S Y BANCORP INC
Form 10-K
March 11, 2013
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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	**Commission File Number**
December 31, 2012	**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
	NASDAQ
Preferred Share Purchase Rights	
10.00% Cumulative Trust Preferred Securities and the guarantee with respect thereto	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 o No x

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 o No x

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 x No o

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 x No o

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. o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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, 2012 (the last business day of the registrant s most recently completed second fiscal quarter) was $293,249,000.

The number of shares of the registrant s Common Stock, no par value, outstanding as of February 27, 2013, was 13,959,269.

Documents Incorporated By Reference

Portions of Registrant s definitive proxy statement related to Registrant s Annual Meeting of Shareholders to be held on April 24, 2013 (the Proxy Statement), to be filed with the Securities and Exchange Commission, are incorporated by reference into Part III of this Form 10-K.

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Part I

Item 1. Business

S. Y. Bancorp, Inc. (Bancorp or Company) was incorporated in 1988 and is a Kentucky corporation headquartered in Louisville, Kentucky. Bancorp is a bank holding company registered with, and subject to supervision, regulation and examination by the Board of Governors of the Federal Reserve System. Bancorp has two subsidiaries, Stock Yards Bank & Trust Company (the Bank) and S.Y. Bancorp Capital Trust II (the Trust). The Bank is wholly owned and is a state chartered bank. Because Bancorp has no 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. The Trust is a Delaware statutory trust that is a 100%-owned finance subsidiary of Bancorp. See Note 11 to Bancorp s consolidated financial statements for further discussion of the Trust and its accounting treatment.

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 31 full service banking offices (See ITEM 2. PROPERTIES). 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. See Note 23 to Bancorp s consolidated financial statements for information relating to the Bank s business segments.

2013 Acquisition

In December 2012, S. Y. Bancorp, Inc. announced it had entered into an agreement to merge with The Bancorp, Inc., parent company of THE BANK Oldham County, Inc., with assets of approximately $137 million. As a result, of the transaction, THE BANK Oldham County would merge into Stock Yards Bank and Trust and The Bancorp, Inc. would no longer exist. Each share of The Bancorp, Inc. common stock will be converted to $185.81 in cash and 12.7557 shares of S.Y. Bancorp common stock, subject to certain adjustments. The merger is subject to regulatory approvals and the approval of shareholders of The Bancorp, Inc., and is expected to close early in the second quarter of 2013.

At December 31, 2012, Stock Yards Bank & Trust had 495 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 and the Bank.

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

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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). In most cases, the creation of an FHC is a simple election and notice to the Federal Reserve Board. 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.

In response to the stresses experienced in the financial markets, the Emergency Economic Stabilization Act (EESA) was enacted in 2008. Pursuant to its authority under EESA, Treasury created the TARP Capital Purchase Program (CPP) under which the Treasury Department would invest up to $250 billion in senior preferred stock of U.S. banks and savings associations or their holding companies. Although it was approved for participation, Bancorp declined to participate in federal TARP funding because its capital levels were and remain significantly in excess of what is required to be considered well-capitalized under regulatory standards.

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, increased 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 an adverse impact on the financial services industry as a whole and on Bancorp s business, results of operations and financial condition.

In 2009, as part of its efforts to rebuild the Deposit Insurance Fund, the FDIC levied a special assessment applicable to all insured depository institutions totaling 5 basis points of each institution s total assets less Tier 1 capital as of June 30, 2009. In lieu of further special assessments, in November 2009, the FDIC required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. Bancorp s prepaid assessment, paid in December 2009, totaled $6,458,000 and will be amortized based on quarterly FDIC

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assessments, likely into 2014. The remaining prepaid assessment of $1,732,000 at December 31, 2012 will be applied to future assessments.

In 2011, per the Dodd-Frank Act, the FDIC redefined the deposit assessment base as average consolidated total assets minus average tangible equity, and adopted a new assessment rate schedule effective April 1, 2011. This revision resulted in somewhat lower FDIC insurance expense for Bancorp beginning in 2011.

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

Investments in Bancorp s common stock or trust preferred securities involve 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 recession, 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

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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;
- the Federal Reserve s actions to control interest rates; and

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 1.2% if interest rates immediately decrease 100 basis points for the next 12 months and decrease approximately 1.5% if rates increase 200 basis points. Prevailing interest rates are at historically low levels, and current indications are that the Federal Reserve will likely maintain the low rates for the next two years.

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

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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, whose membership is no longer tied to a single company, have grown 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.

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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 identified third parties to have similar or superior controls in place. Bancorp did not suffer a material incident in the years reported herein. Bancorp maintains 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 the bank 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.

Bancorp may be unable to successfully integrate acquired bank s operations and retain acquired bank s employees.

Simultaneous with the closing of the merger, THE BANK Oldham County, Inc. (TBI Bank) will be merged with and into Stock Yards Bank & Trust (SYB Bank), and these two companies have previously operated independently of each other. The possible difficulties and challenges of merging the operations of TBI Bank and SYB Bank include:

- integrating personnel with diverse business backgrounds;
- combining different corporate cultures
- integrating systems, technologies, policies and procedures; and
- retaining key employees and customers.

The process of integrating operations may also be time consuming and costly and could cause an interruption of, or loss of momentum in, the activities of one or more of Bancorp, SYB Bank or TBI Bank, and the loss of key personnel. The diversion of management s attention and any delays or difficulties encountered in connection with the merger of TBI Bank into SYB Bank could have an adverse effect on the business and results of operations of Bancorp.

Item 1B. Unresolved Staff Comments

Bancorp has no unresolved SEC staff comments.

Item 2. Properties

The principal offices of Bancorp and the Bank are located at 1040 East Main Street, Louisville, Kentucky. The Bank s operations center is at a separate location. In addition to the main office complex and the operations center, the Bank owned 14 branch properties at December 31, 2012, two of which are located on leased land. At that date, the Bank also leased 16 branch facilities. Of the 31 banking locations, 25 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 5 and 17 to Bancorp s consolidated financial statements for the year ended December 31, 2012, for additional information relating to amounts invested in premises, equipment and lease commitments**.**

In the first quarter of 2013, Bancorp announced plans to close one leased branch location in the Louisville MSA. This branch will continue to operate as a full service branch until its closing in the second quarter of 2013.

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Item 3. Legal Proceedings

See Note 17 to Bancorp s consolidated financial statements for the year ended December 31, 2012, 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, 2012 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 53	Chairman of the Board of Directors and Chief Executive Officer of Bancorp and the Bank
James A. Hillebrand Age 44	President and Director of Bancorp and the Bank
Kathy C. Thompson Age 51	Senior Executive Vice President and Director of Bancorp and the Bank
Nancy B. Davis Age 57	Executive Vice President, Secretary, Treasurer and Chief Financial Officer of Bancorp and the Bank
William M. Dishman III Age 49	Executive Vice President and Chief Risk Officer of the Bank
Gregory A. Hoeck Age 62	Executive Vice President of the Bank and Director of Retail Banking
Philip S. Poindexter Age 46	Executive Vice President and Chief Lending Officer of the Bank
T. Clay Stinnett Age 39	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.

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.

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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 manager of Retail Banking for the Bank.

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 16 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, 2012, Bancorp estimates it had a total of approximately 5,350 shareholders, including beneficial owners holding shares in nominee or street name.

	2012			2011		
Quarter	**High**	**Low**	**Cash dividends declared**	**High**	**Low**	**Cash dividends declared**
First	$ 23.65	$ 20.60	$ 0.19	$ 25.16	$ 23.71	$ 0.18
Second	23.95	21.96	0.19	25.76	22.50	0.18
Third	24.98	22.45	0.19	23.97	18.06	0.18
Fourth	24.12	21.08	0.20	21.24	18.25	0.18

The following table shows information relating to the repurchase of shares of common stock by Bancorp during the three months ended December 31, 2012.

	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	2,944	$	24.00
November 1-November 30			
December 1-December 31	714		21.89
Total	3,658	$	23.59

(1) Activity represents shares surrendered by officers to pay the exercise price of stock options or to pay taxes due upon the exercise of stock appreciation rights.

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

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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 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, 2007 and that all dividends were reinvested.

	Period Ending					
Index	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**	**12/31/12**
S.Y. Bancorp, Inc.	$ 100.00	$ 118.05	$ 94.46	$ 111.79	$ 96.62	$ 109.17
Russell 2000 Index	100.00	66.21	84.20	106.82	102.36	119.09
SNL Midwest Bank Index	100.00	65.79	55.75	69.23	65.39	78.71
SNL NASDAQ Bank Index	100.00	72.62	58.91	69.51	61.67	73.51

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Item 6. Selected Financial Data

Selected Consolidated Financial Data

(Amounts in thousands except per share data)	Years ended December 31 2012	2011	2010	2009	2008
Income statement data					
Interest income	$ 86,901	$ 86,039	$ 86,146	$ 83,856	$ 87,121
Interest expense	12,951	15,307	19,267	25,181	30,263
Net interest income	73,950	70,732	66,879	58,675	56,858
Provision for loan losses	11,500	12,600	11,469	12,775	4,050
Non-interest income	38,457	33,244	33,739	30,036	28,243
Non-interest expenses	65,472	59,581	57,131	52,695	49,319
Income before income taxes	35,435	31,795	32,018	23,241	31,732
Income tax expense	9,634	8,191	9,065	6,933	10,056
Net income	$ 25,801	$ 23,604	$ 22,953	$ 16,308	$ 21,676
Per share data					
Net income, basic	$ 1.86	$ 1.71	$ 1.68	$ 1.20	$ 1.61
Net income, diluted	1.85	1.71	1.67	1.19	1.59
Cash dividends declared	0.77	0.72	0.69	0.68	0.68
Book value	14.74	13.58	12.37	11.29	10.72
Market value	22.42	20.53	24.55	21.35	27.50
Weighted average common and common equivalent shares - diluted	13,932	13,834	13,779	13,689	13,630
Balance Sheet data					
Total assets	$ 2,148,262	$ 2,053,097	$ 1,902,945	$ 1,791,479	$ 1,628,763
Loans	1,584,594	1,544,845	1,508,425	1,435,462	1,349,637
Allowance for loan losses	31,881	29,745	25,543	20,000	15,381
Securities	386,440	352,185	245,352	228,260	173,414
Deposits	1,781,693	1,617,739	1,493,468	1,418,184	1,270,925
Federal Home Loan Bank advances	31,882	60,431	60,442	60,453	70,000
Subordinated debentures	30,900	40,900	40,900	40,930	40,960
Stockholders equity	205,075	187,686	169,861	153,614	144,500
Average balances					
Stockholders equity	$ 197,551	$ 179,638	$ 163,572	$ 150,721	$ 136,112
Assets	2,070,967	1,959,609	1,847,452	1,717,474	1,567,967
Federal Home Loan Bank advances	60,113	60,436	69,159	80,904	86,011
Long-term debt	31,474	40,900	40,901	40,930	3,361
Selected ratios					
Return on average assets	1.25%	1.20%	1.24%	0.95%	1.38%
Return on average stockholders equity	13.06	13.14	14.03	10.82	15.93
Average stockholders equity to average assets	9.54	9.17	8.85	8.78	8.68
Net interest rate spread	3.74	3.79	3.74	3.43	3.60
Net interest rate margin, fully tax-equivalent	3.94	3.99	3.99	3.74	3.99

Efficiency ratio	57.38	56.47	56.01	58.70	57.27
Non-performing loans to total loans	1.90	1.51	1.28	0.84	0.35
Non-performing assets to total assets	1.74	1.51	1.30	0.77	0.39
Net charge offs to average loans	0.60	0.55	0.40	0.59	0.16
Allowance for loan losses to total loans	2.01	1.93	1.69	1.39	1.14

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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 2012.

