in this Form 10-K:

[Consolidated Balance Sheets — December 31, 2013 and 2012](#)
[Consolidated Statements of Income - years ended December 31, 2013, 2012 and 2011](#)
[Consolidated Statements of Comprehensive Income - years ended December 31, 2013, 2012 and 2011](#)
[Consolidated Statements of Changes in Stockholders’ Equity - years ended December 31, 2013, 2012 and 2011](#)
[Consolidated Statements of Cash Flows - years ended December 31, 2013, 2012 and 2011](#)
[Notes to Consolidated Financial Statements](#)
[Report of Independent Registered Public Accounting Firm](#)

- (a) 2. List of Financial Statement Schedules

Schedules to the consolidated financial statements of Bancorp are omitted since they are either not required under the related instructions, are inapplicable, or the required information is shown in the consolidated financial statements or notes thereto.

(a) 3. List of Exhibits

- 2.1 Agreement and Plan of Merger by and among THE BANCORP, Inc., S.Y. Bancorp, Inc. and Sanders Merger Sub, Inc. on December 19, 2012. Exhibit 2.1 to Form 8-K filed December 19, 2012, is incorporated by reference herein.
- 2.2 First Amendment to Agreement and Plan of Merger dated as of February 26, 2013 by and among S.Y. Bancorp, Inc., Sanders Merger Sub, LLC, and THE BANCORP, Inc. Exhibit 2.2 to form S-4 (File No. 333-186930) filed February 27, 2013, is incorporated by reference herein.
- 3.1 Amended and Restated Articles of Incorporation of Bancorp filed with the Secretary of State of Kentucky on April 23, 2008. Exhibit 3.1 to Form 8-K filed April 28, 2008, is incorporated by reference herein.
- 3.2 Bylaws of Bancorp as currently in effect. Exhibit 3.2 to Form 8-K filed April 28, 2008, is incorporated by reference herein.
- 3.3 Second Amended and Restated Articles of Incorporation of S.Y. Bancorp, Inc., filed with the Secretary of State of Kentucky on April 25, 2013. Exhibit 3.1 to Form 8-K filed April 25, 2013, is incorporated by reference herein.
- 10.1* S.Y. Bancorp, Inc. Amended And Restated 1995 Stock Incentive Plan. Exhibit 10.1 to Annual Report on Form 10-K for the year ended December 31, 2001, of Bancorp is incorporated by reference herein.
- 10.2* Stock Yards Bank & Trust Company Executive Nonqualified Deferred Compensation Plan (as Amended and Restated in 2009), as filed as Exhibit 10.4 to Form 8-K filed on December 19, 2008, is incorporated by reference herein.
- 10.3* Stock Yards Bank & Trust Company Director Nonqualified Deferred Compensation Plan (as Amended and Restated in 2009), as filed as Exhibit 10.3 to Form 8-K filed on December 19, 2008, is incorporated by reference herein.
- 10.4* Form of Stock Yards Bank & Trust Company Executive Nonqualified Deferred Compensation Plan Employer Contribution Agreement, as filed as Exhibit 10.3 to Form 8-K filed on October 23, 2006, is incorporated by reference herein.
- 10.5* Stock Yards Bank & Trust Company 2009 Restated Senior Officers Security Plan Exhibit 10.1 to Form 8-K filed December 19, 2008, is incorporated by reference herein.
- 10.10* Form of Change in Control Severance Agreement (Poindexter, Hoeck and Dishman), Exhibit 10.5 to Form 8-K filed January 27, 2010, is incorporated by reference herein.
- 10.11* S.Y. Bancorp, Inc. 2005 Stock Incentive Plan. Exhibit 10.1 to Form 8-K filed May 2, 2005, is incorporated by reference herein.
- 10.12* Amendment No. 1 to S. Y. Bancorp, Inc. 2005 Stock Incentive Plan, as filed as Exhibit 10.1 to Form 8-K filed on April 22, 2010, is incorporated by reference herein.
- 10.13* Form of Employer Contribution Agreement, Nancy Davis, Participant, as filed as Exhibit 10.4 to Form 8-K filed on October 23, 2006, is incorporated by reference herein.
- 10.14* Terms of Restricted Stock Program, as filed as Exhibit 10.1 to Form 8-K filed on February 26, 2007, is incorporated by reference herein.
- 10.15* Form of Restricted Stock Agreement (3 year vesting), as filed as Exhibit 10.2 to Form 8-K filed on February 26, 2007, is incorporated by reference herein.
- 10.16* Form of Stock Option Grant and Agreement (6 months vesting), as filed as Exhibit 10.1 to Form 8-K filed on January 19, 2006, is incorporated by reference herein.
- 10.17* Form of Stock Option Grant and Agreement (5 year vesting), as filed as Exhibit 10.2 to Form 8-K filed on January 19, 2006, is incorporated by reference herein.
- 10.18* Form of Stock Appreciation Right Grant Agreement (6 month vesting), as filed as Exhibit 10.1 to Form 8-K filed on February 22, 2008, is incorporated by reference herein.
- 10.19* Form of Stock Appreciation Right Grant Agreement (5 year vesting), as filed as Exhibit 10.2 to Form 8-K filed on February 22, 2008, is incorporated by reference herein.
- 10.20* Form of Indemnification Agreement between Stock Yards Bank & Trust Company, S.Y. Bancorp, Inc. and each member of the Board of Directors. Exhibit 10.3 to Annual Report on Form 10-K for the year ended December 31, 2001, of Bancorp is incorporated by reference herein.

