UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended September 30, 2013

OR

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

For the transition period from to .

Commission file number 1-13661

S.Y. BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky	**61-1137529**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)

1040 East Main Street, Louisville, Kentucky 40206

(Address of principal executive offices including zip code)

(502) 582-2571

(Registrant s telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 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 (Do not check if a smaller reporting company)	o	**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 number of shares of the registrant s Common Stock, no par value, outstanding as of October 30, 2013, was 14,565,559.

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S.Y. BANCORP, INC. AND SUBSIDIARY

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S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Balance Sheets

September 30, 2013 and December 31, 2012

(In thousands, except share data)

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	$ 47,048	$ 42,610
Federal funds sold	23,472	25,093
Mortgage loans held for sale	3,829	14,047
Securities available for sale (amortized cost of $400,498 in 2013 and $377,383 in 2012)	401,063	386,440
Federal Home Loan Bank stock	6,334	5,180
Other securities	1,013	1,000
Loans	1,709,258	1,584,594
Less allowance for loan losses	28,990	31,881
Net loans	1,680,268	1,552,713
Premises and equipment, net	39,989	36,532
Bank owned life insurance	28,920	28,149
Accrued interest receivable	5,507	5,091
Other assets	52,312	51,407
Total assets	$ 2,289,755	$ 2,148,262
Liabilities and Stockholders Equity		
Deposits:		
Non-interest bearing	$ 429,297	$ 396,159
Interest bearing	1,453,154	1,385,534
Total deposits	1,882,451	1,781,693
Securities sold under agreements to repurchase	56,225	59,045
Federal funds purchased	31,861	16,552
Accrued interest payable	128	166
Other liabilities	29,233	22,949
Federal Home Loan Bank advances	32,422	31,882
Subordinated debentures	30,900	30,900
Total liabilities	2,063,220	1,943,187
Stockholders equity:		
Preferred stock, no par value. Authorized 1,000,000 shares; no shares issued or outstanding		
Common stock, no par value. Authorized 20,000,000 shares; issued and outstanding 14,553,552 and 13,915,265 shares in 2013 and 2012, respectively	9,398	7,273
Additional paid-in capital	31,618	17,731
Retained earnings	185,618	174,650
Accumulated other comprehensive (loss) income	(99)	5,421
Total stockholders equity	226,535	205,075
Total liabilities and stockholders equity	$ 2,289,755	$ 2,148,262

See accompanying notes to unaudited consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Income

For the three and nine months ended September 30, 2013 and 2012 (Unaudited)

(In thousands, except per share data)

	For three months ended September 30, 2013	For three months ended September 30, 2012	For nine months ended September 30, 2013	For nine months ended September 30, 2012
Interest income:				
Loans	$ 20,233	$ 19,874	$ 58,762	$ 59,227
Federal funds sold	63	82	215	216
Mortgage loans held for sale	57	98	177	217
Securities taxable	1,626	1,379	4,388	4,309
Securities tax-exempt	288	259	853	898
Total interest income	22,267	21,692	64,395	64,867
Interest expense:				
Deposits	1,209	1,725	3,833	5,652
Fed funds purchased	9	8	26	24
Securities sold under agreements to repurchase	38	46	106	138
Federal Home Loan Bank advances	221	345	657	1,072
Subordinated debentures	773	773	2,318	2,341
Total interest expense	2,250	2,897	6,940	9,227
Net interest income	20,017	18,795	57,455	55,640
Provision for loan losses	1,325	2,475	4,975	9,025
Net interest income after provision for loan losses	18,692	16,320	52,480	46,615
Non-interest income:				
Investment management and trust services	4,017	3,515	12,032	10,675
Service charges on deposit accounts	2,348	2,161	6,592	6,341
Bankcard transaction revenue	1,087	985	3,068	2,967
Gains on sales of mortgage loans held for sale	659	1,277	2,333	2,882
Loss on sales of securities available for sale			(5)	
Brokerage commissions and fees	456	651	1,693	1,844
Bank owned life insurance income	260	226	771	743
Gain on acquisition			449	
Other	825	980	2,258	2,878
Total non-interest income	9,652	9,795	29,191	28,330
Non-interest expenses:				
Salaries and employee benefits	10,508	9,711	30,186	28,189
Occupancy	1,522	1,365	4,188	4,198
Data processing	1,520	1,296	4,695	4,131
Furniture and equipment	269	347	846	965
FDIC insurance	348	398	1,055	1,095
Acquisition costs			1,548	
Other	3,404	3,928	9,454	9,711
Total non-interest expenses	17,571	17,045	51,972	48,289
Income before income taxes	10,773	9,070	29,699	26,656
Income tax expense	3,091	2,388	8,842	7,369
Net income	7,682	6,682	20,857	19,287
Net income per share:				

Basic	$ 0.53	$ 0.48	$ 1.47	$ 1.39
Diluted	$ 0.53	$ 0.48	$ 1.47	$ 1.38
Average common shares:				
Basic	14,408	13,883	14,144	13,867
Diluted	14,556	13,966	14,228	13,929

See accompanying notes to unaudited consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the three and nine months ended September 30, 2013 and 2012 (Unaudited)

(In thousands)

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Net income	$ 7,682	$ 6,682	$ 20,857	$ 19,287
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities available for sale:				
Unrealized gains (losses) arising during the period (net of tax of $45, $202, ($2,974) and $432, respectively)	83	375	(5,523)	802
Reclassification adjustment for securities losses realized in income (net of tax of $0, $0, $2, and $0, respectively)			3	
Other comprehensive income (loss)	83	375	(5,520)	802
Comprehensive income	$ 7,765	$ 7,057	$ 15,337	$ 20,089

See accompanying notes to unaudited consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2013 and 2012 (Unaudited)

(In thousands)