Our Business

S.Y. Bancorp, Inc. (Bancorp), incorporated in 1988, has no active business operations. Thus, Bancorp s 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, 2012, the Bank had 25 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. The Bank 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.

In the first quarter of 2013, Bancorp announced plans to close one branch location in the Louisville MSA. This branch will continue to operate as a full service branch until its closing in the second quarter of 2013.

In the fourth quarter of 2012, Bancorp announced it had entered into an agreement to merge with The Bancorp, Inc., parent company of THE BANK Oldham County, Inc. The merger is subject to regulatory approvals and the approval of shareholders of The Bancorp, Inc., and is expected to close early in the second quarter of 2013.

Financial Section Overview

The financial section includes the following:

Management s discussion and analysis, or MD&A (pages 13 through 41) 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 42 through 46) include Consolidated Balance Sheets as of the end of the last two years, and Consolidated Statements of Income, Changes in Stockholders Equity, Comprehensive Income, and Cash Flows for each of the last three years. Bancorp s financial statements are prepared in accordance with US GAAP.

Notes to the financial statements (pages 47 through 84) 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.

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Reports related to the financial statements and internal control over financial reporting (pages 85 through 89) 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.

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 simil 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 the Bank 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 the Bank 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.

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.

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Overview of 2012

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 2012, Bancorp completed a year of asset and deposit growth with net income totaling $25,801,000, an increase of 9% over 2011, and the highest level ever achieved by Bancorp. Increased profitability was primarily due to a decline in interest expense, an increase in non-interest income and, partially offset by higher non-interest expenses and tax expense. Diluted earnings per share for 2012 increased 8% over 2011 to $1.85, also exceeding the highest amount recorded in any prior year.

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 3% during 2012 to $1.6 billion. Record loan production due to increased calling efforts and loan demand was largely offset by higher than normal loan payoffs due to increased competition from banks and non-bank financial firms. Increased loan volume contributed to higher interest income in 2012, but the increase resulting from volume was partially offset by declining interest rates on loans and investments over the past year. As a result, interest income for 2012 increased $862,000 over 2011. 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 2011. Net interest margin in 2012 reflected a higher amount of prepayment fees associated with a surge in loan refinancing activity. Adjusting for these sources of additional income, Bancorp s more normalized or core net interest margin has trended downward throughout 2012, declining to 3.88% for 2012 from 4.01% for 2011. (See Non-GAAP Financial Measures on page 39 for reconcilement of non-GAAP measures to US GAAP measures.)

Total non-interest income in 2012 increased $5.2 million compared to 2011. Income from investment management and trust services, which constitutes an average of 40% of non-interest income, increased 3% for 2012 due to higher asset values and an expanding client base. The magnitude of its investment management and trust revenue distinguishes Bancorp from other similarly sized community banks. Trust assets under management rose to $1.96 billion at December 31, 2012, compared to $1.74 billion at December 31, 2011. 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. Nonrecurring fees such as estate, financial planning, insurance, and some retirement fees are not affected by the fluctuations in the market. Gains on sales of mortgage loans increased $2.2 million, or 103.6%, in 2012 compared to 2011, as customers took advantage of historically low rates to refinance as well as purchase homes. In addition, Bancorp experienced increases in brokerage income, bankcard transaction income, and had income from Bancorp s investment in a domestic private investment fund, which it liquidated in 2012, compared to a loss in 2011.

Higher non-interest expenses for 2012 resulted from increases in salaries and benefits, occupancy, data processing expenses and other expenses, partially offset by decreases in losses on foreclosed assets and FDIC insurance expense. Bancorp s efficiency ratio for 2012 of 57.4% increased slightly from 56.5% in 2011.

Also affecting 2012 results, Bancorp s provision for loan losses decreased to $11,500,000 compared to $12,600,000 for 2011, in response to Bancorp s assessment of inherent 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. The provision results from an allowance methodology that is driven by risk ratings which reflects the impact on risk ratings resulting from the ongoing

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economic stress on borrowers witnessed from 2008 through 2012. Bancorp s allowance for loan losses was 2.01% of total loans at December 31, 2012, compared with 1.93% of total loans at December 31, 2011.

Bancorp s effective tax rate increased to 27.2% in 2012 from 25.8% in 2011. The lower effective tax rate in 2011 was primarily due to a one-time adjustment of approximately $700,000 to Bancorp s deferred tax assets relating to tax-advantaged investments that Bancorp has made in its primary market area over the years.

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.

A summary of Bancorp s TCE ratios at December 31, 2012 and 2011 is shown in the following table.

(in thousands, except per share data)	**December 31, 2012**	**December 31, 2011**
Total equity	$ 205,075	$ 187,686
Less goodwill	(682)	(682)
Tangible common equity	204,393	187,004
Total assets	2,148,262	2,053,097
Less goodwill	(682)	(682)
Total tangible assets	2,147,580	2,052,415
Tangible common equity ratio	9.52%	9.11%
Number of outstanding shares	13,915	13,819
Tangible common equity per share	$ 14.69	$ 13.53

See Non-GAAP Financial Measures on page 39 for reconcilement of TCE to US GAAP measures.

In December 2012, Bancorp announced it had entered into an agreement to merge with The Bancorp, Inc., parent company of THE BANK Oldham County, Inc., with assets of approximately $137 million. As a result, of the transaction, THE BANK Oldham County will merge into Stock Yards Bank and Trust and The Bancorp, Inc. will no longer exist. Each share of The Bancorp, Inc. common stock will be converted to $185.81 in cash and 12.7557 shares of S.Y. Bancorp common stock, subject to certain adjustments. The merger is subject to regulatory approvals and the approval of shareholders of The Bancorp, Inc., and is expected to close early in the second quarter of 2013. It is expected to be slightly accretive to earnings per share for 2013, excluding transaction costs, and more so thereafter.

Challenges for 2013 will include managing credit quality, achieving continued loan growth, and managing increasing regulatory requirements.

- Bancorp expects net interest margin to compress in 2013, compared to the level achieved in 2012, as rates are expected to be largely unchanged through the fourth quarter of 2013. Loan prepayment and prevailing lower rates will likely result in a lower net interest margin for 2013. Increased deposit and loan rate competition could negatively impact this expectation, as could a decrease in longer term interest rates. Management expects margin compression to continue in 2013, with net interest margin declining up to 30 basis points from 2012.

- The Federal Reserve Board lowered its key short term rate in 2008 to unprecedentedly low levels, and rates have remained low through 2012. Indications are that the Federal Reserve will likely keep short term rates low through late 2014. Approximately 40% of the Bank s loans are indexed to the prime interest rate and reprice immediately with Federal Reserve rate changes. However, approximately 61% of variable rate loans have reached their contractual floor of 4% or higher, meaning they will not reprice

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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 2013 include net loan growth at a pace exceeding that of 2012. 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 continues to be concerned that a continued economic recession will cause a higher level of non-performing loans and potentially lower loan demand, both of which would negatively impact net income. The extended duration of the economic downturn continues to weaken already stressed borrowers. These conditions will likely have an ongoing effect on certain borrowers until overall business and real estate conditions improve.

- Bancorp expects a decrease in non-interest income for 2013 in gains on sales of mortgage loans held for sale, as Bancorp does not expect the volume of refinance activity to continue at the pace experienced in 2012. 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 and data processing expenses.

- Bancorp anticipates higher non-interest expenses to meet the ongoing and increasing burden of additional regulatory requirements.

- Bancorp expects the merger with The Bancorp, Inc. to be finalized early in the second quarter of 2013. Various operating systems must be converted, in most cases, to Bancorp s existing operating systems. These systems conversions require a significant amount of planning, coordination and effort of internal resources and third-party vendors, all of which are expected to result in increased non-interest expenses in 2013.

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

Results of Operations

Net income was $25,801,000 or $1.85 per share on a diluted basis for 2012 compared to $23,604,000 or $1.71 per share for 2011 and $22,953,000 or $1.67 per share for 2010. Net income for 2012 was positively impacted by:

- A $5.2 million or 16% increase in non-interest income.

- A $3.2 million or 5% increase in net interest income.

- A $1.1 million or 9% decrease in provision for loan losses.

Net income for 2012 was negatively impacted by:

- A $5.9 million or 10% increase in non-interest expenses.

- A $1.4 million or 18% 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.

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Comparative information regarding net interest income follows:

(Dollars in thousands)	2012	2011	2010	2012/2011 Change	2011/2010 Change
Net interest income, tax-equivalent basis	$ 75,653	$ 72,262	$ 68,264	4.7%	5.9%
Net interest spread	3.74%	3.79%	3.74%	(5)bp	5bp
Net interest margin	3.94%	3.99%	3.99%	(5)bp	0bp
Average earning assets	$ 1,922,134	$ 1,809,043	$ 1,712,173	6.3%	5.7%
Five year Treasury bond rate at year end	0.73%	0.83%	2.02%	(10)bp	(119)bp
Average five year Treasury bond rate	0.75%	1.50%	1.91%	(75)bp	(41)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 consistently apply a methodology for calculating net interest margin and net interest spread to exclude participation loans sold from the calculations. Such loans remain on Bancorp s balance sheet as required by generally accepted accounting principles because Bancorp retains some form of effective control; however, Bancorp receives no interest income on the sold portion of these loans. Under this methodology, these participation loans sold are excluded in the calculation of margins, which, in Bancorp s view, 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 the Bank operated. Approximately $606 million, or 38%, of the Bank s loans are variable rate; most of these loans are indexed to the prime rate and may reprice as that rate changes. However, approximately $371 million, or 61% of variable rate loans, have reached their contractual floor of 4% or higher. Approximately $88 million or 15% of variable rate loans have contractual floors below 4%. The remaining $147 million or 24% of variable rate loans have no contractual floor. The Bank intends to establish floors whenever possible upon renewal of the loans. The Bank s variable rate loans are primarily comprised of commercial lines of credit and real estate loans. At inception, most of the Bank s fixed rate loans are priced in relation to the five year Treasury bond.

