Stock Yards Bancorp, Inc.
Form 10-K/A
April 04, 2018

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K/A

Amendment No. 1

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, 2017	**1-13661**

STOCK YARDS BANCORP, INC.

1040 East Main Street
Louisville, Kentucky 40206
(502) 582-2571

Incorporated in Kentucky	**I.R.S. No. 61-1137529**

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

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

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act).

Yes **No**

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes **No**

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

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

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

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

Large accelerated filer	**Accelerated filer**
Non-accelerated filer (Do not check if a smaller reporting company)	**Smaller reporting company**
	Emerging growth company

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

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

Yes **No**

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, 2017 (the last business day of the registrant's most recently completed second fiscal quarter) was $802,453,551.

The number of shares of the registrant's Common Stock, no par value, outstanding as of February 23, 2018, was 22,715,321.

Documents Incorporated By Reference

Portions of Registrant's definitive proxy statement related to Registrant's Annual Meeting of Shareholders to be held on April 26, 2018 (the "Proxy Statement"), to be filed with the Securities and Exchange Commission, are incorporated by reference into Part III of this Form 10-K.

Table of Contents

EXPLANATORY NOTE

Stock Yards Bancorp, Inc. (the “Company”) files this Amendment No. 1 (“Amendment No. 1”) to its Annual Report on Form 10-K filed on March 13, 2018 for the fiscal year ended December 31, 2017 (the “Original 10-K”) to provide an amended report of its independent registered public accounting firm on the consolidated financial statements that correctly identifies the city and state to be Louisville, Kentucky.

In accordance with applicable Securities and Exchange Commission (“SEC”) rules and as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended, Amendment No. 1 includes new certifications from the Company’s Principal Executive Officer and Principal Financial Officer dated as of the date of filing of Amendment No. 1.

This Amendment No. 1 consists solely of the preceding cover page, this explanatory note, Part II., Item 8., “Financial Statements and Supplementary Data,” in its entirety, Part IV., Item 15., “Exhibits and Financial Statement Schedules”, the signature page, a new Consent of Independent Registered Public Accounting Firm, and the new certifications from the Company’s Principal Executive Officer and Principal Financial Officer.

Amendment No. 1 speaks as of the date of the Original 10-K, does not reflect events that may have occurred after the date of the Original 10-K and does not modify or update in any way the disclosures made in the Original 10-K, except as described above. Amendment No. 1 should be read in conjunction with the Original 10-K and with the Company’s subsequent filings with the SEC.

Table of Contents

STOCK YARDS BANCORP, INC.
Form 10-K/A
Index

Table of Contents

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:

Table of Contents

Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2017	2016
Assets		
Cash and due from banks	$*41,982*	$*39,709*
Federal funds sold and interest bearing due from banks	*97,266*	*8,264*
Cash and cash equivalents	*139,248*	*47,973*
Mortgage loans held for sale	*2,964*	*3,213*
Securities available-for-sale (amortized cost of $577,406 in 2017 and $571,936 in 2016)	*574,524*	*570,074*
Federal Home Loan Bank stock and other securities	*7,646*	*6,347*
Loans	*2,409,570*	*2,305,375*
Less allowance for loan losses	*24,885*	*24,007*
Net loans	*2,384,685*	*2,281,368*
Premises and equipment, net	*41,655*	*42,384*
Bank owned life insurance	*32,049*	*31,867*
Accrued interest receivable	*8,369*	*6,878*
Other assets	*48,506*	*49,377*
Total assets	$*3,239,646*	$*3,039,481*
Liabilities		
Deposits		
Non-interest bearing	$*674,697*	$*680,156*
Interest bearing	*1,903,598*	*1,840,392*
Total deposits	*2,578,295*	*2,520,548*
Securities sold under agreements to repurchase	*70,473*	*67,595*
Federal funds purchased	*161,352*	*47,374*
Accrued interest payable	*232*	*144*
Other liabilities	*46,192*	*38,873*
Federal Home Loan Bank advances	*49,458*	*51,075*
Total liabilities	*2,906,002*	*2,725,609*
Stockholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized; no shares issued or outstanding	–	–
Common stock, no par value; 40,000,000 shares authorized; 22,679,362 and 22,617,098 shares issued and outstanding in 2017 and 2016, respectively	*36,457*	*36,250*
Additional paid-in capital	*31,924*	*26,682*
Retained earnings	*267,193*	*252,439*
Accumulated other comprehensive (loss)	*(1,930*)	*(1,499*)
Total stockholders' equity	*333,644*	*313,872*
Total liabilities and stockholders' equity	$*3,239,646*	$*3,039,481*

See accompanying notes to consolidated financial statements.

5

Table of Contents

Consolidated Statements of Income

(In thousands, except per share data)	Years ended December 31, 2017	2016	2015
Interest income			
Loans	$99,874	$91,798	$83,371
Federal funds sold and interest bearing deposits	1,330	491	263
Mortgage loans held for sale	191	237	249
Securities			
Taxable	8,365	8,451	8,120
Tax-exempt	1,089	1,195	1,167
Total interest income	110,849	102,172	93,170
Interest expense			
Deposits	5,975	3,943	3,739
Securities sold under agreements to repurchase and other short term borrowing	316	212	174
Long term debt	955	763	939
Total interest expense	7,246	4,918	4,852
Net interest income	103,603	97,254	88,318
Provision for loan losses	2,550	3,000	750
Net interest income after provision for loan losses	101,053	94,254	87,568
Non-interest income			
Wealth management and trust services	20,505	19,155	18,026
Deposit service charges	6,461	6,253	6,010
Debit and credit cards	5,979	5,655	4,876
Treasury management	4,008	3,651	3,404
Mortgage banking	3,221	3,897	3,488
(Loss) on sale of securities available-for-sale	(232)	–	–
Investment product sales commissions and fees	2,200	2,145	1,994
Bank owned life insurance	1,159	871	889
Other	1,819	1,910	1,263
Total non-interest income	45,120	43,537	39,950
Non-interest expenses			
Compensation	42,584	40,817	36,597
Employee benefits	9,987	8,368	8,112
Net occupancy and equipment	7,393	7,422	6,986
Technology and communication	8,525	7,619	6,891
Marketing and business development	2,716	2,464	2,579
Postage, printing and supplies	1,475	1,521	1,436
Legal and professional	2,393	1,869	1,832
FDIC insurance	960	1,181	1,258

Amortization/impairment of investments in tax credit partnerships	*7,124*	*4,458*	*634*
Capital and deposit based taxes	*3,440*	*2,800*	*2,413*
Other	*4,394*	*3,001*	*4,660*
Total non-interest expenses	*90,991*	*81,520*	*73,398*
Income before income taxes	*55,182*	*56,271*	*54,120*
Income tax expense	*17,139*	*15,244*	*16,933*
Net income	$*38,043*	$*41,027*	$*37,187*
Net income per share, basic	$*1.69*	$*1.84*	$*1.68*
Net income per share, diluted	$*1.66*	$*1.80*	$*1.65*
Average common shares:			
Basic	*22,532*	*22,356*	*22,088*
Diluted	*22,983*	*22,792*	*22,459*

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Comprehensive Income

(In thousands)	Years ended December 31, 2017	2016	2015
Net income	$38,043	$41,027	$37,187
Other comprehensive income (loss), net of tax:			
Unrealized (losses) gains on securities available-for-sale:			
Unrealized (losses) gains arising during the period (net of tax of ($531), ($1,171), and ($839), respectively)	(721)	(2,176)	(1,558)
Unrealized (losses) gains on hedging instruments:			
Unrealized (losses) gains arising during the period (net of tax of $112, $24, and ($41), respectively)	209	44	(76)
Minimum pension liability adjustment (net of tax of ($9), $1, and $69, respectively)	(70)	1	114
Reclassification adjustment for impairment of equity security realized in income (net of tax of $0, $0, and $36, respectively)	–	–	67
Reclassification adjustment for securities losses reclassified out of other comprehensive income into loss on sale of securities available-for-sale (net of tax of $81, $0, and $0, respectively)	151	–	–
Other comprehensive (loss) income	(431)	(2,131)	(1,453)
Comprehensive income	$37,612	$38,896	$35,734

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Changes in Stockholders' Equity

(In thousands, except per share data)	For each of the years in the three year period ended December 31, 2017					
	Common stock		Additional		Accumulated other	
	Number of shares	Amount	paid-in capital	Retained earnings	comprehensive income (loss)	Total
Balance December 31, 2014	*14,745*	$*10,035*	$ *38,191*	$*209,584*	$ *2,085*	$*259,895*
Net income	–	–	–	*37,187*	–	*37,187*
Other comprehensive loss, net of tax	–	–	–	–	*(1,453*)	*(1,453*)
Stock compensation expense	–	–	*2,134*	–	–	*2,134*
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	*179*	*596*	*3,972*	*(1,564*)	–	*3,004*
Cash dividends declared, $0.64 per share	–	–	–	*(14,248*)	–	*(14,248*)
Shares repurchased or cancelled	*(5*)	*(15*)	*(117*)	*132*	–	–
Balance December 31, 2015	*14,919*	$*10,616*	$ *44,180*	$*231,091*	$ *632*	$*286,519*
Net income	–	–	–	*41,027*	–	*41,027*
Other comprehensive loss, net of tax	–	–	–	–	*(2,131*)	*(2,131*)
Stock compensation expense	–	–	*2,473*	–	–	*2,473*
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	*214*	*711*	*5,217*	*(3,804*)	–	*2,124*
3 for 2 stock split (see note 14)	*7,494*	*24,956*	*(24,956*)	–	–	–
Cash dividends declared, $0.72 per share	–	–	–	*(16,140*)	–	*(16,140*)
Shares repurchased or cancelled	*(10*)	*(33*)	*(232*)	*265*	–	–
Balance December 31, 2016	*22,617*	$*36,250*	$ *26,682*	$*252,439*	$ *(1,499*)	$*313,872*
Net income	–	–	–	*38,043*	–	*38,043*
Other comprehensive loss, net of tax	–	–	–	–	*(431*)	*(431*)
Stock compensation expense	–	–	*2,892*	–	–	*2,892*
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	*69*	*231*	*2,500*	*(5,336*)	–	*(2,605*)
Cash dividends declared, $0.80 per share	–	–	–	*(18,127*)	–	*(18,127*)
Shares repurchased or cancelled	*(7*)	*(24*)	*(150*)	*174*	–	–
Balance December 31, 2017	*22,679*	$*36,457*	$ *31,924*	$*267,193*	$ *(1,930*)	$*333,644*

See accompanying notes to consolidated financial statements.