	2013	2012
Operating activities:		
Net income	$ 20,857	$ 19,287
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	4,975	9,025
Depreciation, amortization and accretion, net	4,940	4,259
Deferred income tax benefit	(1,229)	(1,487)
Gain on sales of mortgage loans held for sale	(2,333)	(2,882)
Origination of mortgage loans held for sale	(129,742)	(166,297)
Proceeds from sale of mortgage loans held for sale	142,293	160,143
Bank owned life insurance income	(771)	(743)
Increase decrease in value of private investment fund		(637)
Proceeds from liquidation of private investment fund		2,846
Loss on the disposal of premises and equipment	22	47
Loss on the sale of other real estate	365	1,177
Gain on acquisition	(449)	
Stock compensation expense	1,473	1,118
Excess tax benefits from share-based compensation arrangements	(109)	(57)
Decrease (increase) in accrued interest receivable and other assets	3,683	(1,956)
Increase in accrued interest payable and other liabilities	4,498	3,394
Net cash provided by operating activities	48,473	27,237
Investing activities:		
Purchases of securities available for sale	(282,262)	(330,192)
Proceeds from sale of securities available for sale	701	
Proceeds from maturities of securities available for sale	337,762	321,404
Net increase in loans	(95,157)	(44,306)
Purchases of premises and equipment	(1,807)	(3,231)
Acquisition, net of cash acquired	8,963	
Proceeds from sale of foreclosed assets	3,102	2,475
Net cash used in investing activities	(28,698)	(53,850)
Financing activities:		
Net (decrease) increase in deposits	(19,677)	72,291
Net increase (decrease) in securities sold under agreements to repurchase and federal funds purchased	9,727	(29,864)
Proceeds from Federal Home Loan Bank advances	575	30,000
Repayments of Federal Home Loan Bank advances	(35)	(30,008)
Prepayment penalty on modification of Federal Home Loan Bank advances		(872)
Repayments of subordinated debentures		(10,000)
Issuance of common stock for options and dividend reinvestment plan	1,260	585
Excess tax benefits from share-based compensation arrangements	109	57
Common stock repurchases	(315)	(204)
Cash dividends paid	(8,602)	(7,909)
Net cash (used in) provided by financing activities	(16,958)	24,076
Net increase (decrease) in cash and cash equivalents	2,817	(2,537)
Cash and cash equivalents at beginning of period	67,703	54,920

Cash and cash equivalents at end of period	$	70,520	$	52,383
Supplemental cash flow information:				
Income tax payments	$	6,230	$	8,025
Cash paid for interest		6,984		9,257
Supplemental non-cash activity:				
Transfers from loans to other real estate owned	$	2,382	$	3,336

See accompanying notes to unaudited consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Statement of Changes in Stockholders Equity

For the nine months ended September 30, 2013 (Unaudited)

(In thousands, except per share data)

	Common stock Number of shares	Common stock Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance December 31, 2012	13,915	$ 7,273	$ 17,731	$ 174,650	$ 5,421	$ 205,075
Net income				20,857		20,857
Other comprehensive loss, net of tax					(5,520)	(5,520)
Stock compensation expense			1,473			1,473
Stock issued for exercise of stock options and dividend reinvestment plan, net of withholdings to satisfy employee tax obligations upon vesting of stock awards	93	309	1,784	(124)		1,969
Stock issued for non-vested restricted stock	55	184	1,083	(1,267)		
Stock issued for acquisition	531	1,769	10,429			12,198
Cash dividends, $0.60 per share				(8,602)		(8,602)
Shares repurchased or cancelled	(40)	(137)	(882)	104		(915)
Balance September 30, 2013	14,554	$ 9,398	$ 31,618	$ 185,618	$ (99)	$ 226,535

See accompanying notes to unaudited consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

(1) Summary of Significant Accounting Policies

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and footnotes required by U.S. generally accepted accounting principles (US GAAP) for complete financial statements. The unaudited consolidated financial statements of S.Y. Bancorp, Inc. (Bancorp) and its subsidiary reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of financial condition and results of operations for the interim periods. Interim results for the three and nine month periods ended September 30, 2013 are not necessarily indicative of the results for the entire year.

The unaudited consolidated financial statements include the accounts of S.Y. Bancorp, Inc. and its wholly-owned subsidiary, Stock Yards Bank & Trust Company (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.

A description of significant accounting policies is presented in the notes to the consolidated financial statements for the year ended December 31, 2012 included in S.Y. Bancorp, Inc. s Annual Report on Form 10-K.

Certain reclassifications have been made in the prior year financial statements to conform to current year classifications.

Critical Accounting Policies

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 by a higher or lower provision for loan losses. The accounting policy related to the allowance for loan losses is applicable to the commercial banking segment of Bancorp.

The allowance for loan losses is management s estimate of probable losses in the loan portfolio. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Prior to the third quarter of 2013, management measured the appropriateness of the allowance for loan losses in its entirety using (a) quantitative (historical loss rates) and qualitative factors (management adjustment factors) such as economic outlook and business conditions, and level and trend in delinquencies; which were combined with the historical loss rates to create the baseline factors that were allocated to the various loan categories; (b) specific allocations on impaired loans, and (c) an unallocated amount. The unallocated amount was evaluated on the loan portfolio in its entirety and was based on additional factors, such as national and local economic trends and conditions, changes in volume and severity of past due loans, volume of non-accrual loans, volume and severity of adversely classified or graded loans and other factors and trends that affect specific loans and categories of loans, such as a heightened risk in the commercial and industrial loan portfolios.

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

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

Acquired loans

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

Acquired loans that had evidence of deterioration in credit quality since origination and for which it was probable, at acquisition, that Bancorp will be unable to collect all contractually required payments were specifically identified and analyzed. The excess of cash flows expected at acquisition over the estimated fair value is referred to as accretable discount and will be recognized as interest income over the remaining life of the loan. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as non-accretable discount. The non-accretable discount represents estimated future credit losses expected to be incurred over the life of the loan. Subsequent decreases to the expected cash flows require Bancorp to evaluate the need for an allowance for loan losses on these loans. Subsequent improvements in expected cash flows will result in the reversal of a corresponding amount of the non-accretable discount which Bancorp will reclassify as an accretable discount that will be recognized into interest income over the remaining life of the loan using the interest

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method. Bancorp s evaluation of the amount of future cash flows that it expects to collect is performed in a similar manner as that used to determine its allowance for loan losses. Charge-offs of the principal amount on credit-impaired acquired loans would be first applied to non-accretable discount.

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

(2) Acquisition

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

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

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

(amounts in thousands)

Purchase price:		
Cash	$	8,297
Equity instruments (531,288 common shares of Bancorp)		12,198
Total purchase price		20,495
Identifiable assets:		
Cash and federal funds sold		17,260
Investment securities		81,827
Loans		39,755
Premises and equipment		4,008
Core deposit intangible		2,543
Other assets		605
Total identifiable assets		145,998
Identifiable liabilities:		
Deposits		120,435
Securities sold under agreement to repurchase		2,762
Other liabilities		1,857
Total identifiable liabilities		125,054
Net gain resulting from acquisition	$	449
Acquisition costs (included in other non-interest expenses in Bancorp s income statement for the nine months ended September 30, 2013)	$	1,548

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

In the second quarter of 2013, Bancorp recorded a core deposit intangible of $2,543,000 which is being amortized over a ten year period using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. At September 30, 2013, the unamortized core deposit intangible was $2,298,000.