Average loan balances increased $39 million or 2.6% in 2012; however, the declining interest rate environment drove average loan yields lower by 10 basis points. Bancorp grew average interest bearing deposits $46 million or 3.6%. Average interest costs on interest bearing deposits decreased 25 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 $300,000 or 0.5%, with average rates increasing by 167 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 and deposits, resulted in higher net interest income, but a lower net interest margin for 2012 compared to 2011.

Management anticipates a stable prime rate for 2013. Time deposit maturities of approximately $83 million, or 22% of total time deposits, in the first two quarters could spark slight improvement in interest expense. However, this will be 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 and investments. 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.

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Net interest margin in 2012 reflected a higher amount of prepayment fees associated with a surge in loan refinancing activity. Adjusting for these sources of additional income, Bancorp s more normalized or core net interest margin has trended downward throughout 2012, declining to 3.88% for 2012 from 4.01% for 2011. (See Non-GAAP Financial Measures on page 39 for reconcilement of non-GAAP measures to US GAAP measures.) The core net margin for the year 2012 declined 13 basis points to 3.88% from 4.01% for the year 2011. Management believes these core margins better reveal the increasing pressure of a low interest rate environment and a highly competitive loan market, and it expects margin compression to continue in 2013, with net interest margin declining up to 30 basis points from 2012.

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, 2012 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.

	Net interest income % change
Increase 200 bp	(1.47)
Increase 100 bp	(1.99)
Decrease 100 bp	(1.22)
Decrease 200 bp	N/A

Loans indexed to the prime rate, with floors of 4% or higher, comprise approximately 29% 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 20 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.

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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 2012 and 2011 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

		2012/2011 Increase (decrease) due to			2011/2010 Increase (decrease) due to	
(In thousands)	**Net change**	**Rate**	**Volume**	**Net change**	**Rate**	**Volume**
Interest income						
Loans	$ 586	$ (1,494)	$ 2,080	$ (69)	$ (3,048)	$ 2,979
Federal funds sold	65		65	117	36	81
Mortgage loans held for sale	113	(32)	145	(108)	(34)	(74)
Securities						
Taxable	483	(841)	1,324	(100)	(84)	(16)
Tax-exempt	(212)	(204)	(8)	198	(428)	626
Total interest income	1,035	(2,571)	3,606	38	(3,558)	3,596
Interest expense						
Deposits						
Interest bearing demand deposits	(86)	(155)	69	118	51	67
Savings deposits	(48)	(60)	12	(54)	(65)	11
Money market deposits	(804)	(987)	183	(649)	(1,011)	362
Time deposits	(2,001)	(1,457)	(544)	(2,480)	(1,745)	(735)
Securities sold under agreements to repurchase	(73)	(66)	(7)	(79)	(105)	26
Federal funds purchased and other short-term borrowings	(7)	(3)	(4)	(7)	(4)	(3)
Federal Home Loan Bank advances	1,001	1,009	(8)	(806)	(545)	(261)
Long-term debt	(338)	536	(874)	(3)	(3)	
Total interest expense	(2,356)	(1,183)	(1,173)	(3,960)	(3,427)	(533)
Net interest income	$ 3,391	$ (1,388)	$ 4,779	$ 3,998	$ (131)	$ 4,129

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Bancorp s tax equivalent net interest income increased $3.4 million for the year ended December 31, 2012 compared to the same period of 2011 while 2011 increased $4.0 million compared to 2010. Net interest income for 2012 compared to 2011 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 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.

For the year 2011 compared to 2010, loan interest income was virtually unchanged. This was the net effect of a $3.0 million increase attributable to loan growth, offset by a $3.0 million decrease attributed to lower rates on loans. Lower rates on deposits and other borrowing resulted in a decreased interest expense of $3.4 million, and lower volumes of liabilities resulted in decreased interest expense of $0.5 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)		**2012**		**2011**		**2010**
Provision for loan losses	$	11,500	$	12,600	$	11,469
Allowance to loans at year end		2.01%		1.93%		1.69%
Allowance to average loans for year		2.04%		1.94%		1.74%

The provision for loan losses is determined by Bancorp s assessment of inherent 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. The provision reflects an allowance methodology that is driven by risk ratings. Overall, management believes that 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.

Non-performing loans increased from $23.3 million at year-end 2011 to $30.0 million at December 31, 2012, primarily due to an increase in loans classified as troubled debt restructurings (TDRs). The ratio of non-performing loans to total loans was 1.90% at December 31, 2012, up from 1.51% at December 31, 2011. TDRs, which are currently accruing interest, increased from $3.4 million at December 31, 2011 to $11.0 million at December 31, 2012, as Bancorp elected to modify terms for a limited number of borrowers by providing reasonable concessions, rather than initiate collection and foreclosure. Net charge-offs totaled 0.60% of average loans at year-end 2012, up from 0.55% at year-end 2011. Problem loan resolution will continue to be a challenge going forward as the overall level of non-performing loans remains at a historically high level after peaking in the second quarter of 2012, but still compares favorably versus peers. 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.

The Bank 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, 2012 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.

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Non-Interest Income and Non-Interest Expenses

The following table provides a comparison of the components of non-interest income for 2012, 2011 and 2010. The table shows the dollar and percentage change from 2011 to 2012 and from 2010 to 2011. Below the table is a discussion of significant changes and trends.

(Dollars in thousands)	2012	2011	2010	2012/2011 Change	%	2011/2010 Change	%
Investment management and trust services	$ 14,278	$ 13,841	$ 13,260	$ 437	3.2%	$ 581	4.4%
Service charges on deposit acccounts	8,516	8,348	8,600	168	2.0	(252)	(2.9)
Bankcard transaction revenue	3,985	3,722	3,313	263	7.1	409	12.3
Gain on sales of mortgage loans held for sale	4,321	2,122	2,321	2,199	103.6	(199)	(8.6)
Gain (loss) on sales of securities available for sale			159			(159)	(100.0)
Brokerage commissions and fees	2,593	2,219	2,136	374	16.9	83	3.9
Bank owned life insurance income	1,006	1,019	995	(13)	(1.3)	24	2.4
Other	3,758	1,973	2,955	1,785	90.5	(982)	(33.2)
	$ 38,457	$ 33,244	$ 33,739	$ 5,213	15.7%	$ (495)	(1.5)%

Total non-interest income increased 15.7% for the year ended December 31, 2012 compared to 2011. The largest component of non-interest income is investment management and trust revenue. Along with the effects of improving investment market conditions in 2011 and 2012, this area of the Bank continued to grow through attraction of new business and retention of existing business. Trust assets under management totaled $1.96 billion at December 31, 2012, compared to $1.74 billion at December 31, 2011. Most recurring fees earned for managing accounts are based on a percentage of market value on a monthly basis. 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. Recurring fees, which generally make up over 95% of the investment management and trust revenue, increased 5% for 2012, compared to 2011. This was partially offset by a decrease in non-recurring fees for 2012 compared to 2011. For 2012, 2011 and 2010 executor fees totaled approximately $106,000, $362,000 and $668,000, respectively.

Service charges on deposit accounts increased $168,000 or 2.0%, for the year ended December 31, 2012 compared to the same period a year ago. Service charge income is driven by transaction volume, which can fluctuate throughout the year.

Bankcard transaction revenue increased $263,000 or 7.1% in 2012 compared to 2011 and primarily represents income the Bank derives from customers use of debit cards. Results in 2012 compared favorably to 2011 as bankcard transaction volume continued to increase. 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, it appears this change will affect 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.

The Bank 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,

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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. Gains on sales of mortgage loans increased $2,199,000, or 103.6%, in 2012 compared to 2011 as a result of increased volume as well as a higher average gains per loan sold. Interest rates on mortgage loans directly impact the volume of business transacted by the mortgage banking division. Customers took advantage of historically low rates in 2012 to refinance as well as purchase homes.

Bancorp had no gains on securities available for sale in 2012 or 2011. In 2010, for tax planning purposes, Bancorp sold securities with a cost of $26,905,000, resulting in gains totaling $159,000.

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. Total securities brokerage fees increased $374,000 or 16.9% for 2012 compared to the 2011, corresponding to higher overall brokerage volume. 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 $1,006,000 in 2012 compared to $1,019,000 for 2011. BOLI represents the cash surrender value for life insurance policies on certain key employees who have provided consent for the Bank 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 employee benefits.

Other non-interest income increased $1,785,000, or 90.5%, during 2012 compared to 2011 largely due to a relative increase of $1,041,000 in income from the domestic private investment fund, an increase of $523,000 in various fees related to mortgage lending, and a variety of other factors, none of which were individually significant. The value of Bancorp s investment in the domestic private investment fund increased by $637,000 in 2012, compared to a decrease of $404,000 in 2011. Management liquidated its investment in this fund effective March 31, 2012.

The following table provides a comparison of the components of non-interest expenses for 2012, 2011 and 2010. The table shows the dollar and percentage change from 2011 to 2012 and from 2010 to 2011. Below the table is a discussion of significant changes and trends.

(Dollars in thousands)	**2012**	**2011**	**2010**	**2012/2011 Change**	**%**	**2011/2010 Change**	**%**
Salaries and employee benefits	$ 37,960	$ 33,125	$ 33,485	$ 4,835	14.6%	$ (360)	(1.1)%
Net occupancy expense	5,651	5,192	4,934	459	8.8	258	5.2
Data processing expense	5,278	5,014	4,834	264	5.3	180	3.7
Furniture and equipment expense	1,306	1,299	1,272	7	0.5	27	2.1
FDIC insurance	1,494	1,655	2,038	(161)	(9.7)	(383)	(18.8)
Losses (gains) on other real estate owned	1,410	1,716	(11)	(306)	(17.8)	1,727	*
Other	12,373	11,580	10,579	793	6.8	1,001	9.5

	$	65,472	$	59,581	$	57,131	$	5,891	9.9%	$	2,450	4.3%

* Ratio exceeds 100%

Salaries and benefits are the largest component of non-interest expenses and increased $4,835,000 or 14.6% for 2012 compared to 2011, largely due to increased staffing levels including senior staff with higher per capita salaries in wealth management, lending and loan administration functions and a higher performance-based bonus accrual. These additions support growth in all market areas. Also, normal increases in salaries, pension, and stock-based compensation expense, partially offset by a moderate decrease in health insurance costs, contributed to the increase. At December 31, 2012, the Bank had 495 full-time equivalent employees compared to 480 at the same date in 2011 and 475 for 2010.