- 10.21* Form of Restricted Stock Award Agreement (5 year vesting) between S.Y. Bancorp, Inc. and each recipient of restricted stock. Exhibit 10.21 to Annual Report on Form 10-K for the year ended December 31, 2010, of Bancorp is incorporated by reference herein.
- 10.22* Form of Director Restricted Stock Award Agreement (1 year vesting) between S.Y. Bancorp, Inc. and each member of the Board of Directors. Exhibit 10.22 to Annual Report on Form 10-K for the year ended December 31, 2010, of Bancorp is incorporated by reference herein.
- 10.23* Amendment No. 2 to the S. Y. Bancorp, Inc. 2005 Stock Incentive Plan, as filed as Exhibit 10.1 to Form 8-K filed on April 22, 2011, is incorporated by reference herein.
- 10.24* Form of S.Y. Bancorp, Inc. Restricted Stock Unit Grant Agreement for grants prior to 2014, as filed as Exhibit 10.2 to Form 8-K filed on April 22, 2011, is incorporated by reference herein.
- 10.25* Form of Stock Appreciation Right Grant Agreement (5 year vesting) between S.Y. Bancorp, Inc. and each recipient of stock appreciation rights. Exhibit 10.25 to Annual Report on Form 10-K for the year ended December 31, 2012, of Bancorp is incorporated by reference herein.
- 10.26* Form of S.Y. Bancorp, Inc. Restricted Stock Unit Grant Agreement 2012 and Amendment thereto, as filed as Exhibit 10.1 to Form 8-K filed on March 20, 2013, is incorporated by reference herein.
- 10.27* Form of Annual Cash Incentive Plan, as filed as Exhibit 10.1 to Form 8-K filed on April 26, 2013, is incorporated by reference herein.
- 10.28* Amendment No. 3 to the S. Y. Bancorp, Inc. 2005 Stock Incentive Plan, as filed as Exhibit 10.1 to Form 8-K filed on November 22, 2013, is incorporated by reference herein.
- 10.29* Amendment No. 1 to the Director Nonqualified Deferred Compensation Plan, as filed as Exhibit 10.2 to Form 8-K filed on November 22, 2013, is incorporated by reference herein.
- 10.30* Form of Director Restricted Stock Unit Award Agreement, as filed as Exhibit 10.3 to Form 8-K filed on November 22, 2013, is incorporated by reference herein.
- 10.31* Form of Amended and Restated Change in Control Severance Agreement (for David Heintzman, Ja Hillebrand, Kathy Thompson and Nancy Davis), as filed as Exhibit 10.1 to Form 8-K filed on December 17, 2013, is incorporated by reference herein.
- 10.32* Form of Annual Cash Bonus Plan (as amended December 16, 2013), as filed as Exhibit 10.2 to Form 8-K filed on December 17, 2013, is incorporated by reference herein.
- 10.33* Form of Restricted Stock Unit Grant Agreement for grants awarded 2014 and later, as filed as Exhibit 10.3 to Form 8-K filed on December 17, 2013, is incorporated by reference herein.
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- 32.1 Certifications pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David P. Heintzman.
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- 101 The following financial statements from the S.Y. Bancorp, Inc. December 31, 2013 Annual Report on Form 10-K, filed on March 7, 2014, formatted in eXtensible Business Reporting Language (XBRL):
 - (1) Consolidated Balance Sheets
 - (2) Consolidated Statements of Income
 - (3) Consolidated Statements of Comprehensive Income
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 - (6) Notes to Consolidated Financial Statements

* Indicates matters related to executive compensation or other management contracts.

Copies of the foregoing Exhibits will be furnished to others upon request and payment of Bancorp's reasonable expenses in furnishing the exhibits.