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

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

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

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

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

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

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(3) Securities

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

(in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
September 30, 2013				
U.S. Treasury and other U.S. government obligations	$ 40,000	$	$	$ 40,000
Government sponsored enterprise obligations	124,621	1,937	1,484	125,074
Mortgage-backed securities	165,636	2,156	3,151	164,641
Obligations of states and political subdivisions	70,241	1,562	455	71,348
Total securities available for sale	$ 400,498	$ 5,655	$ 5,090	$ 401,063
December 31, 2012				
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

In the second quarter of 2013, Bancorp sold obligations of state and political subdivisions with a total par value of $385,000, generating a loss of $5,000. These securities, acquired in the Oldham transaction, were sold in the ordinary course of investment management because they did not meet Bancorp s current investment strategy. Management has the intent and ability to hold all remaining investment securities available for sale for the foreseeable future. No securities were sold in 2012.

There were no securities held to maturity as of September 30, 2013 or December 31, 2012.

In addition to the available for sale portfolio, investment securities held by Bancorp include certain securities which are not readily marketable, and are carried at cost. This category includes holdings of Federal Home Loan Bank of Cincinnati (FHLB) stock which are required for access to FHLB borrowing availability, and are classified as restricted securities. Other securities consist of a Community Reinvestment Act (CRA) investment which matures in 2014, which is fully collateralized with a government agency security of similar duration, and holdings of stock in a correspondent bank Bancorp utilizes for various services. Bancorp reviewed the investment in FHLB stock as of September 30, 2013, considering the FHLB equity position, its continuance of dividend payments, liquidity position, and

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positive year-to-date net income. Based on this review, Bancorp believes its investment in FHLB stock is not impaired.

A summary of available for sale investment securities by maturity groupings as of September 30, 2013 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 mortgage-backed securities, all of which are guaranteed by agencies such as the FHLMC, FNMA, and GNMA. These securities differ from traditional debt securities primarily in that they may have uncertain principal payment dates and are priced based on estimated prepayment rates of the underlying collateral.

(in thousands)	Amortized cost	Fair value
Securities available for sale		
Due within 1 year	$ 62,177	$ 62,213
Due after 1 but within 5 years	113,752	115,551
Due after 5 but within 10 years	36,039	36,470
Due after 10 years	22,894	22,188
Mortgage-backed securities	165,636	164,641
Total securities available for sale	$ 400,498	$ 401,063

Securities with unrealized losses at September 30, 2013 and December 31, 2012, 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
September 30, 2013						
Government sponsored enterprise obligations	$ 59,040	$ 1,484	$	$	$ 59,040	$ 1,484
Mortgage-backed securities	83,927	3,151			83,927	3,151
Obligations of states and political subdivisions	23,443	455			23,443	455
Total temporarily impaired securities	$ 166,410	$ 5,090	$	$	$ 166,410	$ 5,090
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

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 securities reach their maturity date and/or the interest rate environment returns to conditions similar to when these securities were purchased. These investments consist of 142 and 14 separate investment

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positions as of September 30, 2013 and December 31, 2012, respectively, which are not considered other-than-temporarily impaired. Because Bancorp does not intend to sell the investments, and it is not likely that Bancorp will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, management does not consider these securities to be other-than-temporarily impaired at September 30, 2013.

(4) Loans

The composition of loans by primary loan portfolio segment follows:

(in thousands)	September 30, 2013	December 31, 2012
Commercial and industrial	$ 500,478	$ 426,930
Construction and development	135,786	131,253
Real estate mortgage	1,038,864	989,631
Consumer	34,130	36,780
Total loans	$ 1,709,258	$ 1,584,594

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 September 30, 2013 and December 31, 2012.

		Type of loan			
(in thousands)	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Total
September 30, 2013					
Loans	$ 500,478	$ 135,786	$ 1,038,864	$ 34,130	$ 1,709,258
Loans individually evaluated for impairment	$ 8,461	$ 9,870	$ 10,450	$ 88	$ 28,869
Loans collectively evaluated for impairment	$ 491,384	$ 124,647	$ 1,027,906	$ 34,021	$ 1,677,958
Loans acquired with deteriorated credit quality	$ 633	$ 1,269	$ 508	$ 21	$ 2,431

	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Unallocated	Total
Allowance for loan losses						
At December 31, 2012	$ 5,949	$ 4,536	$ 14,288	$ 362	$ 6,746	$ 31,881
Provision	2,598	3,838	5,042	243	(6,746)	4,975

Charge-offs	(257)	(6,440)	(1,817)	(519)		(9,033)
Recoveries	434	164	153	416		1,167
At September 30, 2013	$ 8,724	$ 2,098	$ 17,666	$ 502	$	$ 28,990
Allowance for loans individually evaluated for impairment	$ 682	$ 148	$ 744	$ 86		$ 1,660
Allowance for loans collectively evaluated for impairment	$ 8,042	$ 1,950	$ 16,922	$ 416	$	$ 27,330
Allowance for loans acquired with deteriorated credit quality	$	$	$	$	$	$

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(in thousands)	Commercial and industrial	Type of loan Construction and development	Real estate mortgage	Consumer	Total
December 31, 2012					
Loans	$ 426,930	$ 131,253	$ 989,631	$ 36,780	$ 1,584,594
Loans individually evaluated for impairment	$ 8,667	$ 10,863	$ 9,795	$ 4	$ 29,329
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						
At December 31, 2011	$ 7,364	$ 3,546	$ 11,182	$ 540	$ 7,113	$ 29,745
Provision	3,024	2,716	6,308	(181)	(367)	11,500
Charge-offs	(4,523)	(1,726)	(3,451)	(798)		(10,498)
Recoveries	84		249	801		1,134
At December 31, 2012	$ 5,949	$ 4,536	$ 14,288	$ 362	$ 6,746	$ 31,881
Allowance for loans individually evaluated for impairment	$ 156	$ 2,898	$ 563	$		$ 3,617
Allowance for loans collectively evaluated for impairment	$ 5,793	$ 1,638	$ 13,725	$ 362	$ 6,746	$ 28,264

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

During the third quarter of 2013, Bancorp refined its allowance calculation whereby it allocated the portion of the allowance that was previously deemed to be unallocated allowance based on management s determination of the appropriate qualitative adjustments. This refined allowance calculation includes specific allowance allocations to loan portfolio segments at September 30, 2013 for qualitative factors including, among other factors, (i) national and local economic and business conditions, (ii) the quality and experience of lending staff and management, (iii) changes in lending policies and procedures, (iv) changes in volume and severity of past due loans, classified loans and non-performing loans, (v) potential impact of any concentrations of credit, (vi) changes in the nature and terms of loans such as growth rates and utilization rates, (vii) changes in the value of underlying collateral for collateral-dependent loans, and (viii) the effect of other external factors such as the legal and regulatory environment. Bancorp may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, changes in Bancorp s loan review process and staff. Because Bancorp has refined its allowance calculation during 2013 such that it no longer maintains unallocated allowance at September 30, 2013, Bancorp s allocation of its allowance at September 30, 2013 is not comparable with prior periods.