Net occupancy expense increased $459,000 or 8.8% from 2011 to 2012, largely due to increases in property taxes and depreciation expense attributable to market expansion and support operations. The Bank opened one new branch location in 2012, after opening no new locations in 2011, and two new locations in 2010. At December 31, 2012 the Bank had 31 banking center locations including the main office. In the first quarter of 2013, Bancorp announced plans to close one leased branch location in the Louisville MSA. This branch will continue to operate as a full service branch until its closing in the second quarter of 2013.

Data processing expense increased $264,000 or 5.3% largely due to increased computer equipment depreciation and maintenance costs related to investments in new technology needed to improve the pace of delivery channels and internal resources. This increase is net of a one-time $208,000 refund received from one vendor who provides data processing services for Bancorp.

Furniture and equipment expense increased $7,000 or 0.5% in 2012, as compared to 2011, 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 $161,000, or 9.7% for the year ended December 31, 2012, as compared to the same period in 2011. The decrease is due to a change in the base on which the assessment is calculated and lower assessment rates adopted by the FDIC in the second quarter of 2011. The assessment is calculated and adjusted quarterly by the FDIC.

Losses on other real estate owned (OREO) totaled $1,410,000 for the year ended December 31, 2012, compared to $1,716,000 for the same period in 2011. In 2012 and 2011, Bancorp recorded write-downs on previously foreclosed properties. During 2012, Bancorp took additional charge-downs on certain other real estate owned (OREO) to target a shorter timeframe for the opportunistic disposition of these properties, thus helping limit Bancorp s exposure to market risk, which may occur if the dispositions occur over a longer period of time.

Other non-interest expenses increased $793,000, or 6.8% for the year ended December 31, 2012 compared to the same period of 2011. The increases included a $566,000 increase in professional fees, $302,000 of OREO maintenance costs, and $149,000 increase in mail and telecommunications costs. Also included in this category are amortization expenses related to mortgage servicing rights (MSRs). Mortgage volume increased the amount of MSRs during 2012, resulting in a corresponding increase of MSR amortization of $93,000 in 2012 compared to 2011. Somewhat offsetting the increases in 2012 were decreases of $216,000 in donations, a $192,000 decrease in losses related to disposition of fixed assets, and decreases in a variety of factors including advertising, printing and legal fees, none of which is individually significant.

Income Taxes

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

(Dollars in thousands)	2012	2011	2010
Income tax expense	$ 9,634	$ 8,191	$ 9,065
Effective tax rate	27.2%	25.8%	28.3%

The decrease in the income tax expense and the effective tax rate primarily reflected a 2011 adjustment of approximately $700,000 to Bancorp s deferred tax assets relating to tax-advantaged investments that the Bancorp has made in its primary market area over the years. For more information regarding income taxes and the effective tax rate see Note 7 to Bancorp s consolidated financial statements.

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Financial Condition

Earning Assets and Interest Bearing Liabilities

Summary information with regard to Bancorp s financial condition follows:

(Dollars in thousands)	2012	2011	2010	2012/2011 Change	%	2011/2010 Change	%
Average earning assets	$ 1,922,134	$ 1,809,043	$ 1,712,173	$ 113,091	6.3%	$ 96,870	5.7%
Average interest bearing liabilities	1,488,939	1,456,866	1,408,593	32,073	2.2	48,273	3.4
Average total assets	2,070,967	1,959,609	1,847,452	111,358	5.7	112,157	6.1
Total year end assets	2,148,262	2,053,097	1,902,945	95,165	4.6%	150,152	7.9%

Bancorp has experienced modest growth in earning assets over the last several years primarily in the area of loans. From 2011 to 2012, average loans increased 2.6%, or $39.3 million, compared to 3.8% or $54.7 million from 2010 to 2011. Despite record loan production due to increased calling efforts and loan demand, net loan growth was stunted in 2012. This was a result of higher than normal loan payoffs due to increased competition from banks and non-bank financial firms. Average securities available for sale increased $47.5 million, or 22.2% from 2011 to 2012, compared to $14.5 million, or 7.3% from 2011 to 2012.

Average total interest bearing accounts increased 3.6% and non-interest bearing accounts increased 23.2% in 2012. The increase in average interest bearing liabilities from 2011 to 2012 occurred primarily in money market and demand deposits as clients have excess cash and few investment alternatives in the current environment. Time deposits decreased 8.5% or $35.7 million in 2012, 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 2012 as they compared favorably to similar term time deposits. Bancorp had an average of $60.1 million in outstanding FHLB advances in 2012 compared to $60.4 million and $69.2 million in 2011 and 2010, 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.

Bancorp 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. At December 31, 2012 and 2011, federal funds purchased from correspondent banks totaled $16.6 million and $17.3 million, respectively.

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Average Balances and Interest Rates   Taxable Equivalent Basis

	Year 2012			Year 2011			Year 2010		
(Dollars in thousands)	**Average balances**	**Interest**	**Average rate**	**Average balances**	**Interest**	**Average rate**	**Average balances**	**Interest**	**Average rate**
Earning assets									
Federal funds sold	$ 108,828	$ 320	0.29%	$ 86,600	$ 255	0.29%	$ 57,433	$ 138	0.24%
Mortgage loans held for sale	9,191	344	3.74%	5,394	231	4.28%	7,069	339	4.80%
Securities									
Taxable	210,948	5,419	2.57%	163,230	4,954	3.03%	163,945	5,057	3.08%
Tax-exempt	50,430	1,691	3.35%	50,644	1,903	3.76%	35,438	1,705	4.81%
FHLB stock and other securities	6,117	238	3.89%	5,900	220	3.73%	5,717	217	3.80%
Loans, net of unearned income	1,536,620	80,592	5.24%	1,497,275	80,006	5.34%	1,442,571	80,075	5.55%
Total earning assets	1,922,134	88,604	4.61%	1,809,043	87,569	4.84%	1,712,173	87,531	5.11%
Less allowance for loan losses	31,890			27,950			23,085		
	1,890,244			1,781,093			1,689,088		
Non-earning assets									
Cash and due from banks	31,695			27,240			26,990		
Premises and equipment	37,634			34,589			29,349		
Accrued interest receivable and other assets	111,394			116,687			102,025		
Total assets	$ 2,070,967			$ 1,959,609			$ 1,847,452		

	Year 2012			Year 2011			Year 2010		
(Dollars in thousands)	**Average balances**	**Interest**	**Average rate**	**Average balances**	**Interest**	**Average rate**	**Average balances**	**Interest**	**Average rate**
Interest bearing liabilities									
Deposits									
Interest bearing demand deposits	$ 317,017	$ 514	0.16%	$ 281,566	$ 600	0.21%	$ 248,626	482	0.19%
Savings deposits	78,640	61	0.08%	70,290	109	0.16%	65,375	163	0.25%
Money market deposits	539,395	1,797	0.33%	501,792	2,601	0.52%	447,319	3,250	0.73%
Time deposits	383,008	4,794	1.25%	418,750	6,795	1.62%	457,275	9,275	2.03%
Securities sold under agreements to repurchase	59,861	180	0.30%	61,595	253	0.41%	56,919	332	0.58%
	19,431	31	0.16%	21,537	38	0.18%	23,019	45	0.20%

Federal funds purchased and other short-term borrowings									
FHLB advances	60,113	2,461	4.09%	60,436	1,460	2.42%	69,159	2,266	3.28%
Long-term debt	31,474	3,113	9.89%	40,900	3,451	8.44%	40,901	3,454	8.44%
Total interest bearing liabilities	1,488,939	12,951	0.87%	1,456,866	15,307	1.05%	1,408,593	19,267	1.37%
Non-interest bearing liabilities									
Non-interest bearing demand deposits	341,534			277,310			235,644		
Accrued interest payable and other liabilities	42,943			45,795			39,643		
Total liabilities	1,873,416			1,779,971			1,683,880		
Stockholders equity	197,551			179,638			163,572		
Total liabilities and stockholders equity	$ 2,070,967			$ 1,959,609			$ 1,847,452		
Net interest income		$ 75,653			$ 72,262			$ 68,264	
Net interest spread			3.74%			3.79%			3.74%
Net interest margin			3.94%			3.99%			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 $1,703,000, $1,530,000 and $1,385,000 for the years ended December 31, 2012, 2011 and 2010, 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 $1,916,000, $585,000 and $922,000 in 2012, 2011 and 2010, respectively. For 2012, $1,060,000 of the loans fees represent the prepayment penalty on a tax-equivalent basis of one loan payoff.

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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 intended to be held until maturity are carried at amortized cost. 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 is summarized as follows:

(In thousands)	December 31 2012	2011	2010
Securities available for sale			
U.S. Treasury and other U.S. government obligations	$ 98,000	$ 115,001	$
Government sponsored enterprise obligations	85,748	46,186	114,539
Mortgage-backed securities government agencies	140,881	120,495	60,748
Obligations of states and political subdivisions	60,793	69,501	68,789
Trust preferred securities of financial institutions	1,018	1,002	1,256
	$ 386,440	$ 352,185	$ 245,332
Securities held to maturity			
Mortgage-backed securities government agencies	$	$	$ 20
	$	$	$ 20

The maturity distribution and weighted average interest rates of securities at December 31, 2012, are as follows:

(Dollars in thousands)	Within one year Amount	Rate	After one but within five years Amount	Rate	After five but within ten years Amount	Rate	After ten years Amount	Rate
Securities available for sale								
U.S. Treasury and other U.S. government obligations	$ 98,000	-0.03%	$		$		$	
Government sponsored enterprise obligations	22,220	0.50%	44,258	2.49%	6,310	3.25%	12,960	1.46%
Mortgage-backed securities government agencies	227	3.97%			30,872	1.59%	109,782	2.75%

Obligations of states and political subdivisions	9,030	1.92%	28,488	1.82%	23,275	3.33%		
Trust preferred securities of financial institutions							1,018	8.00%
	$ 129,477	0.21%	$ 72,746	2.22%	$ 60,457	2.40%	$ 123,760	2.63%

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The $98 million of U.S. Treasury securities consisted of short-term treasury bills, which matured in January 2013, purchased over year-end as a means to minimize state taxes. Tax savings exceeded the lost principal generated by the 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:

	December 31				
(In thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Commercial and industrial	$ 426,930	$ 393,729	$ 343,956	$ 336,889	$ 348,174
Construction and development	131,253	147,637	159,482	204,653	167,402
Real estate mortgage:					
Commercial investment	414,084	399,655	343,163	326,421	248,308
Owner occupied commercial	304,114	297,121	336,032	230,001	249,164
1-4 family residential	166,280	154,565	157,983	147,342	160,322
Home equity - first lien	39,363	38,637	39,449	41,644	22,973
Home equity - junior lien	65,790	76,687	91,813	108,398	122,535
Subtotal: Real estate mortgage	989,631	966,665	968,440	853,806	803,302
Consumer	36,780	36,814	36,547	40,114	30,759
	$ 1,584,594	$ 1,544,845	$ 1,508,425	$ 1,435,462	$ 1,349,637

Increases in loan categories reflect an overall increase in the size and composition of the loan portfolio, as well as the effect of internal reclassifications of loan types. It was not feasible to obtain comparable amounts for reclassification of prior period presentation.