Table of Contents

Consolidated Statements of Cash Flows

	Years ended December 31,		
(In thousands)	**2017**	**2016**	**2015**
Operating activities			
Net income	$38,043	$41,027	$37,187
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (credit) for loan losses	2,550	3,000	750
Depreciation, amortization and accretion, net	13,640	11,142	6,902
Deferred income tax expense (benefit)	3,971	276	847
Loss on sale of securities available-for-sale	232	–	–
Impairment loss on available-for-sale securities	–	–	103
Gains on sales of mortgage loans held for sale	(1,989)	(2,482)	(2,167)
Origination of mortgage loans held for sale	(97,623)	(123,347)	(116,385)
Proceeds from sale of mortgage loans held for sale	99,861	129,416	115,499
Bank owned life insurance income	(1,159)	(871)	(889)
Proceeds from liquidation of private investment fund	(92)	–	–
(Gain) Loss on other real estate owned	(39)	(409)	147
Loss (gain) on the disposal of premises and equipment	–	202	(51)
Recovery of impairment loss on other assets held for investment	–	(588)	–
Stock compensation expense	2,892	2,473	2,134
Excess tax benefits from share-based compensation arrangements	(1,463)	(1,705)	(673)
Increase in accrued interest receivable and other assets	(13,848)	(7,438)	(2,540)
Increase in accrued interest payable and other liabilities	8,700	12,566	2,307
Net cash provided by operating activities	53,676	63,262	43,171
Investing activities			
Purchases of securities available-for-sale	(661,086)	(478,798)	(384,260)
Proceeds from sale of securities available-for-sale	421	–	5,934
Proceeds from maturities of securities available-for-sale	652,411	468,271	320,952
Purchase of Federal Home Loan Bank Stock	(2,254)	–	–
Proceeds from sale of Federal Home Loan Bank stock	955	–	–
Proceeds from liquidation of private investment fund	92	–	–
Net increase in loans	(105,867)	(275,718)	(168,832)
Purchases of premises and equipment	(2,786)	(6,327)	(3,459)
Proceeds from disposal of equipment	–	66	–
Proceeds from mortality benefit of bank owned life insurance	977	–	–
Proceeds from sale of other real estate owned	2,432	1,826	2,541
Proceeds from the sale of other assets held for investment	–	1,108	–
Net cash used in investing activities	(114,705)	(289,572)	(227,124)
Financing activities			
Net increase in deposits	57,747	148,846	248,075
Net increase (decrease) in securities sold under agreements to repurchase and federal funds purchased	116,856	27,966	(29,946)
Proceeds from Federal Home Loan Bank advances	120,000	289,000	108,200

Repayments of Federal Home Loan Bank advances	(121,617)	(281,393)	(101,564)
Proceeds (used for) and received from settlement of stock awards	(216)	2,337	3,249
Excess tax benefits from share-based compensation arrangements	–	1,705	673
Common stock repurchases	(2,389)	(1,918)	(918)
Cash dividends paid	(18,077)	(16,093)	(14,224)
Net cash provided by financing activities	152,304	170,450	213,545
Net increase (decrease) in cash and cash equivalents	91,275	(55,860)	29,592
Cash and cash equivalents at beginning of year	47,973	103,833	74,241
Cash and cash equivalents at end of period	$139,248	$47,973	$103,833

See accompanying notes to consolidated financial statements.

9

Notes to Consolidated Financial Statements

(*1*) Summary of Significant Accounting Policies

Principles of Consolidation and Nature of Operations

The consolidated financial statements include accounts of Stock Yards Bancorp, Inc. (“Bancorp”) and its wholly owned subsidiary, Stock Yards Bank & Trust Company (“the Bank”). Significant intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to *2017* presentation. Bancorp has evaluated subsequent events for recognition or disclosure up to the date on which financial statements were issued and determined there were *none.*

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

Basis of Financial Statement Presentation and Use of Estimates

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

Cash Equivalents and Cash Flows

Cash and cash equivalents include cash and due from banks, federal funds sold and interest bearing due from banks as segregated in the accompanying consolidated balance sheets. The following supplemental cash flow information addresses certain cash payments and noncash transactions for each of the years in the *three*-year period ended *December 31, 2017* as follows:

(In thousands)	**Years ended December 31,**		
	2017	**2016**	**2015**
Cash payments:			
Income tax payments	$*15,838*	$*12,860*	$*13,831*
Cash paid for interest	*7,158*	*4,901*	*4,856*
Non-cash transactions:			
Transfers from loans to other real estate owned	$–	$*1,916*	$*1,146*

Securities

All of Bancorp's investments are available-for-sale. 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 expected life of the security. Gains or losses on sales of securities are computed on a specific identification basis. Declines in fair value of investment securities available-for-sale (with certain exceptions for debt securities noted below) that are deemed to be other-than-temporary are charged to earnings as a realized loss, and a new cost basis for the securities is established. In evaluating other-than-temporary impairment, management considers the length of time and extent to which fair value has been less than cost, financial condition and near-term prospects of the issuer, and the intent and ability of Bancorp to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value in the near term. Declines in fair value of debt securities below amortized cost are deemed to be other-than-temporary in circumstances where: (*1*) Bancorp has the intent to sell a security; (*2*) it is more likely than *not* that Bancorp will be required to sell the security before recovery of its amortized cost basis; or (*3*) Bancorp does *not* expect to recover the entire amortized cost basis of the security. If Bancorp intends to sell a security or if it is more likely than *not* that Bancorp will be required to sell the security before recovery, an other-than-temporary impairment write-down is recognized in earnings equal to the difference between the security's amortized cost basis and its fair value. If Bancorp does *not* intend to sell the security or it is *not* more likely than *not* that it will be required to sell the security before recovery, the other-than-temporary impairment write-down is separated into an amount representing credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income. Declines in value judged to be other-than-temporary are included in other non-interest expense in the consolidated statements of income. See Note *4* to Bancorp's consolidated financial statements for additional information on investment securities.

Table of Contents

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. The sales prices of all of these loans are covered by investor commitments.

Loans

Loans are stated at the unpaid principal balance plus deferred loan origination fees, net of deferred loan costs. Loan fees, net of any costs, are deferred and amortized over the life of the related loan on an effective yield basis. Interest income on loans is recorded on the accrual basis except for those loans in a non-accrual income status. Loans are placed in a non-accrual income status when prospects for recovering both principal and accrued interest are considered doubtful or when a default of principal or interest has existed for *90* days or more unless such 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. *No* interest income is recorded while a loan is on non-accrual until principal has been fully collected. Non-accrual loans *may* be returned to accrual status once prospects for recovering both principal and accrued interest are reasonably assured. Loans are accounted for as troubled debt restructurings (TDRs) when Bancorp, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would *not* otherwise consider. If a loan is restructured at a market rate for a new loan with comparable risk, *no* principal forgiveness has been granted, and the loan is *not* impaired based on the terms specified by the restructuring agreement, it shall be removed from TDR status generally after *six* months of performance.

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

Allowance for Loan Losses

The allowance for loan losses is management's estimate of probable losses inherent in the loan portfolio as of the balance sheet date. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Bancorp's allowance methodology is driven by risk ratings, historical losses, and qualitative factors. Assumptions include many factors such as changes in borrowers' financial condition 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. In the *first* quarter of *2017,* Bancorp extended the historical period used to capture Bancorp's historical loss ratios from *24* quarters to *28* quarters. This extension of the historical period used to capture Bancorp's historical loss ratios was applied to all classes and segments of our loan portfolio. The expansion of the look-back period for the quantitative historical loss rate caused us to review the overall methodology for the qualitative factors to ensure we were appropriately capturing the risk *not* addressed in the quantitative historical loss rate. The effect of the extension of the look-back period to *28* quarters resulted in a net decrease to the calculated quantitative portion of the allowance, but this was more than offset by an increase to the qualitative factors. The net impact of the extension of the look-back period was an increase in the allowance during the *first* quarter of *2017* of approximately *$474* thousand. The change in methodology was consistent with management's judgment regarding the risk in the loan portfolio and consistent with internal analysis showing continued strong asset quality *not* only in the Company's loan portfolio, but the Bank's peer group as well, validating the continuation of the current economic cycle and thus the reasoning to extend the look-back period. Management believes the extension of the look-back period is appropriate to capture the impact of a full economic cycle and provides sufficient loss observations to develop a reliable estimate. Management will continue to evaluate the appropriateness of the look-back period based on the status of the economic cycle.

Table of Contents

Bancorp's allowance calculation includes allocations to loan portfolio segments for qualitative factors including, among other factors, local economic and business conditions, the quality and experience of lending staff and management, exceptions to lending policies, levels of and trends in past due loans and loan classifications, concentrations of credit such as collateral type, trends in portfolio growth, trends in the value of underlying collateral for collateral-dependent loans, effect of other external factors such as the national economic and business trends, and the quality and depth of the loan review function. Bancorp utilizes the sum of all allowance amounts derived as described above as the appropriate level of allowance for loan and lease losses. 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.

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

The adequacy of the allowance for loan losses is monitored by executive management and reported quarterly to the Audit Committee of the Board of Directors. This committee has approved the overall methodology. 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.

The accounting policy related to the allowance for loan losses is applicable to the commercial banking segment of Bancorp.

Acquired loans

Bancorp acquired loans in *2013* as part of the acquisition referenced in Note *3* to the consolidated financial statements. Acquired loans were initially recorded at their acquisition date fair values. 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 would 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 is 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. Subsequent decreases to the expected cash flows require Bancorp to evaluate the need for an allowance for loan losses on these loans. Charge-offs of the principal amount on credit-impaired acquired loans would be *first* applied to non-accretable discount. Periodically the loans are re-evaluated to determine if subsequent credit deterioration has occurred or if cash flow expectations have improved. Based upon the evaluation loans *may* be reclassified between the accretable and non-accretable categories.

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 except that any initial fair value adjustment is taken into consideration when calculating any required allowance.

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.

Table of Contents

Other Assets

Bank-owned life insurance ("BOLI") is carried at net realizable value, which considers any applicable surrender charges. Also, Bancorp maintains life insurance policies 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.

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 fair value.

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

Securities Sold Under Agreements to Repurchase

Bancorp enters into sales of securities under agreement to repurchase. Such repurchase agreements are considered financing agreements, and mature within *one* business day from the transaction date. Accordingly, the obligation to repurchase assets sold is reflected as a liability in the consolidated balance sheets of Bancorp. Repurchase agreements are collateralized by debt securities which are owned and under the control of Bancorp. These agreements are used in conjunction with collateralized corporate customer cash management accounts.

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. These balances were previously recorded using a *35%* Federal marginal tax rate. The Tax Cuts and Jobs Act was enacted on *December 22, 2017* requiring an immediate recalculation of Bancorp's net deferred tax asset. The remeasurement was made using the *21%* Federal marginal tax rate which became effective *January 1, 2018,* and resulted in *$5.9* million of additional income tax expense in the *fourth* quarter of *2017.*

Bancorp periodically invests in certain partnerships with customers that yield historic tax credits, which are accounted for using the flow through method, which approximates the equity method, and/or low-income housing tax credits as well as tax deductible losses, which are accounted for using the effective yield method for older transactions or proportional amortization method for more recent transactions. The tax benefit of these investments exceeds amortization/impairment expense associated with them, resulting in a positive impact on net income.

Realization of deferred tax assets associated with the investment in partnerships is dependent upon generating sufficient taxable capital gain income prior to their expiration. A valuation allowance to reflect management's estimate of the temporary deductible differences that *may* expire prior to their utilization has been recorded at year-end *2017* and *2016.*

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, 2017* and *2016,* the gross amount of unrecognized tax benefits was *$40* thousand, details of which are included in Note *8* to these consolidated financials. 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. Stock Yards Bancorp, Inc. and its wholly-owned subsidiary file consolidated income tax returns in applicable jurisdictions.