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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

Bancorp did not have any acquired loans with deteriorated credit quality at December 31, 2012. Bancorp has loans that were acquired in the Oldham acquisition in the second quarter of 2013, for which there was, at acquisition, evidence of deterioration of credit quality since origination and for which it was probable, at acquisition, that all contractually required payments would not be collected. The carrying amount of those loans is included in the balance sheet amounts of loans at September 30, 2013.

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

(in thousands)		
Balance at December 31, 2012	$	
Additions due to Oldham acquisition		174
Accretion		(22)
Reclassifications from (to) non-accretable difference		
Disposals		
Balance at September 30, 2013	$	152

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The following table presents loans individually evaluated for impairment as of September 30, 2013 and December 31, 2012.

(in thousands)	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment
September 30, 2013				
Loans with no related allowance recorded				
Commercial and industrial	$ 1,246	$ 1,889	$	$ 5,416
Construction and development	8,576	10,288		2,316
Real estate mortgage	5,878	7,236		6,016
Consumer	2	41		3
Subtotal	15,702	19,454		13,751
Loans with an allowance recorded				
Commercial and industrial	$ 7,215	$ 7,215	$ 682	$ 3,070
Construction and development	1,294	1,919	148	9,265
Real estate mortgage	4,572	5,539	744	3,695
Consumer	86	86	86	22
Subtotal	13,167	14,759	1,660	16,052
Total				
Commercial and industrial	$ 8,461	$ 9,104	$ 682	$ 8,486
Construction and development	9,870	12,207	148	11,581
Real estate mortgage	10,450	12,775	744	9,711
Consumer	88	127	86	25
Total	$ 28,869	$ 34,213	$ 1,660	$ 29,803

(in thousands)	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment
December 31, 2012				
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
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

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

Impaired loans include non-accrual loans and loans accounted for as troubled debt restructurings (TDR), 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 $1,615,000 at September 30, 2013, and $719,000 at December 31, 2012.

The following table presents the recorded investment in non-accrual loans as of September 30, 2013 and December 31, 2012.

[redacted]				
Commercial and industrial	$	456	$	1,554
Construction and development		9,870		10,863
Real estate mortgage		9,956		5,939
Consumer		2		4
Total	$	20,284	$	18,360

As of September 30, 2013 and December 31, 2012, Bancorp had $8.6 million and $11.0 million, respectively, of loans classified as TDR. The following table presents the recorded investment in loans modified and classified as TDR during the nine months ended September 30, 2013 and 2012.

(dollars in thousands)	**Number of contracts**		**Pre-modification outstanding recorded investment**		**Post-modification outstanding recorded investment**
September 30, 2013					
Commercial and industrial	1	$	789	$	789
Consumer	1		86		86
Total	2	$	875	$	875
September 30, 2012					
Commercial and industrial	3	$	5,752	$	5,752
Real estate mortgage	2		505		505
Total	5	$	6,257	$	6,257

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The following table presents the recorded investment in loans accounted for as TDR that were restructured and experienced a payment default within the previous 12 months as of September 30, 2013 and 2012.

(dollars in thousands)	Number of Contracts	Recorded Investment
September 30, 2013		
Real estate mortgage	2	$ 2,426
Total	2	$ 2,426
September 30, 2012		
Commercial and industrial	1	$ 619
Real estate mortgage	2	2,034
Total	3	$ 2,653

At September 30, 2013, loans accounted for as TDR included those for which there had been modifications from original terms due to bankruptcy proceedings, modifications of amortization periods or temporary suspension of principal payments due to customer financial difficulties, and limited forgiveness of principal. Loans accounted for as TDR, which have not defaulted, are individually evaluated for impairment and, at September 30, 2013, had a total allowance allocation of $957,000, compared to $295,000 at December 31, 2012.

At September 30, 2013 and December 31, 2012, Bancorp had outstanding commitments to lend additional funds totaling $48,000 and $187,000, respectively, to borrowers whose loans have been modified as TDR.

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The following table presents the aging of the recorded investment in past due loans as of September 30, 2013 and December 31, 2012.

(in thousands)	30-59 days past due	60-89 days past due	Greater than 90 days past due (includes non-accrual)	Total past due	Current	Total loans	Recorded investment > 90 days and accruing
September 30, 2013							
Commercial and industrial	$ 42	$ 160	$ 1,144	$ 1,346	$ 499,132	$ 500,478	$ 688
Construction and development	845		9,870	10,715	125,071	135,786	
Real estate mortgage	3,734	830	10,883	15,447	1,023,417	1,038,864	927
Consumer	257	86	2	345	33,785	34,130	
Total	$ 4,878	$ 1,076	$ 21,899	$ 27,853	$ 1,681,405	$ 1,709,258	$ 1,615
December 31, 2012							
Commercial and industrial	$ 212	$ 42	$ 1,554	$ 1,808	$ 425,122	$ 426,930	$
Construction and development		4,284	10,862	15,146	116,107	131,253	
Real estate mortgage	3,771	1,952	6,424	12,147	977,484	989,631	485
Consumer	79		238	317	36,463	36,780	234
Total	$ 4,062	$ 6,278	$ 19,078	$ 29,418	$ 1,555,176	$ 1,584,594	$ 719

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

- Special Mention: Loans classified as special mention have a potential weakness that deserves management s close attention. These potential weaknesses may result in deterioration of repayment prospects for the loan or of the Bank s credit position at some future date.

- Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize repayment of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

- Substandard non-performing: Loans classified as substandard non-performing have all the characteristics of substandard loans and have been placed on non-accrual status or have been accounted for as troubled debt restructurings.

• Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

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As of September 30, 2013 and December 31, 2012, the balances in risk categories of loans were as follows:

Credit risk profile by internally assigned grade

[redacted]					
September 30, 2013					
Grade					
Pass	$ 477,981	$ 109,223	$ 1,006,353	$ 33,956	$ 1,627,513
Special mention	12,983	7,091	17,916	86	38,076
Substandard	365	9,602	3,218		13,185
Substandard non-performing	9,149	9,870	11,377	88	30,484
Doubtful					
Total	$ 500,478	$ 135,786	$ 1,038,864	$ 34,130	$ 1,709,258
December 31, 2012					
Grade					
Pass	$ 404,045	$ 113,559	$ 925,674	$ 36,542	$ 1,479,820
Special mention	11,097	6,831	26,770		44,698
Substandard	4,482		26,901		31,383
Substandard non-performing	7,306	10,863	10,286	238	28,693
Doubtful					
Total	$ 426,930	$ 131,253	$ 989,631	$ 36,780	$ 1,584,594

(5) Federal Home Loan Bank Advances

The Bank had outstanding borrowings of $32.4 million at September 30, 2013, via six separate advances. For two advances totaling $30 million, both of which are non-callable, interest payments are due monthly, with principal due at maturity. For the final four advances totaling $2,422,000, principal and interest payments are due monthly based on an amortization schedule.