The increases in the commercial and industrial and commercial real estate categories are the result of a consistent relationship business strategy to serve existing and new clients in Bancorp s local markets. The decrease in the construction and development category since 2009 reflects internal reclassifications of loan types as project completions resulted in permanent financing. Bancorp s focus has not been on housing and commercial construction lending, sources of increased credit risk in the current environment.

Junior lien home equity loans, which comprise 4% of the loan portfolio at December 31, 2012, 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. Bancorp s underwriting criteria has tightened and demand has declined as consumers push to refinance entire debt into first-lien position loans at historic low rates.

Bancorp occasionally enters into loan participation agreements with other banks to diversify credit risk. For certain 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, 2012 and 2011, the total participated portion of loans of this nature were $7.7 million and $30.3 million respectively. For one $40

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million loan, Bancorp participated $25 million to other banks, while retaining certain control. This loan was repaid in 2012, which reduced loan totals by $40 million, but also eliminated other liabilities of $25 million representing the participating amount.

The following tables detail the amounts of commercial and industrial loans, and construction and development loans at December 31, 2012 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.

	Maturing			
(In thousands)	**Within one year**	**After one but within five years**	**After five years**	**Total**
Commercial and industrial	$ 182,834	$ 185,107	$ 58,989	$ 426,930
Construction and development	81,093	32,631	17,529	131,253

	Interest Sensitivity	
Commercial and industrial loans	**Fixed rate**	**Variable rate**
Due after one but within five years	$ 114,154	$ 70,953
Due after five years	48,897	10,092
	$ 163,051	$ 81,045

Non-performing Loans and Assets

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

	December 31				
(Dollars in thousands)	**2012**	**2011**	**2010**	**2009**	**2008**
Non-accrual loans	$ 18,360	$ 18,737	$ 14,388	$ 10,455	$ 4,455
Troubled debt restructuring	10,969	3,402	2,882	753	
Loans past due 90 days or more and still accruing	719	1,160	2,044	893	255
Non-performing loans	30,048	23,299	19,314	12,101	4,710
Foreclosed real estate	7,364	7,773	5,445	1,556	1,560
Other foreclosed property				60	96
Non-performing assets	$ 37,412	$ 31,072	$ 24,759	$ 13,717	$ 6,366
Non-performing loans as a percentage of total loans	1.90%	1.51%	1.28%	0.84%	0.35%
Non-performing assets as a percentage of total assets	1.74%	1.51%	1.30%	0.77%	0.39%
	106%	128%	132%	165%	327%

Allowance for loan loss as a percentage of non- performing loans

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The increase in TDRs from 2011 to 2012 reflects Bancorp s election to work with a limited number of borrowers by providing reasonable concessions, rather than initiate collection and foreclosure. At December 31, 2012, loans accounted for as TDR included modifications from original terms due to bankruptcy proceedings, forgiveness of principal, and modifications of interest rates and amortization periods due to customer financial difficulties. Some loans accounted for as TDR included temporary suspension of principal payments, resulting in payment of interest only. Loans accounted for as TDR, which have not defaulted, are individually evaluated for impairment and, at December 31, 2012, had a total allowance allocation of $295,000, compared to $1,167,000 at December 31, 2011.

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

(in thousands)

Non-accrual loans by type	**December 31, 2012**	**December 31, 2011**
Commercial and industrial	$ 1,554	$ 2,665
Construction and development	10,863	2,416
Real estate mortgage - commercial investment	2,077	5,393
Real estate mortgage - owner occupied commercial	1,529	4,681
Real estate mortgage - 1-4 family residential	2,278	3,342
Home equity	55	146
Consumer	4	94
Total	$ 18,360	$ 18,737

The increase in non-accrual loans in the construction and development classification reflects the effects on borrowers of continuing economic pressures and operating difficulties over the past year. The increase in these non-accrual loans has been confined to a relatively small number of borrowers within the portfolio. Bancorp has seven borrowers, all in its primary market, who account for $13,822,000 or approximately 75% of total non-accrual loans. Each of these loans is secured predominantly by commercial or residential real estate, and management estimates minimal loss exposure after consideration of collateral.

While Bancorp s metrics for net charge-offs and non-performing loans remain at relatively low levels compared to the banking industry, management continues to be concerned that a prolonged recession will place additional pressure on credit quality and result in an increase in the level of non-performing loans. To the extent that Bancorp chooses to work with borrowers by providing reasonable concessions, rather than initiate collection, this could result in an increase in loans accounted for as troubled debt restructuring.

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 $157,000, $391,000, and $250,000 for 2012, 2011, and 2010, respectively. Interest income that would have been recorded if non-accrual loans were on a current basis in accordance with their original terms was $1,167,000, $1,104,000, and $1,192,000 for 2012, 2011, and 2010, 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

$38,957,000, $46,148,000, and $50,051,000 at December 31, 2012, 2011, and 2010, respectively. These loans continue at levels higher than Bancorp experienced pre-recession due to the ongoing economic stress on borrowers witnessed from 2008 through 2012. 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 increased 22 basis points from 2011 to 2012. The increase in non-performing assets as a percentage of total assets was largely due to an increase in loans

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classified as troubled debt restructuring, partially offset by moderate decreases in non-accrual loans and foreclosed real estate. At December 31, 2012 and December 31, 2011, the carrying value of other real estate owned was $7.4 million and $7.8 million, respectively. The recession has resulted in an increase in foreclosures. In 2012, Bancorp recorded impairment charges totaling $1,479,000, compared to $1,737,000 in 2011, based on appraisals of the foreclosed properties and write-downs intended to position Bancorp to move these properties more quickly from the balance sheet. No impairment charges were recorded in 2010 for these properties as management believes these properties were appropriately recorded at lower of cost or market.

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. Management charges loans down to net realizable value if liquidation is inevitable but may take time.

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 the Bank 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 the Bank 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 estimates are based primarily upon collateral value, but 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.

- Allocations for loans not reviewed are totaled by loan category and are assigned a loss allocation factor based upon the Bank s historical net loss percentages by loan type.

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• 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 expected 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.

The method of calculating the allowance requirements has not changed significantly over time. 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.

The adequacy of the allowance for loan losses is monitored by the internal loan review staff and reported quarterly to the Audit and Loan Committees 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.

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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 2012	2011	2010	2009	2008
Average Loans	$ 1,563,918	$ 1,529,556	$ 1,469,116	$ 1,391,644	$ 1,295,711
Balance of allowance for loan losses at beginning of year	$ 29,745	$ 25,543	$ 20,000	$ 15,381	$ 13,450
Loans charged off					
Commercial and industrial	4,523	1,015	1,418	4,925	341
Construction and development	1,726	1,593	2,211	38	109
Real estate mortgage	3,451	5,840	2,450	3,099	1,689
Consumer	798	673	687	1,055	824
Total loans charged off	10,498	9,121	6,766	9,117	2,963
Recoveries of loans previously charged off					
Commercial and industrial	84	108	115	59	31
Construction and development			26	2	
Real estate mortgage	249	158	163	393	236
Consumer	801	457	536	507	577
Total recoveries	1,134	723	840	961	844
Net loans charged off	9,364	8,398	5,926	8,156	2,119
Additions to allowance charged to expense	11,500	12,600	11,469	12,775	4,050
Balance at end of year	$ 31,881	$ 29,745	$ 25,543	$ 20,000	$ 15,381
Ratio of net charge-offs during year to average loans	0.60%	0.55%	0.40%	0.59%	0.16%

See Provision for Loan Losses for discussion of the provision for loan losses and 2012 charge-offs.

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 2012	2011	2010	2009	2008
Commercial and industrial	$ 5,949	$ 7,364	$ 2,796	$ 4,091	$ 2,717
Construction and development	4,536	3,546	3,630	1,518	1,528

Real estate mortgage	14,288	11,182	12,203	6,513	4,065
Consumer	362	540	623	947	1,865
Unallocated	6,746	7,113	6,291	6,931	5,206
	$ 31,881	$ 29,745	$ 25,543	$ 20,000	$ 15,381

The changes in the allocation of the allowance from year to year in various categories are influenced by the

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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 the allocations for each loan category are reflective of the risk inherent in the portfolio.

The unallocated allowance is based upon management s evaluation of various conditions, the effects of which are not directly measured in the determination of the allocated allowance. Additional allowance allocations based on subjective factors are 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 expected credit losses. The conditions evaluated in connection with the unallocated allowance primarily include factors such as economic conditions and forecasts and their potential impact on the loan portfolio, but may also include the adequacy of loan policies and internal controls, the experience of the lending staff, bank regulatory examination results, and changes in the composition of the portfolio.

Selected ratios relating to the allowance for loan losses follow:

	Years ended December 31		
	2012	**2011**	**2010**
Provision for loan losses to average loans	0.74%	0.82%	0.78%
Net charge-offs to average loans	0.60%	0.55%	0.40%
Allowance for loan losses to average loans	2.04%	1.94%	1.74%
Allowance for loan losses to year end loans	2.01%	1.93%	1.69%

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.

The average amount of deposits in the Bank and average rates paid on such deposits for the years indicated are summarized as follows:

	Years ended December 31					
	2012		**2011**		**2010**	
(Dollars in thousands)	**Average balance**	**Average rate**	**Average balance**	**Average rate**	**Average balance**	**Average rate**
Non-interest bearing demand deposits	$ 341,534		$ 277,310		$ 235,644	
Interest bearing demand deposits	317,017	0.16%	281,566	0.21%	248,626	0.19%
Savings deposits	78,640	0.08%	70,290	0.16%	65,375	0.25%
Money market deposits	539,395	0.33%	501,792	0.52%	447,319	0.73%

Time deposits	383,008	1.25%	418,750	1.62%	457,275	2.03%
	$ 1,659,594		$ 1,549,708		$ 1,454,239	

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Maturities of time deposits of $250,000 or more outstanding at December 31, 2012, are summarized as follows:

(In thousands)		Amount
3 months or less	$	15,575
Over 3 through 6 months		3,024
Over 6 through 12 months		12,870
Over 12 months		14,419
	$	45,888

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:

	Years ended December 31								
	2012			2011			2010		
(Dollars in thousands)		Amount	Rate		Amount	Rate		Amount	Rate
Securities sold under agreements to repurchase									
Year end	$	59,045	0.28%	$	66,026	0.30%	$	60,075	0.44%
Average during year		59,861	0.30%		61,595	0.41%		56,919	0.58%
Maximum month end balance during year	$	64,582		$	69,818		$	65,521	

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 qualify as Tier 1 capital, will mature on December 31, 2038, but are callable by Bancorp on or after December 31, 2013. Also in 2008, the Bank issued $10 million of subordinated debt, with a 10 year maturity, and a call option to the Bank two years after issuance. In 2012, Bancorp exercised its call option and prepaid the subordinated debt without penalty. See Note 11 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 the 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 the market rate.