(b) Exhibits

The exhibits listed in response to Item 15(a) 3 are filed or furnished as a part of this report.

(c) Financial Statement Schedules

None

Where You Can Find More Information

Bancorp is subject to the informational requirements of the Securities Exchange Act of 1934 and accordingly files its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Please call the SEC at (800) SEC-0330 for further information on the Public Reference Room. Bancorp's public filings are also maintained on the SEC's Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The address of that web site is <http://www.sec.gov> . In addition, Bancorp's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act may be accessed free of charge through Bancorp's web site after we have electronically filed such material with, or furnished it to, the SEC. The address of that web site is <http://www.syb.com> .

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

March 7, 2014

S.Y. BANCORP, INC.

BY: /s/ David P. Heintzman

David P. Heintzman
Chairman and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>/s/ David P. Heintzman</u> David P. Heintzman	Chairman, Chief Executive Officer and Director (principal executive officer)	March 7, 2014
<u>/s/ James A. Hillebrand</u> James A. Hillebrand	President and Director	March 7, 2014
<u>/s/ Nancy B. Davis</u> Nancy B. Davis	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	March 7, 2014
<u>/s/ Charles R. Edinger, III</u> Charles R. Edinger, III	Director	March 7, 2014
<u>/s/ Carl G. Herde</u> Carl G. Herde	Director	March 7, 2014
<u>/s/ Richard A. Lechleiter</u> Richard A. Lechleiter	Director	March 7, 2014
<u>/s/ Bruce P. Madison</u> Bruce P. Madison	Director	March 7, 2014
<u>/s/ Richard Northern</u> Richard Northern	Director	March 7, 2014
<u>/s/ Stephen M. Priebe</u> Stephen M. Priebe	Director	March 7, 2014
<u>/s/ Nicholas X. Simon</u> Nicholas X. Simon	Director	March 7, 2014
<u>/s/ Norman Tasman</u> Norman Tasman	Director	March 7, 2014
<u>/s/ Kathy C. Thompson</u> Kathy C. Thompson	Senior Executive Vice President and Director	March 7, 2014

Index to Exhibits

Exhibit Number

- 2.1 Agreement and Plan of Merger by and among THE BANCORP, Inc., S.Y. Bancorp, Inc. and Sanders Merger Sub, Inc. on December 19, 2012. Exhibit 2.1 to Form 8-K filed December 19, 2012, is incorporated by reference herein.
- 2.2 First Amendment to Agreement and Plan of Merger dated as of February 26, 2013 by and among S.Y. Bancorp, Inc., Sanders Merger Sub, LLC, and THE BANCORP, Inc. Exhibit 2.2 to form S-4 (File No. 333-186930) filed February 27, 2013, is incorporated by reference herein.
- 3.1 Amended and Restated Articles of Incorporation of Bancorp filed with the Secretary of State of Kentucky on April 23, 2008. Exhibit 3.1 to Form 8-K filed April 28, 2008, is incorporated by reference herein.
- 3.2 Bylaws of Bancorp as currently in effect. Exhibit 3.2 to Form 8-K filed April 28, 2008, is incorporated by reference herein.
- 3.3 Second Amended and Restated Articles of Incorporation of S.Y. Bancorp, Inc., filed with the Secretary of State of Kentucky on April 25, 2013. Exhibit 3.1 to Form 8-K filed April 25, 2013, is incorporated by reference herein.
- 10.1* S.Y. Bancorp, Inc. Amended And Restated 1995 Stock Incentive Plan. Exhibit 10.1 to Annual Report on Form 10-K for the year ended December 31, 2001, of Bancorp is incorporated by reference herein.
- 10.2* Stock Yards Bank & Trust Company Executive Nonqualified Deferred Compensation Plan (as Amended and Restated in 2009), as filed as Exhibit 10.4 to Form 8-K filed on December 19, 2008, is incorporated by reference herein.
- 10.3* Stock Yards Bank & Trust Company Director Nonqualified Deferred Compensation Plan (as Amended and Restated in 2009), as filed as Exhibit 10.3 to Form 8-K filed on December 19, 2008, is incorporated by reference herein.
- 10.4* Form of Stock Yards Bank & Trust Company Executive Nonqualified Deferred Compensation Plan Employer Contribution Agreement, as filed as Exhibit 10.3 to Form 8-K filed on October 23, 2006, is incorporated by reference herein.
- 10.5* Stock Yards Bank & Trust Company 2009 Restated Senior Officers Security Plan Exhibit 10.1 to Form 8-K filed December 19, 2008, is incorporated by reference herein.
- 10.10* Form of Change in Control Severance Agreement (Poindexter, Hoeck and Dishman), Exhibit 10.5 to Form 8-K filed January 27, 2010, is incorporated by reference herein.
- 10.11* S.Y. Bancorp, Inc. 2005 Stock Incentive Plan. Exhibit 10.1 to Form 8-K filed May 2, 2005, is incorporated by reference herein.
- 10.12* Amendment No. 1 to S. Y. Bancorp, Inc. 2005 Stock Incentive Plan, as filed as Exhibit 10.1 to Form 8-K filed on April 22, 2010, is incorporated by reference herein.
- 10.13* Form of Employer Contribution Agreement, Nancy Davis, Participant, as filed as Exhibit 10.4 to Form 8-K filed on October 23, 2006, is incorporated by reference herein.
- 10.14* Terms of Restricted Stock Program, as filed as Exhibit 10.1 to Form 8-K filed on February 26, 2007, is incorporated by reference herein.
- 10.15* Form of Restricted Stock Agreement (3 year vesting), as filed as Exhibit 10.2 to Form 8-K filed on February 26, 2007, is incorporated by reference herein.
- 10.16* Form of Stock Option Grant and Agreement (6 months vesting), as filed as Exhibit 10.1 to Form 8-K filed on January 19, 2006, is incorporated by reference herein.
- 10.17* Form of Stock Option Grant and Agreement (5 year vesting), as filed as Exhibit 10.2 to Form 8-K filed on January 19, 2006, is incorporated by reference herein.
- 10.18* Form of Stock Appreciation Right Grant Agreement (6 month vesting), as filed as Exhibit 10.1 to Form 8-K filed on February 22, 2008, is incorporated by reference herein.
- 10.19* Form of Stock Appreciation Right Grant Agreement (5 year vesting), as filed as Exhibit 10.2 to Form 8-K filed on February 22, 2008, is incorporated by reference herein.
- 10.20* Form of Indemnification Agreement between Stock Yards Bank & Trust Company, S.Y. Bancorp, Inc. and each member of the Board of Directors. Exhibit 10.3 to Annual Report on Form 10-K for the year ended December 31, 2001, of Bancorp is incorporated by reference herein.