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

	September 30, 2013		December 31, 2012	
(In thousands)	Advance	Rate	Advance	Rate
2013	$ 10,000	1.90%	$ 10,000	1.90%
2015	20,000	3.34%	20,000	3.34%
2021	575	2.12%		
2024	411	2.40%	420	2.40%
2028	1,436	1.46%	1,462	1.46%
	$ 32,422	2.78%	$ 31,882	2.79%

Advances from the FHLB are collateralized by certain commercial and residential real estate mortgage loans under a blanket mortgage collateral agreement and FHLB stock. The Bank views these borrowings as an effective alternative to higher cost time deposits to fund loan growth. At September 30, 2013, the amount of available credit from the FHLB totaled $342.9 million.

(6) Goodwill and Intangible Assets

US GAAP requires that goodwill and intangible assets with indefinite useful lives not be amortized, but instead be tested for impairment at least annually. Annual evaluations have resulted in no indication of impairment. Bancorp currently has goodwill in the amount of $682,000 from the 1996 acquisition of an Indiana bank. This goodwill is assigned to the commercial banking segment of Bancorp.

In the second quarter of 2013, Bancorp recorded a core deposit intangible totaling $2,543,000 arising from the Oldham acquisition. This intangible asset is being amortized over a ten-year period using an accelerated method which anticipates the life of the underlying deposits to which the intangible is attributable. At September 30, 2013, the unamortized core deposit intangible was $2,298,000.

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 carrying value to fair value. The estimated fair values of MSRs at September 30, 2013 and December 31, 2012 were $3,292,000 and $2,702,000, respectively. The total outstanding principal balances of loans serviced for others were $432,132,000 and $374,079,000 at September 30, 2013, and December 31, 2012, respectively.

Changes in the net carrying amount of MSRs for the nine months ended September 30, 2013 and 2012 are shown in the following table.

(in thousands)	2013	2012
Balance at beginning of period	$ 2,088	$ 1,630
Originations	682	884
Amortization	(755)	(573)
Balance at September 30	$ 2,015	$ 1,941

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(7) Defined Benefit Retirement Plan

The Bank sponsors an unfunded, non-qualified, defined benefit retirement plan for four key officers (two current, and two retired), and has no plans to increase the number of participants or defined benefits to remaining participants. Benefits vest based on 25 years of service. The actuarially determined pension costs are expensed and accrued over the service period, and benefits are paid from the Bank s assets. The net periodic benefits costs, which include interest cost and amortization of net losses, totaled $36,000 for each of the three months ended September 30, 2013 and 2012. For the nine months ended September 30, 2013 and 2012, the net periodic benefit costs totaled $107,000 and $106,000, respectively.

(8) Commitments and Contingent Liabilities

As of September 30, 2013, Bancorp had various commitments outstanding that arose in the normal course of business, including standby letters of credit and commitments to extend credit, which are properly not reflected in the unaudited consolidated financial statements. In management s opinion, commitments to extend credit of $452.1 million, including standby letters of credit of $14.8 million, are not anticipated to result in significant losses as of September 30, 2013. Commitments to extend credit were $401.1 million, including letters of credit of $14.8 million, as of December 31, 2012. Bancorp s maximum exposure to credit loss in the event of nonperformance by the other party to these commitments is represented by the contractual amount of these instruments. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Commitments to extend credit are mainly comprised of commercial lines of credit, construction and home equity credit lines. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Bancorp uses the same credit and collateral policies in making commitments and conditional guarantees as for on-balance sheet instruments. Bancorp evaluates each customer s creditworthiness on a case by case basis. The amount of collateral obtained is based on management s credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, equipment, and real estate.

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

Also, as of September 30, 2013, in the normal course of business, there were pending legal actions and proceedings in which claims for damages are asserted. Management, after discussion with legal counsel, believes the ultimate result of these legal actions and proceedings will not have a material adverse effect on the consolidated financial position or results of operations of Bancorp.

(9) Preferred Stock

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

(10) Stock-Based Compensation

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

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Bancorp currently has one stock-based compensation plan. Initially, in the 2005 Stock Incentive Plan, there were 735,000 shares of common stock reserved for issuance of stock based awards. In 2010, shareholders approved an additional 700,000 shares of common stock for issuance under the plan. As of September 30, 2013, there were 505,012 shares available for future awards. Bancorp s 1995 Stock Incentive Plan expired in 2005; however, options granted under this plan expire as late as 2015.

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

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

Bancorp reduces future stock-based compensation expense by estimated forfeitures at the grant date. These forfeiture estimates are based on historical experience. Bancorp has recognized stock-based compensation expense, within salaries and employee benefits in the unaudited consolidated statements of income, as follows:

(in thousands)	**For three months ended September 30, 2013**	**For three months ended September 30, 2012**	**For nine months ended September 30, 2013**	**For nine months ended September 30, 2012**
Stock-based compensation expense before income taxes	$ 488	$ 378	$ 1,473	$ 1,118
Deferred tax benefit	(171)	(132)	(516)	(391)
Reduction of net income	$ 317	$ 246	$ 957	$ 727

Bancorp expects to record an additional $470,000 of stock-based compensation expense in 2013 for equity grants outstanding as of September 30, 2013. As of September 30, 2013, Bancorp has $3,607,000 of unrecognized stock-based compensation expense that is expected to be recorded as compensation expense over the next five years as awards vest. Bancorp received cash of $1,260,000 and $562,000 from the exercise of options during the first nine months of 2013 and 2012, respectively.

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

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The following assumptions were used in option and SAR valuations at the grant date in each year:

	2013	2012
Dividend yield	2.80%	2.52%
Expected volatility	22.54	22.04
Risk free interest rate	1.26	1.44
Forfeitures	6.40	4.20
Expected life of options and SARs (in years)	6.6	7.6

The expected life of options and SARs is based on actual experience of past like-term options. Bancorp evaluates historical exercise and post-vesting termination behavior when determining the expected life.

Dividend yield and expected volatility are based on historical information corresponding to the expected life of options and SARs granted. Expected volatility is the volatility of the underlying shares for the expected term on a monthly basis. The risk free interest rate is the implied yield currently available on U.S. Treasury issues with a remaining term equal to the expected life of the options.