Bancorp's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of *December 31, 2017* and *2016,* the amount accrued for the potential payment of interest and penalties was immaterial.

Table of Contents

Net Income Per Share

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

Comprehensive Income

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

Segment Information

Bancorp provides a broad range of financial services to individuals, corporations and others through its *37* full service banking locations as of *December 31, 2017.* These services include loan and deposit services, cash management services, securities brokerage activities, mortgage origination and wealth management and trust activities. Bancorp’s operations are considered by management to be aggregated in *two* reportable operating segments: commercial banking and wealth management and trust.

Stock-Based Compensation

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

Derivatives

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

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

Periodically, Bancorp enters into an interest rate swap transaction with a borrower, who desires to hedge exposure to rising interest rates, while at the same time entering into an offsetting interest rate swap, with substantially matching terms, with another approved independent counterparty. Because of matching terms of offsetting contracts and the collateral provisions mitigating any non-performance risk, changes in fair value subsequent to initial recognition have an insignificant effect on earnings. Because these derivative instruments have *not* been designated as hedging instruments, the derivative instruments are recognized on the consolidated balance sheet at fair value, with changes in fair value, due to changes in prevailing interest rates, recorded in other noninterest income.

Table of Contents

Bancorp had *no* fair value hedging relationships at *December 31, 2017* or *2016.* Bancorp does *not* use derivatives for trading or speculative purposes. See Note *22* to the consolidated financial statements for more information regarding derivatives.

(*2*) Restrictions on Cash and Due from Banks

Bancorp is required to maintain an average reserve balance in cash or with the Federal Reserve Bank relating to customer deposits. The amount of those required reserve balances was approximately *$8,071,000* and *$6,338,000* at *December 31, 2017* and *2016,* respectively, and is included in federal funds sold and interest bearing due from banks in the consolidated balance sheet.

(*3*) Acquisition

In *2013,* Bancorp completed the acquisition of *100%* of the outstanding shares of THE BANCorp, Inc. (“Oldham”), parent company of THE BANK – Oldham County, Inc. The transaction was 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. Bancorp recorded a core deposit intangible of *$2.5* million which is being amortized using methods that anticipate the life of the underlying deposits to which the intangible is attributable. At *December 31, 2017,* the unamortized core deposit intangible was *$1.2* million. See Note *7* for details on the core deposit intangible.

(*4*) Securities

All of Bancorp’s securities are available-for-sale. The amortized cost, unrealized gains and losses, and fair value of these securities follow:

(In thousands) **December 31, 2017**	**Amortized cost**	**Unrealized Gains**	**Losses**	**Fair value**
U.S. Treasury and other U.S. government obligations	$ *149,996*	$–	$*(12*)	$*149,984*
Government sponsored enterprise obligations	*214,852*	*474*	*(1,482*)	*213,844*

Mortgage-backed securities - government agencies	*163,571*	*383*	*(2,447)*	*161,507*
Obligations of states and political subdivisions	*48,987*	*365*	*(163)*	*49,189*
Total securities available-for-sale	$ *577,406*	$ *1,222*	$ *(4,104)*	$ *574,524*

(In thousands)	**Amortized**	**Unrealized**		**Fair**
December 31, 2016	**cost**	**Gains**	**Losses**	**value**
U.S. Treasury and other U.S. government obligations	$ *74,997*	$ *1*	$ *–*	$ *74,998*
Government sponsored enterprise obligations	*268,784*	*800*	*(1,494)*	*268,090*
Mortgage-backed securities - government agencies	*170,344*	*735*	*(2,236)*	*168,843*
Obligations of states and political subdivisions	*57,158*	*682*	*(396)*	*57,444*
Corporate equity securities	*653*	*46*	*–*	*699*
Total securities available-for-sale	$ *571,936*	$ *2,264*	$ *(4,126)*	$ *570,074*

Corporate equity securities, included in the available-for-sale portfolio at *December 31, 2016,* consisted of common stock in a publicly-traded small business investment company. Bancorp sold this security in *2017* for a loss of *$263* thousand. One security was called prior to maturity in the *third* quarter of *2017* resulting in the receipt of a *$31* thousand pre-payment penalty. The penalty income was classified as a realized gain on the call of available for sale securities. In *2016,* Bancorp did *not* sell any securities. In *2015* Bancorp sold securities with total fair market value of *$5.9* million, generating *no* gain or loss. These securities consisted of agency and mortgage-backed securities with small remaining balances. Sales were made in the ordinary course of portfolio management. Management has the intent and ability to hold all remaining investment securities available-for-sale for the foreseeable future.

Table of Contents

A summary of the securities available-for-sale by maturity as of *December 31, 2017* is shown below.

(In thousands)

Securities available-for-sale	**Amortized cost**	**Fair value**
Due within 1 year	$ *187,792*	$ *187,775*
Due after 1 but within 5 years	*97,119*	*96,441*
Due after 5 but within 10 years	*13,807*	*13,687*
Due after 10 years	*115,117*	*115,114*
Mortgage-backed securities - government agencies	*163,571*	*161,507*
Total securities available for sale	$ *577,406*	$ *574,524*

Actual maturities *may* differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties. The investment portfolio includes agency mortgage-backed securities, 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 on the underlying collateral.

Securities with a carrying value of *$384.7* million and *$380.4* million were pledged at *December 31, 2017* and *2016,* respectively, to secure accounts of commercial depositors in cash management accounts, public deposits, and uninsured cash balances for wealth management and trust accounts.

At *December 31, 2017* and *2016,* 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 *not* recognized in the statements of income are as follows:

(In thousands)	**Less than 12 months**		**12 months or more**		**Total**	
December 31, 2017	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
U.S. Treasury and U.S. obligations	$ *149,984*	$ *(12*)	$ –	$ –	$ *149,984*	$ *(12*)
Government sponsored enterprise obligations	*95,139*	*(586*)	*49,870*	*(896*)	*145,009*	*(1,482*)
	69,290	*(440*)	*67,047*	*(2,007*)	*136,337*	*(2,447*)

Mortgage-backed securities - government agencies						
Obligations of states and political subdivisions	*22,366*	*(107*)	*5,064*	*(56*)	*27,430*	*(163*)
Total temporarily impaired securities	$*336,779*	$ *(1,145*)	$*121,981*	$ *(2,959*)	$*458,760*	$ *(4,104*)
December 31, 2016						
Government sponsored enterprise obligations	$*154,951*	$ *(1,344*)	$*3,485*	$ *(150*)	$*158,436*	$ *(1,494*)
Mortgage-backed securities - government agencies	*115,374*	*(1,873*)	*9,914*	*(363*)	*125,288*	*(2,236*)
Obligations of states and political subdivisions	*29,893*	*(380*)	*1,478*	*(16*)	*31,371*	*(396*)
Total temporarily impaired securities	$*300,218*	$ *(3,597*)	$*14,877*	$ *(529*)	$*315,095*	$ *(4,126*)

The applicable dates for determining when securities are in an unrealized loss position are *December 31, 2017* and *2016.* As such, it is possible that a security had a market value lower than its amortized cost on other days during the past *twelve* months, but is *not* in the “Investments with an unrealized loss of less than *12* months” category above.

Unrealized losses on Bancorp's investment securities portfolio have *not* been recognized as expense because the securities are of high credit quality, and the decline in fair values is due to changes in the prevailing interest rate environment since the purchase date. Fair value is expected to recover as securities reach their maturity date and/or the interest rate environment returns to conditions similar to when these securities were purchased. Because management does *not* intend to sell the investments, and it is *not* likely that Bancorp will be required to sell the investments before recovery of their amortized cost bases, which *may* be maturity, Bancorp does *not* consider these securities to be other-than-temporarily impaired at *December 31, 2017.*

FHLB stock and other securities are investments held by Bancorp which are *not* readily marketable and are carried at cost. This category consists of holdings of Federal Home Loan Bank of Cincinnati ("FHLB") stock which are required for access to FHLB borrowing, and are classified as restricted securities.

(5) Loans

The composition of loans by primary loan portfolio class follows:

	December 31,	
(In thousands)	**2017**	**2016**
Commercial and industrial	$*779,014*	$*736,841*
Construction and development, excluding undeveloped land	*195,912*	*192,348*
Undeveloped land	*18,988*	*21,496*
Real estate mortgage:		
Commercial investment	*594,902*	*538,886*
Owner occupied commercial	*398,685*	*408,292*
1-4 family residential	*262,110*	*249,498*
Home equity - first lien	*57,110*	*55,325*
Home equity - junior lien	*63,981*	*67,519*
Subtotal: Real estate mortgage	*1,376,788*	*1,319,520*
Consumer	*38,868*	*35,170*
Total loans	$*2,409,570*	$*2,305,375*

Fees and costs of originating loans are deferred at origination and amortized over the life of the loan. Loan balances reported herein include deferred loan origination fees, net of deferred loan costs. At *December 31, 2017* and *2016,* net deferred loan origination costs exceeded deferred loan origination fees, resulting in net negative balances of *$600* thousand and *$459* thousand, respectively. The higher net balance at *December 31, 2017,* as compared to the same point in *2016,* is primarily due to a reduction in origination fees attributed to lower loan volume, as well as increased costs arising from increases in salaries and benefits expenses.

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

Bancorp occasionally enters into loan participation agreements with other banks in the ordinary course of business to diversify credit risk. For certain sold participation loans, Bancorp has retained effective control of the loans, typically by restricting the participating institutions from pledging or selling their share of the loan without permission from Bancorp. US GAAP requires the participated portion of these loans to be recorded as secured borrowings. The participated portions of these loans are included in the commercial and industrial loan (C&I) totals above, and a corresponding liability is reflected in other liabilities. At *December 31, 2017* and *2016,* the total participated portions of loans of this nature were *$18.2* million and *$15.8* million respectively.