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

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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 $25.1 million at December 31, 2012. 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 $386.4 million at December 31, 2012, and included an unrealized net gain of $9.1 million. The portfolio includes maturities of approximately $129.5 million over the next twelve months, including $118 million of short-term securities which mature in January 2013. 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, 2012, total investment securities pledged for these purposes comprised 41% of the available for sale investment portfolio, leaving $228.4 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, 2012, such deposits totaled $1.406 billion and represented 79% 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, 2012, Bancorp had only $10.5 million or 0.6% 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, the Bank is a member of the FHLB of Cincinnati. As a member of the FHLB, the Bank has access to credit products of the FHLB. The Bank views these borrowings as a low cost alternative to other time deposits. At December 31, 2012, the amount of available credit from the FHLB totaled $132 million. See Note 10 to Bancorp s consolidated financial statements for further information regarding advances from the Federal Home Loan Bank. Also, the Bank has available federal funds purchased lines with correspondent banks totaling $85 million. Bancorp also is eligible to borrow from the Federal Reserve Bank of St. Louis based upon its asset size.

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 the financing activities of the Bank which include raising deposits and the 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 the investment activities of the Bank 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 16 to Bancorp s consolidated financial statements, as of January 1 of any year the Bank may pay dividends up 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 the 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.

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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.

The Bank 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, 2012 are as follows:

		Amount of commitment expiration per period			
(In thousands)	**Total**	**Less than 1 year**	**1-3 Years**	**3-5 Years**	**Over 5 Years**
Unused loan commitments	$ 386,372	$ 235,493	$ 80,577	$ 37,082	$ 33,220
Standby letters of credit	14,757	13,065	1,641	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 10, Note 11, Note 14 and Note 17 to Bancorp s consolidated financial statements for further information on Federal Home Loan Bank advances, subordinated debentures, the defined benefit retirement plan and operating leases.

The required payments under such commitments at December 31, 2012 are as follows:

		Payments due by period			
(In thousands)	**Total**	**Less than 1 year**	**1-3 Years**	**3-5 Years**	**Over 5 Years**
Operating leases	$ 7,814	$ 1,573	$ 1,737	$ 1,737	$ 2,767
Defined benefit retirement plan	3,989	123	168	168	3,530
Time deposit maturities	375,314	241,535	107,148	26,627	4
Federal Home Loan Bank advances	31,882	10,052	20,105	108	1,617
Trust preferred securities	30,900				30,900
Other	2,800	400	800	800	800

Capital

Information pertaining to Bancorp s capital balances and ratios follows:

	Years ended December 31		
(Dollars in thousands, except share data)	**2012**	**2011**	**2010**
Stockholders equity	$ 205,075	$ 187,686	$ 169,861
Dividends per share	0.77	0.72	0.69
Tier 1 risk-based capital	13.17%	12.77%	12.06%
Total risk-based capital	14.42%	14.63%	13.93%
Leverage ratio	10.79%	10.53%	10.31%

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Throughout the financial crisis it is important to note the strengthening of Bancorp s capital position has occurred concurrently with growth in assets, not as a result of shrinkage of the balance sheet. Bancorp intends to maintain capital ratios at these historically high levels at least until such time as the economy demonstrates sustained improvement. 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 2012 to an annual dividend of $0.77, up from $0.72 per share in 2011. This represents a payout ratio of 41.40% based on basic EPS and an annual yield of 3.57% 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. The increase in capital ratios from 2010 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 11 to Bancorp s consolidated financial statements for more detail regarding the subordinated debenture component of capital. Note 21 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 income was $5,421,000 and $5,462,000 at December 31, 2012 and 2011, respectively. The $41,000 decrease is primarily a reflection of the effect of the changing interest rate environment during fiscal year 2012 on the valuation of the Bank s portfolio of securities available for sale.

The following table presents various key financial ratios:

	Years ended December 31		
	2012	**2011**	**2010**
Return on average assets	1.25%	1.20%	1.24%
Return on average stockholders equity	13.06%	13.14%	14.03%
Dividend payout ratio, based on basic EPS	41.40%	42.11%	41.07%
Average stockholders equity to average assets	9.54%	9.17%	8.85%

Fair Value Measurements

Bancorp follows the provisions of the 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. The guidance 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. 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 18 to the consolidated financial statements.

Bancorp s investment securities available for sale and derivative instruments 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.

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The portfolio of investment securities available for sale is comprised of debt securities of the U.S. Treasury and other U.S. government-sponsored corporations, mortgage-backed securities, obligations of state and political subdivisions, and trust preferred securities of other banks. Trust preferred securities are priced using quoted prices of identical securities in an active market, and are classified as Level 1 measurements. 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 securities are classified as Level 2 measurements.

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 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.

Mortgage servicing rights (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, 2012 and 2011 there was no valuation allowance for the MSRs, as the fair value exceeded the carrying value.

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, 2012 and December 31, 2011, the carrying value of other real estate owned was $7,364,000 and $7,773,000, 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, the fair value is calculated as the carrying value of loans with a specific valuation allowance, less the specific allowance. At December 31, 2012 and December 31, 2011, the carrying value of impaired loans was $11,625,000 and $10,021,000, respectively. These measurements are classified as Level 3.

See Note 18 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 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.

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

	December 31,	
(in thousands, except per share data)	**2012**	**2011**
Total equity (a)	$ 205,075	$ 187,686
Less goodwill	(682)	(682)
Tangible common equity (c)	204,393	187,004
Total assets (b)	$ 2,148,262	$ 2,053,097
Less goodwill	(682)	(682)
Total tangible assets (d)	2,147,580	2,052,415
Total shareholders equity to total assets (a/b)	9.55%	9.14%
Tangible common equity ratio (c/d)	9.52%	9.11%
Number of outstanding shares (e)	13,915	13,819
Book value per share (a/e)	$ 14.74	$ 13.58
Tangible common equity per share (c/e)	14.69	13.53

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 2010 through 2012 and to show the impact of prepayment fees and late charges on net interest margin. Prepayment fees and late charges did not have the similar effect of increasing net interest margin during 2011 as they did in other years.

Reconciliation of Net Interest Margin to Normalized

		Year to Date	
	2012	**2011**	**2010**
Net interest margin	3.94%	3.99%	3.99%
Prepayment penalties / late charges	(0.06)	0.02	(0.02)
Normalized net interest margin	3.88%	4.01%	3.97%

Recently Issued Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2012-02, *Intangibles Goodwill and Other*, which allows an entity to make a qualitative assessment to determine whether it is necessary to perform the quantitative impairment test for indefinite-lived intangible assets, other than goodwill. The FASB issued similar guidance for testing goodwill for impairment in September 2011. An entity that elects to perform a qualitative assessment is required to perform the quantitative impairment for an indefinite-lived intangible asset if it is more likely than not that the asset is impaired. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012. Because Bancorp does not have any indefinite-lived intangible assets, other than goodwill, the adoption of ASU 2012-02 is not expected to have an impact on Bancorp s financial statements.

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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:

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Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2012	2011
Assets		
Cash and due from banks	$ 42,610	$ 32,901
Federal funds sold and interest bearing due from banks	25,093	22,019
Mortgage loans held for sale	14,047	4,381
Securities available for sale (amortized cost of $377,383 in 2012 and $343,059 in 2011)	386,440	352,185
Federal Home Loan Bank stock	5,180	4,948
Other securities	1,000	1,001
Loans	1,584,594	1,544,845
Less allowance for loan losses	31,881	29,745
Net loans	1,552,713	1,515,100
Premises and equipment, net	36,532	36,611
Bank owned life insurance	28,149	27,143
Accrued interest receivable	5,091	5,964
Other assets	51,407	50,844
Total assets	$ 2,148,262	$ 2,053,097
Liabilities		
Deposits		
Non-interest bearing	$ 396,159	$ 313,587
Interest bearing	1,385,534	1,304,152
Total deposits	1,781,693	1,617,739
Securities sold under agreements to repurchase	59,045	66,026
Federal funds purchased	16,552	37,273
Accrued interest payable	166	232
Other liabilities	22,949	42,810
Federal Home Loan Bank advances	31,882	60,431
Subordinated debentures	30,900	40,900
Total liabilities	1,943,187	1,865,411
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 13,915,265 shares in 2012 and 13,819,319 shares in 2011	7,273	6,953
Additional paid-in capital	17,731	14,599
Retained earnings	174,650	160,672
Accumulated other comprehensive income	5,421	5,462
Total stockholders equity	205,075	187,686
Total liabilities and stockholders equity	$ 2,148,262	$ 2,053,097

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Income

(In thousands, except per share data)	Years ended December 31, 2012	2011	2010
Interest income			
Loans	$ 79,398	$ 79,049	$ 79,203
Federal funds sold	320	255	138
Mortgage loans held for sale	344	231	339
Securities			
Taxable	5,657	5,174	5,274
Tax-exempt	1,182	1,330	1,192
Total interest income	86,901	86,039	86,146
Interest expense			
Deposits	7,166	10,105	13,170
Securities sold under agreements to repurchase	180	253	332
Federal funds purchased	31	38	45
Federal Home Loan Bank advances	2,461	1,460	2,266
Subordinated debentures	3,113	3,451	3,454
Total interest expense	12,951	15,307	19,267
Net interest income	73,950	70,732	66,879
Provision for loan losses	11,500	12,600	11,469
Net interest income after provision for loan losses	62,450	58,132	55,410
Non-interest income			
Investment management and trust services	14,278	13,841	13,260
Service charges on deposit accounts	8,516	8,348	8,600
Bankcard transaction revenue	3,985	3,722	3,313
Gains on sales of mortgage loans held for sale	4,321	2,122	2,321
Gains on sales of securities available for sale			159
Brokerage commissions and fees	2,593	2,219	2,136
Bank owned life insurance income	1,006	1,019	995
Other	3,758	1,973	2,955
Total non-interest income	38,457	33,244	33,739
Non-interest expenses			
Salaries and employee benefits	37,960	33,125	33,485
Net occupancy expense	5,651	5,192	4,934
Data processing expense	5,278	5,014	4,834
Furniture and equipment expense	1,306	1,299	1,272
FDIC insurance	1,494	1,655	2,038
Loss (gain) on other real estate owned	1,410	1,716	(11)
Other	12,373	11,580	10,579
Total non-interest expenses	65,472	59,581	57,131
Income before income taxes	35,435	31,795	32,018
Income tax expense	9,634	8,191	9,065
Net income	$ 25,801	$ 23,604	$ 22,953