A summary of stock option and SARs activity and related information for the nine months ended September 30, 2013 follows:

	Options and SARs (in thousands)	Exercise price	Weighted average exercise price	Aggregate intrinsic value (in thousands)	Weighted average fair value	Weighted average remaining contractual life (in years)
At December 31, 2012						
Vested and exercisable	681	$ 20.17-26.83	$ 23.42	$ 271	$ 5.33	3.5
Unvested	246	21.03-26.83	22.62	77	4.67	7.9
Total outstanding	927	20.17-26.83	23.21	348	5.15	4.7
Granted	54	22.89	22.89	292	3.61	
Exercised	(117)	20.17-26.83	21.49	557	4.74	
Forfeited	(4)	21.03-23.76	22.78	19	4.88	
At September 30, 2013						
Vested and exercisable	642	20.17-26.83	23.66	2,997	5.38	3.4
Unvested	218	21.03-24.87	22.70	1,228	4.36	7.9
Total outstanding	860	20.17-26.83	23.42	$ 4,225	5.12	4.6
Vested during year	79	21.03-24.87	22.56	$ 458	4.81	

Intrinsic value for stock options and SARs is defined as the amount by which the current market price of the underlying stock exceeds the exercise price. In the first quarter of 2013, Bancorp granted 53,598 SARs at the current market price of $22.89 and a Black-Scholes fair value of $3.61. In the first quarter of 2013, Bancorp granted 55,275 shares of restricted common stock at the weighted average current market price of $22.93. In 2013 and 2012, Bancorp awarded performance-based RSUs with fair values of $20.38 and

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$20.57, respectively to executive officers of the Bank, the three-year performance period for which began January 1 of the award year. Bancorp believes the most likely vesting of all RSUs will be 62,389 shares of common stock. There were no grants of SARs or restricted common stock in the second or third quarters of 2013. No stock options have been granted since 2007.

(11) Net Income Per Share

The following table reflects, for the three and nine months ended September 30, 2013 and 2012, net income (the numerator) and average shares outstanding (the denominator) for the basic and diluted net income per share computations:

(In thousands, except per share data)	Three months ended September 30 2013	Three months ended September 30 2012	Nine months ended September 30 2013	Nine months ended September 30 2012
Net income	$ 7,682	$ 6,682	$ 20,857	$ 19,287
Average shares outstanding	14,408	13,883	14,144	13,867
Dilutive securities	148	83	84	62
Average shares outstanding including dilutive securities	14,556	13,966	14,228	13,929
Net income per share, basic	$ 0.53	$ 0.48	$ 1.47	$ 1.39
Net income per share, diluted	$ 0.53	$ 0.48	$ 1.47	$ 1.38

(12) Segments

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

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

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Selected financial information by business segment for the three and nine month periods ended September 30, 2013 and 2012 follows:

(in thousands)	Commercial banking	Investment management and trust	Total
Three months ended September 30, 2013			
Net interest income	$ 19,978	$ 39	$ 20,017
Provision for loan losses	1,325		1,325
Investment management and trust services		4,017	4,017
All other non-interest income	5,621	14	5,635
Non-interest expense	15,215	2,356	17,571
Income before income taxes	9,059	1,714	10,773
Tax expense	2,485	606	3,091
Net income	$ 6,574	$ 1,108	$ 7,682
Three months ended September 30, 2012			
Net interest income	$ 18,759	$ 36	$ 18,795
Provision for loan losses	2,475		2,475
Investment management and trust services		3,515	3,515
All other non-interest income	6,264	16	6,280
Non-interest expense	14,973	2,072	17,045
Income before income taxes	7,575	1,495	9,070
Tax expense	1,865	523	2,388
Net income	$ 5,710	$ 972	$ 6,682
Nine months ended September, 2013			
Net interest income	$ 57,347	$ 108	$ 57,455
Provision for loan losses	4,975		4,975
Investment management and trust services		12,032	12,032
All other non-interest income	17,114	45	17,159
Non-interest expense	45,176	6,796	51,972
Income before income taxes	24,310	5,389	29,699
Tax expense	6,938	1,904	8,842
Net income	$ 17,372	$ 3,485	$ 20,857
Nine months ended September, 2012			
Net interest income	$ 55,528	$ 112	$ 55,640
Provision for loan losses	9,025		9,025
Investment management and trust services		10,675	10,675
All other non-interest income	17,604	51	17,655
Non-interest expense	42,021	6,268	48,289
Income before income taxes	22,086	4,570	26,656
Tax expense	5,769	1,600	7,369
Net income	$ 16,317	$ 2,970	$ 19,287

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(13) Income Taxes

An analysis of the difference between the statutory and effective tax rates for the nine months ended September 30, 2013 and 2012 were as follows:

	Nine months ended September 30, 2013	2012
U.S. federal statutory tax rate	35.0%	35.0%
Tax exempt interest income	(2.0)	(3.2)
Tax credits	(2.2)	(2.9)
Cash surrender value of life insurance	(1.8)	(1.8)
State income taxes	0.7	1.0
Non-taxable gain on acquisition	(0.5)	
Non-deductible acquisition costs	0.3	
Other, net	0.3	(0.5)
Effective tax rate	29.8%	27.6%

US GAAP provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. As of September 30, 2013 and December 31, 2012, the gross amount of unrecognized tax benefits was $37,000 and $70,000, respectively. If recognized, the tax benefits would reduce tax expense and accordingly, increase net income. The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to statutes of limitation, changes in management s judgment about the level of uncertainty, status of examination, litigation and legislative activity and the addition or elimination of uncertain tax positions.

During the third quarter of 2013, Bancorp was notified that the IRS will examine Bancorp s 2011 income tax return. This examination could result in increased tax payments, interest and penalties. While management believes tax positions are appropriate, the IRS could challenge Bancorp s positions as a part of this examination. Federal and state income tax returns are subject to examination for the tax return years after 2009.

Bancorp s policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of September 30, 2013 and December 31, 2012, the amount accrued for the potential payment of interest and penalties was $2,000 and $4,000, respectively.

(14) Fair Value Measurements

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

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

- Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.

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

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

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

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

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

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

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Below are the carrying values of assets measured at fair value on a recurring basis.

	Fair value at September 30, 2013			
(in thousands)	Total	Level 1	Level 2	Level 3
Assets				
Investment securities available for sale				
U.S. Treasury and other U.S. government obligations	$ 40,000	$	$ 40,000	$
Government sponsored enterprise obligations	125,074		$ 125,074	
Mortgage-backed securities	164,641		164,641	
Obligations of states and political subdivisions	71,348		71,348	
Total investment securities available for sale	401,063		401,063	
Interest rate swaps	301		301	
Total assets	$ 401,364	$	$ 401,364	$
Liabilities				
Interest rate swaps	$ 301	$	$ 301	$

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

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Bancorp had no financial instruments classified within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis at September 30, 2013 or December 31, 2012.

MSRs are recorded at fair value upon capitalization, are amortized to correspond with estimated servicing income, and are periodically assessed for impairment based on fair value at the reporting date. Fair value is based on a valuation model that calculates the present value of estimated net servicing income. The model incorporates assumptions that market participants would use in estimating future net servicing income. These measurements are classified as Level 3. At September 30, 2013 and December 31, 2012 there was no valuation allowance for the mortgage servicing rights, as the fair value exceeded the cost. Accordingly, MSRs are not included in either table below for September 30, 2013 or December 31, 2012.