Table of Contents

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

(In thousands)	Year ended December 31,	
Loans to directors and executive officers	**2017**	**2016**
Balance as of January 1	$*969*	$*866*
New loans	–	–
Repayment of term loans	*(175)*	*(340)*
Changes in balances of revolving lines of credit	*(165)*	*443*
Balance as of December 31	$*629*	$*969*

None of the loans to directors and executive officers were past due or considered potential problem loans during *2017* or *2016.*

The following tables present balances in the recorded investment in loans and allowance for loan losses by portfolio segment and based on impairment evaluation method as of *December 31, 2017, 2016* and *2015.*

(In thousands)	Type of loan					
December 31, 2017	**Commercial and industrial**	**Construction and development excluding undeveloped land**	**Undeveloped land**	**Real estate mortgage**	**Consumer**	**Total**
Loans	$*779,014*	$ *195,912*	$ *18,988*	$*1,376,788*	$ *38,868*	$*2,409,570*
Loans individually evaluated for impairment	$*1,176*	$ *664*	$ *474*	$*5,066*	$ –	$*7,380*
Loans collectively evaluated for impairment	$*777,838*	$ *195,248*	$ *18,514*	$*1,371,246*	$ *38,868*	$*2,401,714*
Loans acquired with deteriorated credit quality	$–	$ –	$ –	$*476*	$ –	$*476*

Construction

	Commercial and industrial	and development excluding undeveloped land	Undeveloped land	Real estate mortgage	Consumer	Total
Allowance for loan losses						
At December 31, 2016	$ *10,483*	$ *1,923*	$ *684*	$ *10,573*	$ *344*	$ *24,007*
Provision (credit)	*2,373*	*(199*)	*(163*)	*383*	*156*	*2,550*
Charge-offs	*(1,782*)	–	–	*(98*)	*(549*)	*(2,429*)
Recoveries	*202*	–	–	*154*	*401*	*757*
At December 31, 2017	$ *11,276*	$ *1,724*	$ *521*	$ *11,012*	$ *352*	$ *24,885*
Allowance for loans individually evaluated for impairment	$ *34*	$ –	$ –	$ *14*	$ –	$ *48*
Allowance for loans collectively evaluated for impairment	$ *11,242*	$ *1,724*	$ *521*	$ *10,998*	$ *352*	$ *24,837*
Allowance for loans acquired with deteriorated credit quality	$ –	$ –	$ –	$ –	$ –	$ –

18

Table of Contents

(In thousands)	Type of loan					
December 31, 2016	**Commercial and industrial**	**Construction and development excluding undeveloped land**	**Undeveloped land**	**Real estate mortgage**	**Consumer**	**Total**
Loans	$*736,841*	$ *192,348*	$ *21,496*	$*1,319,520*	$ *35,170*	$*2,305,375*
Loans individually evaluated for impairment	$*2,682*	$ *538*	$ *474*	$*2,516*	$ *59*	$*6,269*
Loans collectively evaluated for impairment	$*734,139*	$ *191,810*	$ *21,022*	$*1,316,400*	$ *35,111*	$*2,298,482*
Loans acquired with deteriorated credit quality	$*20*	$ –	$ –	$*604*	$ –	$*624*

	Commercial and industrial	**Construction and development excluding undeveloped land**	**Undeveloped land**	**Real estate mortgage**	**Consumer**	**Total**
Allowance for loan losses						
At December 31, 2015	$ *8,645*	$ *1,760*	$ *814*	$ *10,875*	$ *347*	$*22,441*
Provision (credit)	*2,775*	*275*	*(130*)	*(68*)	*148*	*3,000*
Charge-offs	*(1,216*)	*(133*)	–	*(576*)	*(568*)	*(2,493*)
Recoveries	*279*	*21*	–	*342*	*417*	*1,059*
At December 31, 2016	$ *10,483*	$ *1,923*	$ *684*	$ *10,573*	$ *344*	$*24,007*
Allowance for loans individually evaluated for impairment	$ *1,207*	$ –	$ *1*	$ –	$ *59*	$*1,267*
Allowance for loans collectively evaluated for impairment	$ *9,276*	$ *1,923*	$ *683*	$ *10,573*	$ *285*	$*22,740*
Allowance for loans acquired with deteriorated credit quality	$ –	$ –	$ –	$ –	$ –	$–

19

Table of Contents

(In thousands)	Type of loan					
December 31, 2015	**Commercial and industrial**	**Construction and development excluding undeveloped land**	**Undeveloped land**	**Real estate mortgage**	**Consumer**	**Total**
Loans	$*644,398*	$ *134,482*	$ *21,185*	$*1,197,411*	$ *35,531*	$*2,033,007*
Loans individually evaluated for impairment	$*4,635*	$ –	$ –	$*4,050*	$ *68*	$*8,753*
Loans collectively evaluated for impairment	$*639,760*	$ *134,160*	$ *21,185*	$*1,192,864*	$ *35,463*	$*2,023,432*
Loans acquired with deteriorated credit quality	$*3*	$ *322*	$ –	$*497*	$ –	$*822*

	Commercial and industrial	**Construction and development excluding undeveloped land**	**Undeveloped land**	**Real estate mortgage**	**Consumer**	**Total**
Allowance for loan losses						
At December 31, 2014	$ *11,819*	$ *721*	$ *1,545*	$ *10,541*	$ *294*	$*24,920*
Provision (credit)	*793*	*1,065*	*(2,131*)	*872*	*151*	*750*
Charge-offs	*(4,065*)	*(26*)	–	*(693*)	*(597*)	*(5,381*)
Recoveries	*98*	–	*1,400*	*155*	*499*	*2,152*
At December 31, 2015	$ *8,645*	$ *1,760*	$ *814*	$ *10,875*	$ *347*	$*22,441*
Allowance for loans individually evaluated for impairment	$ *268*	$ –	$ –	$ *208*	$ *68*	$*544*
Allowance for loans collectively evaluated for impairment	$ *8,377*	$ *1,760*	$ *814*	$ *10,667*	$ *279*	$*21,897*
Allowance for loans acquired with deteriorated credit quality	$ –	$ –	$ –	$ –	$ –	$–

The considerations by Bancorp in computing its allowance for loan losses are determined based on the various risk characteristics of each loan segment. Relevant risk characteristics are as follows:

Commercial and industrial loans: Loans in this category are made to businesses. Generally these loans are secured by assets of the business and repayment is expected from cash flows of the business. A decline in the strength of the business or a weakened economy and resultant decreased consumer and/or business spending *may* have a negative effect on credit quality in this loan category.

Construction and development, excluding undeveloped land: Loans in this category primarily include owner-occupied and investment construction loans and commercial development projects. In most cases, construction loans require only interest to be paid during construction. Upon completion or stabilization, the construction loan *may* convert to permanent financing in the real estate mortgage segment, requiring principal amortization. Repayment of development loans is derived from sale of lots or units including any pre-sold units. Credit risk is affected by construction delays, cost overruns, market conditions and availability of permanent financing, to the extent such permanent financing is *not* being provided by Bancorp.

Undeveloped land: Loans in this category are secured by land acquired for development by the borrower, but for which *no* development has yet taken place. Credit risk is primarily dependent upon financial strength of the borrower, but can also be affected by market conditions and time to sell lots at an adequate price. Credit risk is also affected by availability of permanent financing, including to the end user, to the extent such permanent financing is *not* being provided by Bancorp.

Table of Contents

Real estate mortgage: Loans in this category are made to and secured by owner-occupied residential real estate, owner-occupied real estate used for business purposes, and income-producing investment properties. For owner-occupied residential and owner-occupied commercial real estate, repayment is dependent on financial strength of the borrower. For income-producing investment properties, repayment is dependent on financial strength of both the tenants and the borrower. Underlying properties are generally located in Bancorp's primary market area. Cash flows of income producing investment properties *may* be adversely impacted by a downturn in the economy as reflected in increased vacancy rates, which in turn, will have an effect on credit quality and property values. Overall health of the economy, including unemployment rates and real estate prices, has an effect on credit quality in this loan category.

Consumer: Loans in this category *may* be either secured or unsecured and repayment is dependent on credit quality of the individual borrower and, if applicable, adequacy of collateral securing the loan. Therefore, overall health of the economy, including unemployment rates, as well as home and securities prices, will have a significant effect on credit quality in this loan category.

Bancorp had loans that were acquired in a *2013* acquisition, 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. *15* of those *19* loans originally identified as such have subsequently paid off with full collection of all principal and interest owed. The remaining *four* loans were re-evaluated in *2017* and based upon performance to date and the expectation that all cash flow will be consistent with the contractual terms, the remaining loans were re-classified into the accretable category with the remaining credit discount to be amortized into income over the remaining lives of the loans. The carrying amount of those loans is included in the balance sheet amounts for total loans at *December 31, 2017* and *2016.* Changes in the interest component of the fair value adjustment for acquired impaired loans for the years ended *December 31, 2016* and *2017* are shown in the following table:

(In thousands)	**Accretable discount**	**Non-accretable discount**
Balance at December 31, 2015	$ *3*	$ *189*
Accretion	*(3*)	*(41*)
Reclassifications from (to) non-accretable difference	–	–
Disposals	–	–
Balance at December 31, 2016	–	*148*
Accretion	–	*(43*)
Reclassifications from (to) non-accretable difference	*105*	*(105*)
Disposals		
Balance at December 31, 2017	$ *105*	$ –

Accretion in the non-accretable discount column represents accretion recorded upon payoff of loans.

The following tables present loans individually evaluated for impairment as of *December 31, 2017* and *2016.*

Table of Contents

(In thousands) **December 31, 2017**	**Recorded investment**	**Unpaid principal balance**	**Related allowance**	**Average recorded investment**
Loans with no related allowance recorded:				
Commercial and industrial	$ *1,142*	$ *2,202*	$ –	$ *411*
Construction and development, excluding undeveloped land	*664*	*834*	–	*559*
Undeveloped land	*474*	*506*	–	*425*
Real estate mortgage				
Commercial investment	*52*	*53*	–	*110*
Owner occupied commercial	*3,332*	*3,789*	–	*1,678*
1-4 family residential	*1,637*	*1,657*	–	*935*
Home equity - first lien	–	–	–	–
Home equity - junior lien	*31*	*31*	–	*186*
Subtotal: Real estate mortgage	*5,052*	*5,530*	–	*2,909*
Consumer	–	–	–	–
Subtotal	$ *7,332*	$ *9,072*	$ –	$ *4,304*
Loans with an allowance recorded:				
Commercial and industrial	$ *34*	$ *34*	$ *34*	$ *1,882*
Construction and development, excluding undeveloped land	–			
Undeveloped land	–			*48*
Real estate mortgage				
Commercial investment	–	–	–	–
Owner occupied commercial	–	–	–	–
1-4 family residential	*14*	*14*	*14*	*5*
Home equity - first lien	–	–	–	–
Home equity - junior lien	–	–	–	–
Subtotal: Real estate mortgage	*14*	*14*	*14*	*5*
Consumer	–	–	–	*46*
Subtotal	$ *48*	$ *48*	$ *48*	$ *1,981*
Total:				
Commercial and industrial	$ *1,176*	$ *2,236*	$ *34*	$ *2,293*
Construction and development, excluding undeveloped land	*664*	*834*	–	*559*
Undeveloped land	*474*	*506*	–	*473*
Real estate mortgage				
Commercial investment	*52*	*53*	–	*110*
Owner occupied commercial	*3,332*	*3,789*	–	*1,678*
1-4 family residential	*1,651*	*1,671*	*14*	*940*
Home equity - first lien	–	–	–	–
Home equity - junior lien	*31*	*31*	–	*186*
Subtotal: Real estate mortgage	*5,066*	*5,544*	*14*	*2,914*