- 10.21* Form of Restricted Stock Award Agreement (5 year vesting) between S.Y. Bancorp, Inc. and each recipient of restricted stock. Exhibit 10.21 to Annual Report on Form 10-K for the year ended December 31, 2010, of Bancorp is incorporated by reference herein.
- 10.22* Form of Director Restricted Stock Award Agreement (1 year vesting) between S.Y. Bancorp, Inc. and each member of the Board of Directors. Exhibit 10.22 to Annual Report on Form 10-K for the year ended December 31, 2010, of Bancorp is incorporated by reference herein.
- 10.23* Amendment No. 2 to the S. Y. Bancorp, Inc. 2005 Stock Incentive Plan, as filed as Exhibit 10.1 to Form 8-K filed on April 22, 2011, is incorporated by reference herein.
- 10.24* Form of S.Y. Bancorp, Inc. Restricted Stock Unit Grant Agreement for grants prior to 2014, as filed as Exhibit 10.2 to Form 8-K filed on April 22, 2011, is incorporated by reference herein.
- 10.25* Form of Stock Appreciation Right Grant Agreement (5 year vesting) between S.Y. Bancorp, Inc. and each recipient of stock appreciation rights. Exhibit 10.25 to Annual Report on Form 10-K for the year ended December 31, 2012, of Bancorp is incorporated by reference herein.
- 10.26* Form of S.Y. Bancorp, Inc. Restricted Stock Unit Grant Agreement 2012 and Amendment thereto, as filed as Exhibit 10.1 to Form 8-K filed on March 20, 2013, is incorporated by reference herein.
- 10.27* Form of Annual Cash Incentive Plan, as filed as Exhibit 10.1 to Form 8-K filed on April 26, 2013, is incorporated by reference herein.
- 10.28* Amendment No. 3 to the S. Y. Bancorp, Inc. 2005 Stock Incentive Plan, as filed as Exhibit 10.1 to Form 8-K filed on November 22, 2013, is incorporated by reference herein.
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* Indicates matters related to executive compensation or other management contracts.

Code of Ethics for the Chief Executive Officer and Financial Executives

S.Y. Bancorp, Inc. and Stock Yards Bank & Trust Company are strongly committed to conducting business with honesty and integrity and in compliance with all applicable laws and regulations. Senior financial officers hold an important position in our corporate governance structure because of their role in balancing, protecting and preserving the interests of all of our stakeholders. This Code of Ethics for the Chief Executive Officer and Financial Executives contains specific principles to which the Chief Executive Officer, President, Chief Financial Officer, Controller and other financial, accounting and treasury officers (the “Financial Officers”) are expected to adhere. This Code of Ethics is intended to supplement the general corporate code of conduct.