Mortgage loans held for sale are recorded at the lower of cost or market value. The portfolio is comprised of residential real estate loans and fair value is based on specific prices of underlying contracts for sales to investors. These measurements are classified as Level 2. Because the fair value of the loans held for sale exceeded carrying value, mortgage loans held for sale are not included in either table below for September 30, 2013 or December 31, 2012.

Other real estate owned, which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. At September 30, 2013 and December 31, 2012, the carrying value of other real estate owned was $6,565,000 and $7,364,000, respectively. Other real estate owned is not included in either table below, as the fair value of the properties exceeded their carrying value at September 30, 2013 and December 31, 2012.

For impaired loans in the following table, the fair value is calculated as the carrying value of only loans with a specific valuation allowance, less the specific allowance. As of September 30, 2013, total impaired loans with a valuation allowance were $13.2 million, and the specific allowance totaled $1.7 million, resulting in a fair value of $11.5 million, compared to total impaired loans with a valuation allowance of $15.2 million, and the specific allowance allocation totaling $3.6 million, resulting in a fair value of $11.6 million at December 31, 2012. Losses represent the change in the specific allowances for the period indicated.

Below are the carrying values of assets measured at fair value on a non-recurring basis.

		Fair value at September 30, 2013			Losses for 9 month period ended
(in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**	**September 30, 2013**
Impaired loans	$ 11,507	$	$	$ 11,507	$ (1,181)

		Fair value at December 31, 2012			Losses for 9 month period ended
	Total	**Level 1**	**Level 2**	**Level 3**	**September 30, 2012**
Impaired loans	$ 11,625	$	$	$ 11,625	$ (1,272)

In the case of the securities portfolio, Bancorp monitors the valuation technique utilized by pricing agencies to ascertain when transfers between levels have occurred. The nature of the remaining assets and liabilities is such that transfers in and out of any level are expected to be rare. For the three months ended September 30, 2013, there were no transfers between Levels 1, 2, or 3.

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(15) Fair Value of Financial Instruments

The following table presents the carrying amounts, estimated fair values, and placement in the fair value hierarchy of financial instruments at September 30, 2013 and December 31, 2012.

(in thousands)	Carrying amount	Fair value	Level 1	Level 2	Level 3
September 30, 2013					
Financial assets					
Cash and short-term investments	$ 70,520	$ 70,520	$ 70,520	$	$
Mortgage loans held for sale	3,829	3,919		3,919	
Federal Home Loan Bank stock and other securities	7,347	7,347		7,347	
Loans, net	1,680,268	1,692,142			1,692,142
Accrued interest receivable	5,507	5,507	5,507		
Financial liabilities					
Deposits	$ 1,882,451	$ 1,885,158	$	$ 1,885,158	$
Short-term borrowings	88,086	88,086		88,086	
Long-term borrowings	63,322	64,582		64,582	
Accrued interest payable	128	128	128		
Off balance sheet financial instruments					
Commitments to extend credit	$ 437,249	$	$	$	$
Standby letters of credit	14,814	(222)			(222)
December 31, 2012					
Financial assets					
Cash and short-term investments	$ 67,703	$ 67,703	$ 67,703	$	$
Mortgage loans held for sale	14,047	14,431		14,431	
Federal Home Loan Bank stock and other securities	6,180	6,180		6,180	
Loans, net	1,552,713	1,583,018			1,583,018
Accrued interest receivable	5,091	5,091	5,091		
Financial liabilities					
Deposits	$ 1,781,693	$ 1,786,046	$	$ 1,786,046	$
Short-term borrowings	75,597	75,597		75,597	
Long-term borrowings	62,782	62,826		62,826	
Accrued interest payable	166	166	166		
Off balance sheet financial instruments					
Commitments to extend credit	$ 386,372	$	$	$	$
Standby letters of credit	14,757	(221)			(221)

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

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Cash, short-term investments, accrued interest receivable/payable and short-term borrowings

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

Federal Home Loan Bank stock and other securities

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

Mortgage loans held for sale

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

Loans, net

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

Deposits

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

Long-term borrowings

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

Commitments to extend credit and standby letters of credit

Fair values of commitments to extend credit are estimated using fees currently charged to enter into similar agreements and the creditworthiness of the customers. Fair values of standby letters of credit are based on fees currently charged for similar agreements or estimated cost to terminate them or otherwise settle obligations with counterparties at the reporting date.

Limitations

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

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(16) Regulatory Matters

Bancorp and the Bank are subject to various capital requirements prescribed by banking regulations and administered by state and federal banking agencies. Under these requirements, Bancorp and the Bank must meet minimum amounts and percentages of Tier I and total capital, as defined, to risk weighted assets and Tier I capital to average assets. Risk weighted assets are determined by applying certain risk weightings prescribed by the regulations to various categories of assets and off-balance sheet commitments. Capital and risk weighted assets may be further subject to qualitative judgments by regulators as to components, risk weighting and other factors. Failure to meet the capital requirements can result in certain mandatory, and possibly discretionary, corrective actions prescribed by the regulations or determined to be necessary by the regulators, which could materially affect the unaudited consolidated financial statements. Bancorp and the Bank met all capital requirements to which they were subject as of September 30, 2013.

The following table sets forth Bancorp s and the Bank s risk based capital amounts and ratios as of September 30, 2013 and December 31, 2012.

	Actual		Minimum for adequately capitalized		Minimum for well capitalized	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
September 30, 2013						
Total risk-based capital (1)						
Consolidated	$ 276,936	14.91%	$ 148,591	8.00%	NA	NA
Bank	231,410	12.51%	147,984	8.00%	$ 184,980	10.00%
Tier I risk-based capital (1)						
Consolidated	$ 253,654	13.66%	$ 74,276	4.00%	NA	NA
Bank	208,220	11.26%	73,968	4.00%	$ 110,952	6.00%
Leverage (2)						
Consolidated	$ 253,654	11.21%	$ 67,882	3.00%	NA	NA
Bank	208,220	9.23%	67,677	3.00%	$ 112,795	5.00%
December 31, 2012						
Total risk-based capital (1)						
Consolidated	$ 250,837	14.42%	$ 139,161	8.00%	NA	NA
Bank	220,133	12.70%	138,666	8.00%	$ 173,333	10.00%
Tier I risk-based capital (1)						
Consolidated	$ 228,972	13.17%	$ 69,544	4.00%	NA	NA
Bank	198,339	11.44%	69,349	4.00%	$ 104,024	6.00%
Leverage (2)						
Consolidated	$ 228,972	10.79%	$ 63,662	3.00%	NA	NA
Bank	198,339	9.37%	63,502	3.00%	$ 105,837	5.00%

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

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

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

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

This item discusses the results of operations for S.Y. Bancorp, Inc. (Bancorp or Company), and its subsidiary, Stock Yards Bank & Trust Company (Bank) for the three and nine months ended September 30, 2013 and compares these periods with the same periods of the previous year. Unless otherwise indicated, all references in this discussion to the Bank include Bancorp. In addition, the discussion describes the significant changes in the financial condition of Bancorp and the Bank that have occurred during the first nine months of 2013 compared to the year ended December 31, 2012. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes presented in Part 1, Item 1 of this report.