Consumer	*–*	*–*	*–*	*46*
Total	$ *7,380*	$ *9,120*	$ *48*	$ *6,285*

Table of Contents

(In thousands) **December 31, 2016**	**Recorded investment**	**Unpaid principal balance**	**Related allowance**	**Average recorded investment**
Loans with no related allowance recorded:				
Commercial and industrial	$ *322*	$ *465*	$ *–*	$ *1,947*
Construction and development, excluding undeveloped land	*538*	*708*	*–*	*108*
Undeveloped land	*233*	*265*	*–*	*76*
Real estate mortgage				
Commercial investment	*107*	*107*	*–*	*193*
Owner occupied commercial	*1,042*	*1,479*	*–*	*1,356*
1-4 family residential	*984*	*985*	*–*	*980*
Home equity - first lien	*–*	*–*	*–*	*3*
Home equity - junior lien	*383*	*383*	*–*	*315*
Subtotal: Real estate mortgage	*2,516*	*2,954*	*–*	*2,847*
Consumer	*–*	*–*	*–*	*18*
Subtotal	$ *3,609*	$ *4,392*	$ *–*	$ *4,996*
Loans with an allowance recorded:				
Commercial and industrial	$ *2,360*	$ *2,835*	$ *1,207*	$ *1,619*
Construction and development, excluding undeveloped land	*–*	*–*	*–*	*182*
Undeveloped land	*241*	*241*	*1*	*149*
Real estate mortgage				
Commercial investment	*–*	*–*	*–*	*–*
Owner occupied commercial	*–*	*–*	*–*	*554*
1-4 family residential	*–*	*–*	*–*	*–*
Home equity - first lien	*–*	*–*	*–*	*–*
Home equity - junior lien	*–*	*–*	*–*	*–*
Subtotal: Real estate mortgage	*–*	*–*	*–*	*554*
Consumer	*59*	*59*	*59*	*63*
Subtotal	$ *2,660*	$ *3,135*	$ *1,267*	$ *2,567*
Total:				
Commercial and industrial	$ *2,682*	$ *3,300*	$ *1,207*	$ *3,566*
Construction and development, excluding undeveloped land	*538*	*708*	*–*	*290*
Undeveloped land	*474*	*506*	*1*	*225*
Real estate mortgage	*–*	*–*	*–*	*–*
Commercial investment	*107*	*107*	*–*	*193*
Owner occupied commercial	*1,042*	*1,479*	*–*	*1,910*
1-4 family residential	*984*	*985*	*–*	*980*
Home equity - first lien	*–*	*–*	*–*	*3*
Home equity - junior lien	*383*	*383*	*–*	*315*
Subtotal: Real estate mortgage	*2,516*	*2,954*	*–*	*3,401*

Consumer	*59*	*59*	*59*	*81*
Total	$ *6,269*	$ *7,527*	$ *1,267*	$ *7,563*

Table of Contents

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

Interest paid on impaired or non-accrual loans that was used to reduce principal was *$338* thousand, *$307* thousand and *$521* thousand in *2017, 2016* and *2015,* respectively. Interest income that would have been recorded if non-accrual loans were on a current basis in accordance with their original terms was *$159* thousand, *$149* thousand and *$465* thousand in *2017, 2016* and *2015,* 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 *$2* thousand and *$438* thousand at *December 31, 2017* and *2016,* respectively.

The following table presents the recorded investment in non-accrual loans as of *December 31, 2017* and *2016.*

	December 31,	
(In thousands)	**2017**	**2016**
Commercial and industrial	$*321*	$*1,767*
Construction and development, excluding undeveloped land	*664*	*538*
Undeveloped land	*474*	*474*
Real estate mortgage		
Commercial investment	*52*	*107*
Owner occupied commercial	*3,332*	*1,042*
1-4 family residential	*1,637*	*984*
Home equity - first lien	–	–
Home equity - junior lien	*31*	*383*
Subtotal: Real estate mortgage	*5,052*	*2,516*
Consumer	–	–
Total	$*6,511*	$*5,295*

In the course of working with borrowers, Bancorp *may* elect to restructure the contractual terms of certain loans. A troubled debt restructuring (TDRs) occurs when, for economic or legal reasons related to a borrower's financial difficulties, Bancorp grants a concession to the borrower that it would *not* otherwise consider. Bancorp had *$869* thousand and *$974* thousand of accruing loans classified as TDRs, at *December 31, 2017* and *2016,* respectively. Two loans were designated as TDRs during *2017.* A commercial loan with a pre- and post-modification recorded investment of *$39* thousand was given a payment concession so as to enable the borrower to fulfill the loan agreement. A *1-4* family residential loan with a pre-modification recorded investment of *$12* thousand was renewed with interest capitalized resulting in a post-modification recorded investment of *$14* thousand. Specific reserves for the full amounts of both loans were established. Two other commercial loans were considered TDRs as of *December 31, 2017.* Loans reported in *2016* as TDRs consisted of *two* commercial loans, to a single borrower, and *one* consumer loan. Bancorp did *not* identify and report any additional loans as TDRs during the years ended *December 31, 2016* and *2015. No* loans classified as TDRs in *2015, 2016* or *2017* subsequently defaulted within *12* months.

Loans accounted for as TDRs are individually evaluated for impairment. At *December 31, 2017* loans reported as TDRs had a total allowance allocation of *$48* thousand, compared to *$207* thousand at *December 31, 2016.* At *December 31, 2017* and *2016,* Bancorp had *no* outstanding commitments to lend additional funds to borrowers whose loans have been classified as TDRs. As of *December 31, 2017* formal foreclosure proceedings were in process on *two* loans with a total recorded investment of *$62* thousand.

24

Table of Contents

The following table presents the aging of the recorded investment in loans as of *December 31, 2017* and *2016.*

(In thousands)							
December 31, 2017	**Current**	**30-59 days past due**	**60-89 days past due**	**90 or more days past due (includes) non-accrual)**	**Total past due**	**Total loans**	**Recorded investment > 90 days and accruing**
Commercial and industrial	$*776,118*	$*2,571*	$*4*	$ *321*	$*2,896*	$*779,014*	$ –
Construction and development, excluding undeveloped land	*194,936*	–	*312*	*664*	*976*	*195,912*	–
Undeveloped land	*18,514*	–	–	*474*	*474*	*18,988*	–
Real estate mortgage							
Commercial investment	*594,242*	*608*	–	*52*	*660*	*594,902*	–
Owner occupied Commercial	*394,623*	*455*	*275*	*3,332*	*4,062*	*398,685*	–
1-4 family residential	*259,994*	*172*	*307*	*1,637*	*2,116*	*262,110*	–
Home equity - first lien	*56,938*	*172*	–	–	*172*	*57,110*	–
Home equity - junior lien	*63,667*	*87*	*194*	*33*	*314*	*63,981*	*2*
Subtotal: Real estate mortgage	*1,369,464*	*1,494*	*776*	*5,054*	*7,324*	*1,376,788*	*2*
Consumer	*38,699*	*86*	*83*	–	*169*	*38,868*	–
Total	$*2,397,731*	$*4,151*	$*1,175*	$ *6,513*	$*11,839*	$*2,409,570*	$ *2*
December 31, 2016							
Commercial and industrial	$*734,682*	$*84*	$*290*	$ *1,785*	$*2,159*	$*736,841*	$ *18*
Construction and development, excluding undeveloped land	*191,810*	–	–	*538*	*538*	*192,348*	–
Undeveloped land	*21,022*	–	–	*474*	*474*	*21,496*	–
Real estate mortgage							
Commercial investment	*537,998*	*631*	*64*	*193*	*888*	*538,886*	*86*
Owner occupied commercial	*406,726*	*342*	–	*1,224*	*1,566*	*408,292*	*182*
1-4 family residential	*246,730*	*1,174*	*576*	*1,018*	*2,768*	*249,498*	*34*
Home equity - first lien	*55,027*	*231*	*21*	*46*	*298*	*55,325*	*46*
Home equity - junior lien	*66,911*	*99*	*126*	*383*	*608*	*67,519*	*72*
Subtotal: Real estate mortgage	*1,313,392*	*2,477*	*787*	*2,864*	*6,128*	*1,319,520*	*420*
Consumer	*34,965*	*28*	*105*	*72*	*205*	*35,170*	–
Total	$*2,295,871*	$*2,589*	$*1,182*	$ *5,733*	$*9,504*	$*2,305,375*	$ *438*

Table of Contents

Consistent with regulatory guidance, 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 include all risk-rated loans other than those classified as other assets especially mentioned, substandard, and doubtful, which are defined below:

Other assets especially mentioned ("OAEM"): Loans classified as OAEM have a potential weakness that deserves management's close attention. These potential weaknesses *may* result in deterioration of repayment prospects for the loan or of Bancorp's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the paying capacity of the obligor or of collateral pledged, if any. Loans so classified have well-defined weaknesses that *may* jeopardize repayment of the debt. Default is a distinct possibility if the deficiencies are *not* corrected.

Substandard non-performing: Loans classified as substandard non-performing have deteriorated beyond 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 weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

As of *December 31, 2017* and *2016,* internally assigned risk grades of loans by category were as follows:

(In thousands) **December 31, 2017**	**Pass**	**OAEM**	**Substandard**	**Substandard non-performing**	**Doubtful**	**Total loans**
Commercial and industrial	$*751,628*	$*12,032*	$ *14,178*	$ *1,176*	$ –	$*779,014*
Construction and development, excluding undeveloped land	*195,248*	–	–	*664*	–	*195,912*
Undeveloped land	*18,484*	–	*30*	*474*	–	*18,988*
Real estate mortgage						
Commercial investment	*591,232*	*3,599*	*19*	*52*	–	*594,902*
Owner occupied commercial	*383,455*	*8,683*	*3,215*	*3,332*	–	*398,685*
1-4 family residential	*256,968*	*2,477*	*1,014*	*1,651*	–	*262,110*
Home equity - first lien	*57,110*	–	–	–	–	*57,110*
Home equity - junior lien	*63,471*	*247*	*230*	*33*	–	*63,981*
Subtotal: Real estate mortgage	*1,352,236*	*15,006*	*4,478*	*5,068*	–	*1,376,788*

Consumer	*38,747*	*117*	*4*	–	–	*38,868*
Total	$*2,356,343*	$*27,155*	$ *18,690*	$ *7,382*	$ –	$*2,409,570*
December 31, 2016						
Commercial and industrial	$*714,025*	$*14,266*	$ *5,850*	$ *2,700*	$ –	$*736,841*
Construction and development, excluding undeveloped land	*191,455*	–	*355*	*538*	–	*192,348*
Undeveloped land	*21,022*	–	–	*474*	–	*21,496*
Real estate mortgage						
Commercial investment	*538,688*	–	*5*	*193*	–	*538,886*
Owner occupied Commercial	*396,997*	*7,960*	*2,111*	*1,224*	–	*408,292*
1-4 family residential	*247,888*	–	*592*	*1,018*	–	*249,498*
Home equity - first lien	*55,279*	–	–	*46*	–	*55,325*
Home equity - junior lien	*66,710*	–	*426*	*383*	–	*67,519*
Subtotal: Real estate mortgage	*1,305,562*	*7,960*	*3,134*	*2,864*	–	*1,319,520*
Consumer	*35,039*	–	–	*131*	–	*35,170*
Total	$*2,267,103*	$*22,226*	$ *9,339*	$ *6,707*	$ –	$*2,305,375*

Table of Contents

(*6*) Premises and Equipment

A summary of premises and equipment follows:

(In thousands)	December 31, 2017	2016
Land	$*7,118*	$*7,118*
Buildings and improvements	*47,924*	*47,398*
Furniture and equipment	*18,511*	*20,758*
Construction in progress	*1,496*	*51*
	75,049	*75,325*
Accumulated depreciation and amortization	*(33,394*)	*(32,941*)
Total premises and equipment	$*41,655*	$*42,384*

Depreciation expense related to premises and equipment was *$3.5* million in *2017, $3.2* million in *2016* and *$3.0* million in *2015.*

(*7*) Other Assets

A summary of major components of other assets follows:

(In thousands)	December 31, 2017	2016
Cash surrender value of life insurance other than BOLI	$*16,213*	$*13,543*
Net deferred tax asset	*9,206*	*12,896*
Investments in tax credit related ventures	*3,216*	*5,244*
Other real estate owned and other foreclosed property	*2,640*	*5,033*
Other short term receivables	*2,215*	*2,100*

Core deposit intangible	*1,225*	*1,405*
Mortgage servicing rights (MSRs)	*875*	*921*
Goodwill	*682*	*682*
Other	*12,234*	*7,553*
Total	$*48,506*	$*49,377*

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

Mortgage servicing rights (MSRs) are initially recognized at fair value when mortgage loans are sold and 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. Estimated fair values of MSRs at *December 31, 2017* and *2016* were *$3.1* million and *$2.7* million, respectively. Total outstanding principal balances of loans serviced by Bancorp were *$344.5* million and *$372.2* million at *December 31, 2017,* and *2016* respectively.