This code is intended to be our Code of Ethics for Senior Financial Officers pursuant to the provisions of Section 406 of the Sarbanes-Oxley Act of 2002 and related rules of the Securities and Exchange Commission.

All Financial Officers will:

1. Act with honesty and integrity, avoiding actual or apparent conflicts of interest in personal and professional relationships.
2. Provide our stakeholders with information that is accurate, complete, objective, relevant, timely and understandable.
3. Comply with rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies.
4. Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts or allowing one’s independent judgment to be subordinated.
5. Respect the confidentiality of information acquired in the course of one’s work except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of one’s work will not be used for personal advantage.
6. Share knowledge and maintain skills important and relevant to our stakeholders’ needs.
7. Proactively promote ethical behavior as a responsible partner among peers in one’s work environment.
8. Achieve responsible use of and control over all assets and resources employed or entrusted to us.
9. Report known or suspected violations of this Code in accordance with all applicable rules of procedure.
10. Be accountable for adhering to this Code.
11. Not unduly or fraudulently influence, coerce, manipulate or mislead any authorized audit or interfere with any auditor engaged in the performance of an internal or independent audit of our financial statements or accounting books and records.

We will promptly disclose the nature of any amendment (other than administrative or non-substantive amendments) to or waiver from this Code of Ethics as may be required by applicable rules of the Securities and Exchange Commission and the NASDAQ.

S.Y. Bancorp, Inc. Subsidiaries

Stock Yards Bank & Trust Company, a Kentucky Banking Corporation
1040 East Main Street
Louisville, KY 40206

Consent of Independent Registered Public Accounting Firm

The Board of Directors
S.Y. Bancorp, Inc.:

We consent to the incorporation by reference in the registration statements Nos. 333-128809, 333-128808, 33-96740, 33-96742, and 333-30530 on Form S-8 and No. 33-96744 on Form S-3 of S.Y. Bancorp, Inc. of our reports dated March 7, 2014, with respect to the consolidated balance sheets of the S.Y. Bancorp, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, cash flows, and changes in stockholders' equity for each of the years in the three-year period ended December 31, 2013, and the effectiveness of internal control over financial reporting as of December 31, 2013, which reports appear in the December 31, 2013 annual report on Form 10-K of S.Y. Bancorp, Inc.

(signed) KPMG LLP

Louisville, Kentucky

March 7, 2014

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, David P. Heintzman, certify that:

1. I have reviewed this annual report on Form 10-K of S.Y. 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 the registrant as of, and for, the periods presented in this report;
4. The registrant'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 the registrant and we 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 the registrant, 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 the registrant'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 the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 the registrant'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 the registrant's internal control over financial reporting.

Date: March 7, 2014

By: /s/ David P. Heintzman

David P. Heintzman,
Chairman and
Chief Executive Officer

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Nancy B. Davis, certify that:

1. I have reviewed this annual report on Form 10-K of S.Y. 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 the registrant as of, and for, the periods presented in this report;
4. The registrant'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 the registrant and we 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 the registrant, 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 the registrant'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 the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant'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 the registrant'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 the registrant's internal control over financial reporting.

Date: March 7, 2014

By: /s/ Nancy B. Davis
Nancy B. Davis, Executive Vice
President, Treasurer and Chief
Financial Officer

**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 this annual report of S.Y. Bancorp, Inc. on Form 10-K for the period ending December 31, 2013 (the "Report"), we, the undersigned, 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 our knowledge and belief: (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 S.Y. Bancorp, Inc. as of and for the periods presented in the Report.

Date: March 7, 2014

By: /s/ David P. Heintzman

David P. Heintzman,
Chairman and
Chief Executive Officer

A signed original of this written statement required by section 906 has been provided to S.Y. Bancorp, Inc. and will be retained by S.Y. Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**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 this annual report of S.Y. Bancorp, Inc. on Form 10-K for the period ending December 31, 2013 (the "Report"), we, the undersigned, 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 our knowledge and belief: (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 S.Y. Bancorp, Inc. as of and for the periods presented in the Report.

Date: March 7, 2014

By: /s/ Nancy B. Davis

Nancy B. Davis,
Executive Vice President, Treasurer and
Chief Financial Officer

A signed original of this written statement required by section 906 has been provided to S.Y. Bancorp, Inc. and will be retained by S.Y. Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