Net income per share, basic	$	1.86	$	1.71	$	1.68
Net income per share, diluted	$	1.85	$	1.71	$	1.67

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Comprehensive Income

(In thousands)	Years ended December 31, 2012	2011	2010
Net income	$ 25,801	$ 23,604	$ 22,953
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 $(24), $1,362, and $580, respectively)	(45)	2,530	1,076
Reclassification adjustment for securities gains realized in income (net of tax of $0, $0, and $(56), respectively)			(103)
Minimum pension liability adjustment (net of tax of $2, $(111), and $(17), respectively)	4	(207)	(33)
Other comprehensive (loss) income	(41)	2,323	940
Comprehensive income	$ 25,760	$ 25,927	$ 23,893

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Cash Flows

(in thousands)	2012	2011	2010
		Years ended December 31	
Operating activities			
Net income	$ 25,801	$ 23,604	$ 22,953
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	11,500	12,600	11,469
Depreciation, amortization and accretion, net	4,964	4,019	3,274
Deferred income tax benefit	(2,933)	(2,068)	(1,556)
Gain on sale of securities available for sale			(159)
Gains on sales of mortgage loans held for sale	(4,321)	(2,122)	(2,321)
Origination of mortgage loans held for sale	(241,128)	(126,306)	(173,112)
Proceeds from sale of mortgage loans held for sale	235,783	136,434	176,295
Bank owned life insurance income	(1,006)	(1,019)	(995)
(Increase) decrease in value of private investment fund	(637)	421	(606)
Proceeds from liquidation of private investment fund	2,846		
Loss on the sale of foreclosed assets	1,410	1,716	27
Loss on the disposal of equipment	190	382	2
Stock compensation expense	1,481	1,165	952
Excess tax benefits from share-based compensation arrangements	(83)	(125)	(140)
Decrease (increase) in accrued interest receivable and other assets	769	3,533	(6,959)
(Decrease) increase in accrued interest payable and other liabilities	(19,840)	(7,805)	7,520
Net cash provided by operating activities	14,796	44,429	36,644
Investing activities			
Purchases of securities available for sale	(488,390)	(404,514)	(254,332)
Proceeds from sale of securities available for sale			27,064
Proceeds from maturities of securities available for sale	452,447	300,620	210,907
Proceeds from maturities of securities held to maturity		20	15
Net increase in loans	(53,599)	(57,037)	(84,559)
Purchases of premises and equipment	(3,301)	(8,249)	(6,173)
Proceeds from disposal of equipment	3	7	4
Proceeds from sale of foreclosed assets	2,976	7,206	1,808
Net cash used in investing activities	(89,864)	(161,947)	(105,266)
Financing activities			
Net increase in deposits	163,954	124,271	75,284
Net (decrease) increase in securities sold under agreements to repurchase and federal funds purchased	(27,702)	17,788	14,672
Net (decrease) increase in other short-term borrowings		(1,998)	189
Proceeds from Federal Home Loan Bank advances	31,462		50,000
Repayments of Federal Home Loan Bank advances	(60,011)	(11)	(50,011)
Prepayment penalty on modification of Federal Home Loan Bank advances			(1,336)
Repayments of subordinated debentures	(10,000)		(30)
Issuance of common stock for options and dividend reinvestment plan	961	705	1,106
Excess tax benefits from share-based compensation arrangements	83	125	140
Common stock repurchases	(205)	(167)	(396)
Cash dividends paid	(10,691)	(9,930)	(11,765)
Net cash provided by financing activities	87,851	130,783	77,853

Net increase in cash and cash equivalents		12,783		13,265		9,231
Cash and cash equivalents at beginning of year		54,920		41,655		32,424
Cash and cash equivalents at end of period	$	67,703	$	54,920	$	41,655
Supplemental cash flow information:						
Income tax payments	$	10,685	$	4,611	$	8,945
Cash paid for interest		13,017		15,379		19,390
Supplemental non-cash activity:						
Transfers from loans to foreclosed assets	$	4,486	$	12,219	$	5,776

See accompanying notes to consolidated financial statements.

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Consolidated Statements of Changes in Stockholders Equity

	Three years ended December 31, 2012					
	Common stock					
(In thousands, except per share data)	Number of shares	Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance December 31, 2009	13,607	$ 6,244	$ 9,729	$ 135,442	$ 2,199	$ 153,614
Net income				22,953		22,953
Other comprehensive income, net of tax					940	940
Stock compensation expense			952			952
Shares issued for stock options exercised	93	311	919			1,230
Shares issued for dividend reinvestment plan	1	2	14			16
Shares issued for non-vested restricted stock	54	181	961	(1,142)		
Cash dividends, $0.69 per share				(9,448)		(9,448)
Shares repurchased and cancelled	(18)	(59)	(369)	32		(396)
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
Shares issued for stock options exercised	47	157	493			650
Shares issued for dividend reinvestment plan	1	2	11			13
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
Shares issued for stock options exercised	69	230	1,146	(2)		1,374
Shares issued for dividend reinvestment plan	1	3	20			23
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

See accompanying notes to consolidated financial statements.

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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 is a Delaware statutory trust that is a wholly-owned unconsolidated finance subsidiary of S.Y. Bancorp, Inc. Significant intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the 2012 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, the Bank has an investment management and trust department offering a wide range of trust administration, investment management, retirement planning, estate administration and financial planning services. The Bank s primary market area is Louisville, Kentucky and surrounding communities including southern Indiana. Other markets include Indianapolis, Indiana where the Bank has three full service branches, and Cincinnati, Ohio where the Bank 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 accounting principles generally accepted in the United States of America (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 and Cash Equivalents

Cash and cash equivalents include cash and due from banks and Federal funds sold as segregated in the accompanying consolidated balance sheets.

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 the 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 the fair value has been less than cost, the 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 the 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 an entity 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 3 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 mortgage 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. For each loan in the portfolio there is a commitment to purchase by an investor.

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 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. 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 the prospects for recovering both principal and accrued interest are reasonably assured. Loans are accounted for as troubled debt restructuring when the Bank, 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 the Bank 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 maintained at a level that adequately provides for probable losses inherent in the loan portfolio. Management determines the adequacy of the allowance based on consideration of the following principal elements:

- Specific allocations are based upon probable losses on individually evaluated impaired loans. These estimates are based primarily upon collateral value less a discount representing estimated liquidation costs, but other objective factors such as payment history and financial condition of the borrower or guarantor may be considered 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.

- Allocations for loans not reviewed are totaled by loan category and are assigned a loss allocation factor based upon the Bank s historical net loss percentages by loan type.

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- Additional allowance allocations are included based on subjective factors not necessarily associated with a specific credit or loan category which 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 expected 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.

The adequacy of the allowance for loan losses is monitored by the internal loan review staff and reported quarterly to management and the Audit and Loan Committees 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.

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, the Bank 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.

Mortgage servicing rights (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.

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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 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, 2012 and 2011 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, 2012 and 2011, the gross amount of unrecognized tax benefits was $70,000 and $101,000, respectively. If recognized, all of the tax benefits would increase net income, resulting in a decrease in the effective tax rate. The amount of unrecognized tax benefits may increase or decrease in the future for various reasons, including adding amounts for current year tax 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, 2012 and 2011, the amount accrued for the potential payment of interest and penalties was $4,000 and $7,000, 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.

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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, net of taxes, and minimum pension liability adjustments, net of taxes.

Segment Information

The Bank provides a broad range of financial services to individuals, corporations and others through its thirty-one full service banking locations as of December 31, 2012. These services include lending and deposit services, cash management services, securities brokerage activities, mortgage origination and investment management and trust activities. The Bank 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 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 a correspondent bank 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.

Bancorp s interest rate swaps are recognized as other assets and liabilities in the consolidated balance sheet at fair value. Bancorp s derivative instruments have not been designated as hedging instruments. These undesignated 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.

Recently Adopted Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (Topic 820)-Fair Value Measurement* (ASU 2011-04), to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements particularly for level 3 fair value measurements. ASU 2011-04 was effective for Bancorp during the first quarter of fiscal 2012 and was applied prospectively.

(2) Restrictions on Cash and Due from Banks

The Bank 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 $859,000 and $679,000 at December 31, 2012 and 2011, respectively.

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(3) Securities

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

December 31, 2012 **Securities available for sale** **(in thousands)**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
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	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	$ 377,383	$ 9,245	$ 188	$ 386,440

December 31, 2011 **Securities available for sale** **(in thousands)**	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Treasury and other U.S. government obligations	$ 115,001	$	$	$ 115,001
Government sponsored enterprise obligations	43,349	2,837		46,186
Mortgage-backed securities	116,954	3,564	23	120,495
Obligations of states and political subdivisions	66,755	2,779	33	69,501
Trust preferred securities of financial institutions	1,000	2		1,002
Total securities available for sale	$ 343,059	$ 9,182	$ 56	$ 352,185

No securities were sold in 2012 or 2011. There are no securities held to maturity as of December 31, 2012 or 2011.

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 borrowing availability, and are classified as restricted securities. Other securities consist of a Community Reinvestment Act (CRA) investment which matures in 2014, and is fully collateralized with a government agency security of similar duration.

Bancorp reviewed the investment in FHLB Stock as of December 31, 2012, considering the FHLB equity position, its continuance of dividend payments, liquidity position, and positive year-to-date net income. Based on this review, Bancorp is of the opinion that its investment in FHLB stock is not impaired.

A summary of the available for sale investment securities by maturity groupings as of December 31, 2012 is shown below. Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations. The investment portfolio includes agency mortgage-backed securities, which are

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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 on the underlying collateral. Bancorp does not have exposure to subprime originated mortgage-backed or collateralized debt obligation instruments.

Securities available for sale (in thousands)		**Amortized Cost**		**Fair Value**
Due within 1 year	$	129,136	$	129,251
Due after 1 but within 5 years		69,706		72,746
Due after 5 but within 10 years		27,354		29,585
Due after 10 years		13,780		13,977
Mortgage-backed securities		137,407		140,881
Total securities available for sale	$	377,383	$	386,440

Securities with a carrying value of approximately $158.2 million at December 31, 2012 and $125.4 million at December 31, 2011 were pledged to secure the accounts of commercial depositors in cash management accounts, public deposits, and cash balances for certain investment management and trust accounts.