Table of Contents

Changes in the net carrying amount of MSRs are shown in the following table.

(In thousands)	**2017**	**2016**
Balance at January 1	$*921*	$*1,018*
Originations	*225*	*177*
Amortization	*(271)*	*(274)*
Balance at December 31	$*875*	$*921*

(*8*) Income Taxes

Components of income tax expense (benefit) from operations were as follows:

(In thousands)	**2017**	**2016**	**2015**
Current tax expense			
Federal	$*12,622*	$*14,270*	$*15,478*
State	*546*	*698*	*608*
Total current tax expense	*13,168*	*14,968*	*16,086*
Deferred tax expense (benefit)			
Federal	*3,783*	*192*	*748*
State	*(4)*	*36*	*54*
Total deferred tax expense (benefit)	*3,779*	*228*	*802*
Change in valuation allowance	*192*	*48*	*45*
Total income tax expense	$*17,139*	$*15,244*	$*16,933*

Components of income tax (benefit) expense recorded directly to stockholders’ equity were as follows:

(In thousands)	**2017**	**2016**	**2015**
Unrealized (loss) gain on securities available for sale	$*(531)*	$*(1,171)*	$*(839)*
Reclassification adjustment for securities losses realized in income	*81*	–	–

Reclassification adjustment for securities impairment realized in income	–	–	36
Unrealized (loss) gain on derivatives	112	24	(41)
Minimum pension liability adjustment	(9)	1	61
Compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	–	(1,705)	(673)
Total income tax (benefit) expense recorded directly to stockholders' equity	$(347)	$(2,851)	$(1,456)

28

Table of Contents

An analysis of the difference between the statutory and effective tax rates from operations follows:

	Year ended December 31,		
	2017	**2016**	**2015**
U.S. federal income tax rate	*35.0* %	*35.0*%	*35.0*%
Tax credits	*(14.4*)	*(9.7*)	*(2.5*)
Net deferred tax asset remeasurement	*10.8*	–	–
Amortization/impairment of investments in tax credit partnerships	*3.4*	*2.8*	*0.4*
Stock based compensation	*(2.6*)	–	–
Cash surrender value of life insurance	*(1.5*)	*(0.9*)	*(0.8*)
Tax exempt interest income	*(1.2*)	*(1.2*)	*(1.4*)
Other, net	*0.9*	*0.3*	*(0.2*)
State income taxes	*0.7*	*0.8*	*0.8*
Effective tax rate	*31.1* %	*27.1*%	*31.3*%

The increase in effective tax rate from *2016* to *2017* was the result of the *one*-time, non-cash charge resulting from the remeasurement of deferred taxes as a result of tax reform somewhat offset by higher utilization of tax credits during the year. The Tax Cuts and Jobs Act was enacted in *December 2017* requiring an immediate recalculation of Bancorp's net deferred tax asset which resulted in *$5.9* million of additional income tax expense in the *fourth* quarter of *2017.* The effective tax rate in *2017* was also reduced by the adoption of ASU *2016-09* "Compensation – Stock Compensation Improvements to Employee Share-Based Payment Accounting". The new standard requires excess tax benefits and deficiencies related to share-based payment awards to be reflected in the statement of operations as a component of the provision for income taxes. For *2017* Bancorp recorded a benefit of *$1.5* million for such excess benefits against the provision for income tax expense. Prior to adoption of ASU *2016-09,* these tax benefits were recorded directly to additional paid-in capital. Tax benefits recorded to capital for *2016* and *2015* were *$1.7* million and *$673* thousand, respectively.

The decrease in the effective tax rate from *2015* to *2016* was largely the result of higher utilization of tax credits in *2016.* Bancorp invests in certain partnerships that yield federal income tax credits. The tax benefit of these investments exceeds the amortization and impairment expense associated with them, resulting in a positive impact on income.

In *December 2017,* the U.S. Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin *No. 118* ("SAB *118"*) to address any uncertainty or diversity of views in practice in accounting for the income tax effects of tax reform in situations where a registrant does *not* have the necessary information available, prepared or analyzed in reasonable detail to complete this accounting in the reporting period that includes the enactment date. SAB *118* allows a measurement period *not* to extend beyond *one* year from the tax reform's enactment date to complete the necessary accounting.

In *two* areas, Bancorp recorded provisional amounts of deferred taxes where the information was *not* available to complete the accounting: *1*) the Company's deferred tax assets of *$565* thousand for temporary differences in certain tax credit investments is awaiting receipt of Schedule K-*1s* from outside preparers. *2*) Bancorp estimated that *no* reductions are required to deferred tax assets included in the *$19* thousand of future deductions for compensation that might be subject to new limitations under Code Sec. *162*(m) which, generally, limits to *$1* million annual deductions for certain compensation paid to certain executives. There is uncertainty in applying new rules to existing contracts, and Bancorp is seeking clarification before finalizing its analysis. In a *third* area, the Company recorded *no* provisional amounts to its deferred tax liability for temporary differences between the tax and financial reporting bases of certain property and equipment items. These cannot be reasonably estimated. Bancorp's deferred tax liability of *$541* thousand for temporary differences between the tax and financial reporting bases of fixed assets is awaiting completion of a cost segregation study to take advantage of additional depreciation deductions available through tax reform. Bancorp will complete and record income tax effects of tax reform during the period the necessary information becomes available. This measurement period will *not* extend beyond *December 22, 2018.*

Table of Contents

The effects of temporary differences that gave rise to significant portions of deferred tax assets and deferred tax liabilities follows:

	December 31,	
(In thousands)	**2017**	**2016**
Allowance for loan loss	$*5,422*	$*8,581*
Deferred compensation	*4,148*	*5,589*
Accrued expenses	*798*	*1,360*
Investments in partnerships	*565*	*905*
Write-downs and costs associated with other real estate owned	*39*	*29*
Loans	*442*	*685*
Other-than-temporary impairment	–	*37*
Securities	*121*	–
Other assets	*186*	*185*
Total deferred tax assets	*11,721*	*17,371*
Securities	–	*438*
Property and equipment	*764*	*1,409*
Loan costs	*588*	*923*
Mortgage servicing rights	*161*	*280*
Leases	*149*	*381*
Core deposit intangible	*267*	*502*
Other liabilities	*260*	*408*
Total deferred tax liabilities	*2,189*	*4,341*
Valuation allowance	*(326*)	*(134*)
Net deferred tax asset	$*9,206*	$*12,896*

A valuation allowance is recognized for a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-*not* that some portion of the entire deferred tax asset will *not* be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projection for future taxable income over the periods which the temporary differences resulting in the remaining deferred tax assets are deductible, management believes it is more-likely-than-*not* that Bancorp will realize the benefits of these deductible differences, net of the valuation allowance, at *December 31, 2017.*

Realization of deferred tax assets associated with the investment in tax credit partnerships is dependent upon generating sufficient taxable capital gain income prior to their expiration. A valuation allowance of *$326* thousand and *$134* thousand to reflect management's estimate of the temporary deductible differences that *may* expire prior to their utilization has been recorded as of *December 31, 2017* and *2016,* respectively.

US GAAP provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. As *December 31, 2017* and *2016,* the gross amount of unrecognized tax benefits, including penalties and interest, was *$40* thousand. If recognized, 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 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 addition or elimination of uncertain tax positions. Federal and state income tax returns are subject to examination for the years after *2013.*

Table of Contents

A reconciliation of the amount of unrecognized tax benefits follows:

(In thousands)	**2017**	**2016**
Balance as of January 1	$ *40*	$ *40*
Increases - current year tax positions	*11*	*11*
Increases - prior year tax positions	–	–
Settlements	–	–
Lapse of statute of limitations	*(11*)	*(11*)
Balance as of December 31	$ *40*	$ *40*

(*9*) Deposits

The composition of interest bearing deposits follows:

	December 31,	
(In thousands)	**2017**	**2016**
Interest bearing demand	$ *833,450*	$ *768,139*
Savings	*152,348*	*140,030*
Money market	*682,226*	*682,421*
Time deposits of more than $250,000	*38,439*	*40,427*
Other time deposits	*197,135*	*209,375*
Total interest bearing deposits	$ *1,903,598*	$ *1,840,392*

Interest expense related to certificates of deposit and other time deposits in denominations of *$250* thousand or more was *$161* thousand, *$231* thousand and *$313* thousand, respectively, for the years ended *December 31, 2017, 2016* and *2015.*

At *December 31, 2017,* the scheduled maturities of time deposits were as follows (in thousands):

2018	$ *166,219*

2019	*42,857*
2020	*13,100*
2021	*7,646*
2022 and thereafter	*5,752*
Total time deposits	$*235,574*

Deposits of directors and their associates, including deposits of companies for which directors are principal owners, and executive officers were *$28.5* million and *$30.5* million at *December 31, 2017* and *2016,* respectively.

At *December 31, 2017* and *2016,* Bancorp had *$614* thousand and *$449* thousand, respectively, of deposits accounts in overdraft status and thus have been reclassified to loans on the accompanying consolidated balance sheets.

Table of Contents

(*10*) Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are a funding source of Bancorp and are primarily used by commercial customers in conjunction with collateralized corporate cash management accounts. Such repurchase agreements are considered financing agreements and mature within *one* business day from the transaction date. At *December 31, 2017,* all of these financing arrangements had overnight maturities and were secured by government sponsored enterprise obligations and government agency mortgage-backed securities which were owned and controlled by Bancorp.

Information concerning securities sold under agreements to repurchase is summarized as follows:

(Dollars in thousands)	**2017**	**2016**
Average balance during the year	$*70,187*	$*62,670*
Average interest rate during the year	*0.19* %	*0.22* %
Maximum month-end balance during the year	$*75,365*	$*72,029*

(*11*) Advances from the Federal Home Loan Bank

Bancorp had outstanding borrowings of $*49.5* million at *December 31, 2017,* via *fourteen* separate fixed-rate 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 remaining advances totaling *$19.5* million, principal and interest payments are due monthly based on an amortization schedule.