This report contains forward-looking statements under the Private Securities Litigation Reform Act that involve risks and uncertainties. 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 the following: economic conditions both generally and more specifically in the markets in which Bancorp and the Bank operate; competition for Bancorp s customers from other providers of financial services; government legislation and regulation which change from time to time and over which Bancorp has no control; changes in interest rates; material unforeseen changes in liquidity, results of operations, or financial condition of Bancorp s customers; and other risks detailed in Bancorp s filings with the Securities and Exchange Commission, all of which are difficult to predict and many of which are beyond the control of Bancorp.

Overview of 2013 through September 30

Bancorp completed the first nine months of 2013 with net income of $20.9 million or 8% more than the comparable period of 2012. The increase is due primarily to a lower provision for loan losses, higher non-interest income and net interest income, partially offset by increased non-interest expenses and income tax expense. Diluted earnings per share for the first nine months of 2013 were $1.47, compared to the first nine months of 2012 at $1.38. Bancorp s results for the first nine months of 2013 included the effect of several unusual items. Excluding these items, net income for the year-to-date period ended September 30, 2013, was $21.1 million or $1.49 per diluted share. See the Non-GAAP Financial Measures section for details on reconciliation to US GAAP measures.

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

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

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Net interest income increased $1,815,000, or 3.3%, for the first nine months of 2013, compared to the same period in 2012. The net interest margin declined to 3.78% for the first nine months of 2013, compared to 3.99% for the same period in 2012. Interest income decreased as the negative effect of declining interest rates earned offset the positive effect of increased volumes on earning assets. Interest expense decreased even further due to lower funding costs on deposits arising from lower interest rates, a more favorable deposit mix, and fewer outstanding FHLB borrowings. Core net interest margin is addressed in the notes to the average balance sheets later in this section.

Also favorably impacting 2013 results, Bancorp s provision for loan losses was $5.0 million for the first nine months of 2013, compared to $9.0 million in the first nine months of 2012. The provision for loan losses is calculated after considering credit quality factors, and ultimately relies on an overall internal analysis of the risk in the loan portfolio. Bancorp s allowance for loan losses was 1.70% of total loans at September 30, 2013, compared to 2.01% of total loans at December 31, 2012, and 1.98% at September 30, 2012.

Total non-interest income in the first nine months of 2013 increased $861,000 compared to the same period in 2012, and remained consistent at 34% of total revenues, reflecting increases in investment management and trust services, service charges on deposit accounts, bankcard transaction revenue, and the gain on the Oldham acquisition, partially offset by a decrease in gains on sales of mortgage loans.

Total non-interest expense in the first nine months of 2013 increased $3.7 million, or 7.6%, compared to the same period in 2012 due to one-time acquisition costs related to the Oldham transaction, increases in personnel costs and data processing expenses. These increases were partially offset by decreases in furniture and equipment expense and other expenses.

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. The ratio of tangible common equity to total tangible assets was 9.78% as of September 30, 2013, compared to 9.52% at December 31, 2012. See the Non-GAAP Financial Measures section for details on reconciliation to US GAAP measures.

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

a)   Results Of Operations

Net income of $7,682,000 for the three months ended September 30, 2013 increased $1.0 million, or 15.0%, from $6,682,000 for the comparable 2012 period. Basic net income per share was $0.53 for the third quarter of 2013, an increase of 10.4% from the $0.48 for the third quarter of 2012. Net income per share on a diluted basis was $0.53 for the third quarter of 2013, compared to $0.48 for the third quarter of 2012, a 10.4% increase.

Annualized return on average assets and annualized return on average stockholders   equity were 1.35% and 13.70%, respectively, for the third quarter of 2013, compared to 1.27% and 13.31%, respectively, for the same period in 2012.

Net income of $20,857,000 for the nine months ended September 30, 2013 increased $1,570,000, or 8.1%, from $19,287,000 for the comparable 2012 period. Basic net income per share was $1.47 for the first nine months of 2013, an increase of 5.8% from the $1.39 for the first nine months of 2012. Net income per share on a diluted basis was also $1.47 for the first nine months of 2013 compared to $1.38 for the same period of 2012, an increase of 6.5%.

Bancorp s results for the third quarter and first nine months of 2013 included the effect of several unusual items. Excluding these items, net income for the third quarter of 2013 and year-to-date period ended

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September 30, 2013, was $7.4 million or $0.51 per diluted shares and $21.1 million or $1.49 per diluted share, respectively.   See the Non-GAAP Financial Measures section for details on reconciliation to US GAAP measures.

Annualized return on average assets and annualized return on average stockholders   equity were 1.27% and 12.86%, respectively, for the first nine months of 2013, compared to 1.26% and 13.20%, respectively, for the same period in 2012.

Net Interest Income

The following tables present the average balance sheets for the three and nine month periods ended September 30, 2013 and 2012 along with the related calculation of tax-equivalent net interest income, net interest margin and net interest spread for the related periods. See the notes following the tables for further explanation.

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Average Balances and Interest Rates   Taxable Equivalent Basis

	Three months ended September 30					
	2013			2012		
(Dollars in thousands)	Average balances	Interest	Average rate	Average balances	Interest	Average rate
Earning assets:						
Federal funds sold	$ 75,705	$ 63	0.33%	$ 110,263	$ 82	0.30%
Mortgage loans held for sale	5,685	57	3.98%	11,776	98	3.31%
Securities:						
Taxable	301,413	1,554	2.05%	211,424	1,321	2.49%
Tax-exempt	58,642	412	2.79%	49,195	371	3.00%
FHLB stock and other securities	7,347	72	3.89%	6,180	58	3.73%
Loans, net of unearned income	1,674,049	20,362	4.83%	1,551,423	20,107	5.16%
Total earning assets	2,122,841	22,520	4.21%	1,940,261	22,037	4.52%
Less allowance for loan losses	33,038			32,786		
	2,089,803			1,907,475		
Non-earning assets:						
Cash and due from banks	34,213			32,279		
Premises and equipment	39,910			37,760		
Accrued interest receivable and other assets	101,011			115,998		
Total assets	$ 2,264,937			$ 2,093,512		
Interest bearing liabilities:						
Deposits:						
Interest bearing demand deposits	$ 402,246	$ 88	0.09%	$		