At year end 2012 and 2011, 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, 2012 and 2011, not recognized in income are as follows:

	Less than 12 months				**12 months or more**				**Total**			
(In thousands)		**Fair Value**		**Unrealized Losses**		**Fair Value**		**Unrealized Losses**		**Fair Value**		**Unrealized Losses**
December 31, 2012												
Government sponsored enterprise obligations	$	29,996	$	56	$		$		$	29,996		56
Mortgage-backed securities		16,609		120	$		$		$	16,609	$	120
Obligations of states and political subdivisions		2,292		12						2,292		12
Total temporarily impaired securities	$	48,897	$	188	$		$		$	48,897	$	188
December 31, 2011												
Mortgage-backed securities	$	5,122	$	23	$		$			5,122		23
Obligations of states and political subdivisions		2,644		17		1,021		16		3,665		33
Total temporarily impaired securities	$	7,766	$	40	$	1,021	$	16	$	8,787	$	56

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. The fair value is expected to recover as the securities reach their maturity date and/or the interest rate environment returns to conditions similar to when the securities were purchased. These investments consist of 14 and 5 separate investment positions as of December 31, 2012 and 2011, 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

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bases, which may be maturity, Bancorp does not consider these securities to be other-than-temporarily impaired at December 31, 2012.

(4) Loans

The composition of loans by primary loan portfolio segment follows:

	December 31,	
(In thousands)	**2012**	**2011**
Commercial and industrial	$ 426,930	$ 393,729
Construction and development	131,253	147,637
Real estate mortgage:	989,631	966,665
Consumer	36,780	36,814
	$ 1,584,594	$ 1,544,845

Loan balances include net deferred loan fees of $47,000 at December 31, 2012 and $32,000 at December 31, 2012. The Bank s credit exposure is diversified with secured and unsecured loans to individuals and businesses. No specific industry concentration exceeds ten percent of loans. While the Bank 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 the Bank 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 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 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, 2012 and 2011, the total participated portions of loans of this nature were $7,658,000 and $30,324,000 respectively.

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.

	Year ended December 31,	
Loans to directors and executive officers	**2012**	**2011**
Balance as of January 1	$ 622	$ 642
New loans and advances on lines of credit	6,691	11,924
Repayments on loans and lines of credit	1,214	11,944
Balance as of December 31	$ 6,099	$ 622

The higher amounts of advances and repayments in 2011 are attributable to the implementation of daily sweep features on a working capital line of credit to a company owned by one director.

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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, 2012, 2011 and 2010.

December 31, 2012 (in thousands)	**Type of loan** Commercial and industrial	**Construction and development**	**Real estate mortgage**	**Consumer**	**Total**
Loans					
Balance	$ 426,930	$ 131,253	$ 989,631	$ 36,780	$ 1,584,594
Balance: loans individually evaluated for impairment	$ 8,667	$ 10,863	$ 9,795	$ 4	$ 29,329
Balance: loans collectively evaluated for impairment	$ 418,263	$ 120,390	$ 979,836	$ 36,776	$ 1,555,265

	Commercial and industrial	**Construction and development**	**Real estate mortgage**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses						
Beginning balance 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
Ending balance December 31, 2012	$ 5,949	$ 4,536	$ 14,288	$ 362	$ 6,746	$ 31,881
Balance: allowance for loans individually evaluated for impairment	$ 156	$ 2,898	$ 563	$		$ 3,617
Balance: allowance for loans collectively evaluated for impairment	$ 5,793	$ 1,638	$ 13,725	$ 362	$ 6,746	$ 28,264

December 31, 2011 (in thousands)	**Type of loan** Commercial and industrial	**Construction and development**	**Real estate mortgage**	**Consumer**	**Total**
Loans					
Balance	$ 393,729	$ 147,637	$ 966,665	$ 36,814	$ 1,544,845
Balance: loans individually evaluated for impairment	$ 5,459	$ 2,416	$ 14,170	$ 94	$ 22,139
Balance: loans collectively evaluated for impairment	$ 388,270	$ 145,221	$ 952,495	$ 36,720	$ 1,522,706

	Commercial and industrial	**Construction and development**	**Real estate mortgage**	**Consumer**	**Unallocated**	**Total**
Allowance for loan losses						
Beginning balance 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

Ending balance December 31, 2011	$ 7,364	$ 3,546	$ 11,182	$ 540	$ 7,113	$ 29,745
Balance: allowance for loans individually evaluated for impairment	$ 954	$ 10	$ 1,597	$		$ 2,561
Balance: allowance for loans collectively evaluated for impairment	$ 6,410	$ 3,536	$ 9,585	$ 540	$ 7,113	$ 27,184

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December 31, 2010 (in thousands)	Type of Loan: Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Total
Loans					
Balance	$ 343,956	$ 159,482	$ 968,440	$ 36,547	$ 1,508,425
Balance: loans individually evaluated for impairment	$ 520	$ 700	$ 15,955	$ 95	$ 17,270
Balance: loans collectively evaluated for impairment	$ 343,436	$ 158,782	$ 952,485	$ 36,452	$ 1,491,155

	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance December 31, 2009	$ 4,091	$ 1,518	$ 6,513	$ 947	$ 6,931	$ 20,000
Provision	8	2,947	8,046	(173)	641	11,469
Charge-offs	(1,418)	(2,211)	(2,450)	(687)		(6,766)
Recoveries	115	26	163	536		840
Ending balance December 31, 2010	$ 2,796	$ 2,280	$ 12,272	$ 623	$ 7,572	$ 25,543
Balance: allowance for loans individually evaluated for impairment	$ 90	$	$ 1,724	$		$ 1,814
Balance: allowance for loans collectively evaluated for impairment	$ 2,706	$ 2,280	$ 10,548	$ 623	$ 7,572	$ 23,729

Bancorp did not have any loans acquired with deteriorated credit quality at December 31, 2012 or 2011.

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
- Real estate mortgage
- Consumer

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The following table presents loans individually evaluated for impairment as of December 31, 2012, 2011 and 2010.

December 31, 2012 (in thousands)	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	352	2,187		2,097
Real estate mortgage	6,996	7,752		5,397
Consumer	4	25		21
Subtotal	14,087	17,555		13,741
Loans with an allowance recorded				
Commercial and industrial	1,932	5,103	156	3,294
Construction and development	10,511	11,135	2,898	5,929
Real estate mortgage	2,799	2,948	563	6,145
Consumer				
Subtotal	15,242	19,186	3,617	15,368
Total				
Commercial and industrial	$ 8,667	$ 12,694	$ 156	$ 9,520
Construction and development	10,863	13,322	2,898	8,026
Real estate mortgage	9,795	10,700	563	11,542
Consumer	4	25		21
Total	$ 29,329	$ 36,741	$ 3,617	$ 29,109

December 31, 2011 (in thousands)	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment
Loans with no related allowance recorded				
Commercial and industrial	$ 694	$ 920		$ 951
Construction and development	2,316	2,316		1,979
Real estate mortgage	6,453	6,453		6,353
Consumer	94	94		83
Subtotal	9,557	9,783		9,366
Loans with an allowance recorded				
Commercial and industrial	4,765	6,415	954	2,447
Construction and development	100	100	10	20
Real estate mortgage	7,717	11,962	1,597	7,249
Consumer				10
Subtotal	12,582	18,477	2,561	9,726
Total				
Commercial and industrial	$ 5,459	$ 7,335	$ 954	$ 3,398
Construction and development	2,416	2,416	10	1,999
Real estate mortgage	14,170	18,415	1,597	13,602
Consumer	94	94		93
Total	$ 22,139	$ 28,260	$ 2,561	$ 19,092

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December 31, 2010 (in thousands)	**Recorded investment**	**Unpaid principal balance**	**Related allowance**	**Average Recorded Investment**
Loans with no related allowance recorded				
Commercial and industrial	$ 420	$ 1,982		$ 250
Construction and development	700	700		350
Real estate mortgage	8,720	9,455		5,565
Consumer	95	140		64
Subtotal	9,935	12,277		6,229
Loans with an allowance recorded				
Commercial and industrial	$ 100	$ 292	$ 90	$ 373
Construction and development				2,123
Real estate mortgage	7,235	7,235	1,724	5,515
Consumer				
Subtotal	7,335	7,527	1,814	8,011
Total				
Commercial and industrial	$ 520	$ 2,274	$ 90	$ 623
Construction and development	700	700		2,473
Real estate mortgage	15,955	16,690	1,724	11,080
Consumer	95	140		64
Total	$ 17,270	$ 19,804	$ 1,814	$ 14,240

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

Interest income on impaired or non-accrual loans (cash basis) was $157,000, $391,000 and $250,000 in 2012, 2011, and 2010, respectively. Interest income that would have been recorded if non-accrual loans were on a current basis in accordance with their original terms was $1,167,000, $1,104,000 and $1,192,000 in 2012, 2011 and 2010, 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 $719,000 and $1,160,000 at December 31, 2012 and 2011, respectively.

The following table presents the recorded investment in non-accrual loans as of December 31, 2012 and 2011.

(In thousands)	**2012**	**2011**
Commercial and industrial	$ 1,554	$ 2,665
Construction and development	10,863	2,416
Real estate mortgage	5,939	13,562
Consumer	4	94
Total	$ 18,360	$ 18,737

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On December 31, 2012 and 2011, Bancorp had $11.0 million and $3.4 million of loans classified as TDRs, respectively. The following table presents the recorded investment in loans modified and classified as TDRs during the years ended December 31, 2012 and 2011.

December 31, 2012 (dollars in thousands)	**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

December 31, 2011 (dollars in thousands)	**Number of contracts**	**Pre-modification outstanding recorded investment**	**Post-modification outstanding recorded investment**
Commercial & industrial	4	$ 2,794	$ 2,794
Real estate mortgage	2	2,099	2,099
Total	6	$ 4,893	$ 4,893

The following table presents the recorded investment in loans accounted for as TDR that experienced a payment default during the year ending December 31, 2012 and 2011.

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

December 31, 2011 (dollars in thousands)	**Number of Contracts**	**Recorded investment**
Real estate mortgage	1	$ 1,737
Total	1	$ 1,737

Prior to 2011, Bancorp had not experienced loans accounted for as TDR that subsequently defaulted. The loans in the 2012 table directly above are related to one borrower and management estimates minimal loss exposure to this credit after consideration of collateral. At December 31, 2012, loans accounted for as TDR included modifications from original terms due to bankruptcy proceedings and modifications of amortization periods due to customer financial difficulties. Some loans accounted for as TDRs included temporary suspension of principal payments, resulting in payment of interest only. There has been no forgiveness of principal for loans accounted for as TDRs. Loans accounted for as TDRs, which have not defaulted, are individually evaluated for impairment and, at December 31, 2012, had a total allowance allocation of $295,000, compared to $1,167,000 at December 31, 2011.

At December 31, 2012, Bancorp had outstanding commitments to lend additional funds totaling $187,000 to borrowers who have had loans modified as TDRs. At December 31, 2011, there were no outstanding commitments for loans modified as TDRs.

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The following table presents the aging of the recorded investment in past due loans as of December 31, 2012 and 2011.

(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, 2012							
Commercial and industrial							