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

(In thousands)	**December 31, 2017**		**December 31, 2016**	
Year	**Advance**	**Fixed Rate**	**Advance**	**Fixed Rate**
2018	$*30,000*	*1.48* %	$*30,000*	*0.70* %
2020	*1,741*	*2.23*	*1,790*	*2.23*
2021	*288*	*2.12*	*359*	*2.12*

2024	*2,454*	*2.36*	*2,661*	*2.36*
2025	*5,149*	*2.42*	*6,025*	*2.43*
2026	*8,564*	*1.99*	*8,936*	*1.99*
2028	*1,262*	*1.49*	*1,304*	*1.48*
Total	$*49,458*	*1.74* %	$*51,075*	*1.30* %

In addition to fixed-rate advances listed above, at *December 31, 2017,* Bancorp had a *$150* million cash management advance from the FHLB. This advance matured in the *first* week of *January 2018* and was used to manage Bancorp's overall cash position. Due to the short-term nature of the advance, it was recorded on the consolidated balance sheet within federal funds purchased.

Advances from the FHLB are collateralized by certain commercial and residential real estate mortgage loans under a blanket mortgage collateral agreement and FHLB stock. Bancorp views the borrowings as an effective alternative to brokered deposits to fund loan growth. At *December 31, 2017,* the amount of available credit from the FHLB totaled *$333* million.

Table of Contents

(*12*) Other Comprehensive Income (Loss)

The following table illustrates activity within the balances in accumulated other comprehensive income (loss) by component, and is shown for the years ended *December 31, 2017, 2016,* and *2015.*

(In thousands)	Net unrealized gains (losses) on securities available-for-sale	Net unrealized gains (losses) on cash flow hedges	Minimum pension liability adjustment	Total
Balance at December 31, 2014	$ *2,456*	$ *16*	$ *(387*)	$*2,085*
Other comprehensive (loss) income before reclassifications	*(1,558*)	*(76*)	*114*	*(1,520*)
Amounts reclassified from accumulated other comprehensive income	*67*	–	–	*67*
Net current period other comprehensive (loss) income	*(1,491*)	*(76*)	*114*	*(1,453*)
Balance at December 31, 2015	$ *965*	$ *(60*)	$ *(273*)	$*632*
Other comprehensive (loss) income before reclassifications	*(2,176*)	*44*	*1*	*(2,131*)
Amounts reclassified from accumulated other comprehensive income	–	–	–	–
Net current period other comprehensive (loss) income	*(2,176*)	*44*	*1*	*(2,131*)
Balance at December 31, 2016	$ *(1,211*)	$ *(16*)	$ *(272*)	$*(1,499*)
Other comprehensive income (loss) before reclassifications	*(721*)	*209*	*(70*)	*(582*)
Amounts reclassified from accumulated other comprehensive income	*151*	–	–	*151*
Net current period other comprehensive income (loss)	*(1,067*)	*250*	*(120*)	*(431*)
Balance at December 31, 2017	$ *(2,278*)	$ *234*	$ *(392*)	$*(1,930*)

2017 other comprehensive income includes a total of *$506* thousand income from remeasurement of deferred tax assets and liabilities. ASU *2018-02,* issued in *February 2018,* provides for the reclassification into retained earnings of tax effects stranded in other comprehensive income as a result of tax reform. Bancorp is evaluating timing of adopting ASU *2018-02* guidance, which will result in *$506* thousand being reclassified into retained earnings.

Table of Contents

The following table illustrates activity within the reclassifications out of accumulated other comprehensive income (loss), for the years ended *December 31, 2017, 2016* and *2015.*

Details of accumulated other comprehensive income (loss) components	**Amount reclassified from Accumulated other comprehensive income (loss)**			**Affected line item in the consolidated statements of income**
	For the years ended December 31,			
(In thousands)	2017	2016	2015	
Unrealized gains (losses) on securities available-for-sale:				
Realized loss on sale of available-for-sale securities	$*(232)*	$ –	$–	Loss on sale of securities
OTTI impairment of equity security	–	–	*(103)*	Other non-interest expense
Effect of income taxes	*81*	–	*36*	Income tax expense
Reclassifications, net of income taxes	$*(151)*	$ –	$*(67*)	

(*13*) Preferred Stock and Common Stock

Bancorp has a class of preferred stock (*no* par value; *1,000,000* shares authorized); the relative rights, preferences and other terms of the class 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.

At Bancorp's *2015* Annual Meeting of Shareholders, shareholders approved increasing the number of authorized common shares from *20,000,000* to *40,000,000.*

(*14*) Stock Split

On *April 29, 2016* Bancorp declared a *3* for *2* stock split to be effected as a *50%* stock dividend to shareholders of record on *May 13, 2016,* paid *May 27, 2016* in the form of a *50%* stock dividend. Share and per share information has been adjusted as necessary to reflect this split.

(*15*) Net Income per Share and Common Stock Dividends

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

(In thousands, except per share data)	**2017**	**2016**	**2015**
Net income, basic and diluted	$*38,043*	$*41,027*	$*37,187*
Average shares outstanding, basic	*22,532*	*22,356*	*22,088*
Effect of dilutive securities	*451*	*436*	*371*
Average shares outstanding including dilutive securities	*22,983*	*22,792*	*22,459*
Net income per share, basic	$*1.69*	$*1.84*	$*1.68*
Net income per share, diluted	$*1.66*	$*1.80*	$*1.65*

34

Table of Contents

(*16*) Employee Benefit Plans

Bancorp has a combined employee stock ownership and profit sharing plan ("KSOP"). The plan is a defined contribution plan and is available to all employees meeting certain eligibility requirements. In general, for employees who work more than *1,000* hours per year, Bancorp matches employee contributions up to *6%* of the employee's salary, and contributes an amount of Bancorp stock equal to *2%* of the employee's salary. Employer matching expenses related to contributions to the plan for *2017, 2016,* and *2015* were *$2.0* million, *$1.9* million and *$1.8* million, respectively, and are recorded on the consolidated statements of income within employee benefits. Employee and employer contributions are made in accordance with the terms of the plan. As of *December 31, 2017* and *2016,* the KSOP held *577* thousand and *567* thousand shares of Bancorp stock, respectively.

In addition Bancorp has non-qualified plans into which directors and certain senior officers *may* defer director fees or salary/incentives. Bancorp matched certain executives' deferrals into the senior officers' plan amounting to approximately *$232* thousand, *$293* thousand and *$171* thousand in *2017, 2016* and *2015* respectively. At *December 31, 2017* and *2016,* the amounts included in other liabilities in the consolidated financial statements for this plan were *$8.2* million and *$5.6* million, were comprised primarily of participants' contributions, and represented the fair value of mutual fund investments directed by participants.

Bancorp sponsors an unfunded non-qualified defined benefit retirement plan for *three* key officers (*two* current and *one* retired), and has *no* plans to increase the number of or the benefits to participants. Benefits vest based on *25* years of service. Participants are fully vested. Bancorp uses a *December 31* measurement date for this plan. The accumulated benefit obligation for the plan included in other liabilities in the consolidated financial statements was *$2.2* million and *$2.1* million as of *December 31, 2017* and *December 31, 2016,* respectively. Discount rates of *3.59%* and *4.10%* were used in *2017* and *2016,* respectively, in determining the actuarial present value of the projected benefit obligation. Actuarially determined pension costs are expensed and accrued over the service period, and benefits are paid from Bancorp's assets. Bancorp maintains life insurance policies, for which it is the ultimate beneficiary, on participants and certain former executives. Income from these policies helps offset the cost of benefits. The liability for Bancorp's plan met the benefit obligation as of *December 31, 2017* and *2016.*

Information about the components of the net periodic benefit cost of the defined benefit plan, recorded in salaries and employee benefits, is as follows:

	Year ended December 31,		
(In thousands)	**2017**	**2016**	**2015**
Components of net periodic benefit cost:			

Service cost	$–	$–	$–
Interest cost	*79*	*87*	*83*
Expected return on plan assets	–	–	–
Amortization of prior service cost	–	–	–
Amortization of net losses	*71*	*47*	*59*
Net periodic benefit cost	$*150*	$*134*	$*142*

Benefits expected to be paid in each year from *2018* to *2020* and beyond are listed in the table below.

(In thousands)	
2018	$*84*
2019	*84*
2020	*84*
Beyond 2020	*3,278*
Total future payments	$*3,530*

Expected benefits to be paid are based on the same assumptions used to measure Bancorp's benefit obligation at *December 31, 2017*. There are *no* obligations for other post-retirement and post-employment benefits.

Table of Contents

(*17*) Stock-Based Compensation

The fair value of all stock-based awards granted, net of estimated forfeitures, is recognized as compensation expense over the respective service period.

Bancorp currently has *one* stock-based compensation plan. At Bancorp's *2015* Annual Meeting of Shareholders, shareholders approved the *2015* Omnibus Equity Compensation Plan and authorized the shares available from the expiring *2005* plan for future awards under the *2015* plan. *No* additional shares were made available. As of *December 31, 2017,* there were *302,727* shares available for future awards. The *2005* Stock Incentive Plan expired in *April 2015;* however, SARs granted under this plan expire as late as *2025.*

Bancorp *no* longer has stock options outstanding at *December 31, 2017.* Stock appreciation rights ("SARs") granted have a vesting schedule of *20%* per year and expire *ten* years after the grant date unless forfeited due to employment termination.

Restricted shares granted to officers vest over *five* years. All restricted shares have been granted at a price equal to the market value of common stock at the time of grant. For all grants prior to *2015,* grantees are entitled to dividend payments during the vesting period. For grants in *2015* and forward, forfeitable dividends are deferred until shares are vested. Fair value of restricted shares is equal to the market value of the shares on the date of grant.

Grants of performance stock units ("PSUs") vest based upon service, a single *three*-year performance period, and are based upon certain *three*-year performance criterion 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 PSUs is estimated based upon the market value of the underlying shares on the date of grant, adjusted for non-payment of dividends. Beginning in *2015,* grants require a *one* year post-vesting holding periods and the fair value of such grants incorporates a liquidity discount related to the holding period of *5.1%, 4.5%* and *3.6%* for *2017, 2016* and *2015* grants, respectively.

Grants of restricted stock units ("RSUs") to directors are time-based and vest *12* months after grant date. Because grantees are entitled to deferred dividend payments at the end of the vesting period, fair value of the RSUs is estimated based on market value of underlying shares on the date of grant.

Bancorp has recognized stock-based compensation expense for SARs, PSUs, and RSUs, within employee benefits for employees, and within other non-interest expense for directors, in the consolidated statements of income as follows:

(In thousands)	**2017**	**2016**	**2015**
Stock-based compensation expense before income taxes	$*2,892*	$*2,473*	$*2,134*
Less: deferred tax benefit	*(607*)	*(866*)	*(747*)
Reduction of net income	$*2,285*	$*1,607*	$*1,387*

Bancorp's net income for *2017* reflected the implementation of ASU *2016-09* which changed the way excess tax benefits and deficiencies related to share-based compensation are recorded. Prior to *2017,* these were recorded directly to additional paid-in capital and, thus did *not* affect earnings. Beginning in *2017,* these are recorded as a tax expense or benefit in the income statement. These benefits resulted in a *$1.5* million increase in net income for *2017.* This tax benefit is *not* reflected in the table above.

As of *December 31, 2017* Bancorp has *$4.8* million of unrecognized stock-based compensation expense that will be recorded as compensation expense over the next *five* years as awards vest. In *2017* Bancorp used cash of *$216* thousand for the purchase of shares related to RSUs. Bancorp received cash of *$2.3* million and *$3.3* million from the exercise of options during *2016* and *2015,* respectively.

Table of Contents

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

Assumptions	**2017**	**2016**	**2015**
Dividend yield	*2.72 %*	*2.94 %*	*2.97 %*
Expected volatility	*19.47%*	*19.31%*	*22.81%*
Risk free interest rate	*2.29 %*	*1.70 %*	*1.91 %*
Expected life of SARs (in years)	*7.0*	*7.3*	*7.5*

Dividend yield and expected volatility are based on historical information for Bancorp corresponding to the expected life of 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 awards. The expected life of SARs is based on actual experience of past like-term SARs. Bancorp evaluates historical exercise and post-vesting termination behavior when determining the expected life.

A summary of stock option and SARs activity and related information for the years ended *December 31, 2016* and *2017* 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, 2015						
Vested and exercisable	*656*	*$14.02 - 19.44*	$ *15.75*	$ *6,191*	$ *3.39*	*3.7*
Unvested	*266*	*15.24 - 24.55*	*18.66*	*1,733*	*3.29*	*7.7*
Total outstanding	*922*	*14.02 - 24.55*	*16.59*	*7,924*	*3.36*	*4.8*
Activity during 2016						
SARs granted	*88*	*25.76 - 33.08*	*25.84*	*1,866*	*3.56*	
Exercised	*(272*)	*14.02 - 17.89*	*16.38*	*4,155*	*3.73*	
Forfeited	*(3*)	*14.02 - 15.84*	*15.18*	*60*	*2.94*	
At December 31, 2016						

Vested and exercisable	*475*	*14.02 -24.56*	*15.72*	*14,820*	*3.16*	*4.3*
Unvested	*260*	*15.24 -33.08*	*21.53*	*6,623*	*3.43*	*7.8*
Total outstanding	*735*	*14.02 -33.08*	*17.78*	*21,443*	*3.26*	*5.5*
Activity during 2017						
SARs granted	*46*	*40.00 -40.00*	*40.00*	*–*	*6.34*	
Exercised	*(77)*	*14.02 -17.89*	*15.41*	*1,855*	*3.18*	
Forfeited	*–*	*–*	*–*	*–*	*–*	
At December 31, 2017						
Vested and exercisable	*490*	*14.02 -33.08*	*16.46*	*10,408*	*3.16*	*4.0*
Unvested	*214*	*15.26 -40.00*	*26.46*	*2,515*	*4.17*	*7.7*
Total outstanding	*704*	*14.02 -40.00*	*19.51*	*12,923*	*3.47*	*5.1*
Vested year-to-date	*93*	*$15.24-33.08*	$ *19.37*	$ *1,696*	$ *3.18*	

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 or grant price.

37

The aggregate intrinsic value of stock options and SARs exercised in *2017, 2016* and *2015* was *$1.9* million, *$4.2* million and *$2.0* million, respectively. The aggregate intrinsic value of stock options and SARs exercised was calculated as the difference in the closing price of Bancorp's common shares on the date of exercise and the exercise price, multiplied by the number of shares exercised.

The weighted average Black-Scholes fair values of SARs granted in *2017, 2016* and *2015* were *$6.34, $3.56* and *$5.95,* respectively.

SARs outstanding, stated in thousands, at *December 31, 2017* were as follows:

Expiration	**Number of SARs outstanding**	**SARs exercisable**	**Weighted average exercise price of SARs outstanding**
2018	*17*	*17*	$ *15.58*
2019	*40*	*40*	*14.76*
2020	*73*	*73*	*14.02*
2021	*74*	*74*	*15.86*
2022	*117*	*117*	*15.25*
2023	*80*	*66*	*15.26*
2024	*94*	*56*	*19.37*
2025	*76*	*30*	*22.99*
2026	*88*	*17*	*25.84*
2027	*45*	*–*	*40.00*
	704	*490*	$ *19.51*

A summary of Bancorp granted shares of restricted common stock, for the *three* year period ending *December 31, 2017,* follows.

	Number	**Grant date weighted-**

		average cost
Unvested at December 31, 2014	*171,139*	$ *16.63*
Shares awarded	*52,898*	*22.99*
Restrictions lapsed and shares released to employees/directors	*(61,205*)	*15.89*
Shares forfeited	*(6,974*)	*18.97*
Unvested at December 31, 2015	*155,858*	$ *18.98*
Shares awarded	*51,122*	*25.78*
Restrictions lapsed and shares released to employees/directors	*(49,265*)	*17.98*
Shares forfeited	*(12,480*)	*20.69*
Unvested at December 31, 2016	*145,235*	$ *21.57*
Shares awarded	*28,625*	*44.85*
Restrictions lapsed and shares released to employees/directors	*(46,797*)	*19.79*
Shares forfeited	*(7,691*)	*25.18*
Unvested at December 31, 2017	*119,372*	$ *27.62*

38

Table of Contents

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

Grant year	**Vesting period in years**	**Fair value at grant date**	**Expected shares to be awarded**
2015	*3*	$*20.02*	*43,011*
2016	*3*	*22.61*	*69,161*
2017	*3*	*35.66*	*43,325*

In the *first* quarter of *2017,* Bancorp awarded *4,680* RSUs to directors of Bancorp with a grant date fair value of *$220* thousand.

Bancorp has *no* equity compensation plans which have *not* been approved by shareholders. The following table provides detail of the number of shares to be issued upon exercise of outstanding stock-based awards and remaining shares available for future issuance under all the Bancorp's equity compensation plans as of *December 31, 2017.*

Plan category (Shares in thousands)	**Number of shares to be issued upon exercise/vesting**	**Weighted average exercise price**	**Shares available for future issuance (a)**
Equity compensation plans approved by security holders:			
Stock appreciation rights (SARs)	*(b)*	*(b)*	*303*
Restricted common stock	*119*	*N/A*	*(a)*
Performance stock units	*(c)*	*N/A*	*(a)*
Restricted stock units	*5*	*N/A*	*(a)*
Total shares	*124*		*303*

(a) Under the *2015* Omnibus Equity Compensation Plan, shares of stock are authorized for issuance as incentive and nonqualified stock options, SARs, restricted stock, and restricted stock units

(b) At *December 31, 2017,* approximately *704,000* SARs were outstanding at a weighted average grant price of *$19.51.* The number of shares to be issued upon exercise will be determined based on the difference between the grant price and the market price at the date of exercise.

(c) The number of shares to be issued is dependent upon Bancorp achieving certain predefined performance targets and ranges from *zero* shares to approximately *205,000* shares. As of *December 31, 2017,* the expected shares to be awarded are *155,497.*

(*18*) Dividend

Bancorp's principal source of cash revenues is dividends paid to it as the sole shareholder of the Bank. At any balance sheet date, the Bank's regulatory dividend restriction represents the Bank's net income of the current year plus the prior *two* years less any dividends paid for the same time period. At *December 31, 2017,* the Bank *may* pay an amount equal to *$70.4* million in dividends to Bancorp without regulatory approval subject to the ongoing capital requirements of the Bank.

Table of Contents

(*19*) Commitments and Contingent Liabilities

As of *December 31, 2017,* Bancorp had various commitments outstanding that arose in the normal course of business, including standby letters of credit and commitments to extend credit, which are properly *not* reflected in the consolidated financial statements. In management's opinion, commitments to extend credit of *$688.3* million including standby letters of credit of *$14.8* million represent normal banking transactions. Commitments to extend credit were *$628.3* million, including letters of credit of *$15.6* million, as of *December 31, 2016.* Commitments to extend credit are agreements to lend to a customer contingent upon the availability of collateral and *no* existing 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 and credit cards issued to commercial customers. 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. However, should the commitments be drawn upon and should our customers default on their resulting obligation to us, our maximum exposure to credit loss, without consideration of collateral, is represented by the contractual amount of those instruments. At *December 31, 2017,* Bancorp accrued *$350* thousand in other liabilities for unfunded credit commitments.

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 commercial transactions. Standby letters of credit generally have maturities of *one* to *two* years.

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

(In thousands)

Year	**Total amount**
2018	$ *1,847*
2019	*1,880*
2020	*1,532*
2021	*1,391*
2022	*1,501*
Thereafter	*2,873*
Total	$ *11,024*

Rent expense, net of sublease income, was *$1.9* million in *2017, $1.8* million in *2016,* and *$1.7* million in *2015.*

Certain commercial customers require confirmation of Bancorp's letters of credit by other banks since Bancorp does *not* have a rating by a national rating agency. Terms of the agreements range from *1* to *19* months. If an event of default on all contracts had occurred at *December 31, 2017,* Bancorp would have been required to make payments of approximately *$1.5* million. The maximum amount payable under those contracts was *$1.5* million. *No* payments have ever been required as a result of default on these contracts. These agreements are normally secured by collateral acceptable to Bancorp, which limits credit risk associated with the agreements.

Also, as of *December 31, 2017,* 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.

(*20*) Assets and Liabilities Measured and Reported at Fair Value

Bancorp follows 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. The guidance also prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are *not* already specified elsewhere in US GAAP.

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

Table of Contents

These levels are:

Level *1*: Valuation is based upon quoted prices for identical instruments traded in active markets.
Level *2*: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are *not* active, and model-based valuation techniques for which all significant assumptions are observable in the market.
Level *3*: Valuation is generated from model-based techniques that use significant assumptions *not* observable in the market. These unobservable assumptions would reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques could include pricing models, discounted cash flows and other similar techniques.

Authoritative guidance requires maximization of use of observable inputs and minimization of use of unobservable inputs in fair value measurements. Where there exists limited or *no* observable market data, Bancorp derives its own estimates by 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 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 (including mortgage-backed securities), obligations of state and political subdivisions and corporate equity securities. U.S. Treasury and corporate equity 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 similar instruments. These assumptions are 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 based on 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 counterparty's inability to perform and the change in value of derivative assets and liabilities attributable to credit risk was *not* significant during *2017.*

Table of Contents

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

(In thousands)	Fair value at December 31, 2017			
Assets	**Total**	**Level 1**	**Level 2**	**Level 3**
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government obligations	$*149,984*	$*149,984*	$–	$ –
Government sponsored enterprise obligations	*213,844*	–	*213,844*	–
Mortgage-backed securities - government agencies	*161,507*	–	*161,507*	–
Obligations of states and political subdivisions	*49,189*	–	*49,189*	–
Total investment securities available-for-sale	*574,524*	*149,984*	*424,540*	–
Interest rate swaps	*579*	–	*579*	–
Total assets	$*575,079*	$*149,984*	$*425,095*	$ –
Liabilities				
Interest rate swaps	$*259*	$–	$*259*	$ –

(In thousands)	Fair value at December 31, 2016			
Assets	**Total**	**Level 1**	**Level 2**	**Level 3**
Investment securities available-for-sale:				
U.S. Treasury and other U.S. government obligations	$*74,998*	$*74,998*	$–	$ –
Government sponsored enterprise obligations	*268,090*	–	*268,090*	–
Mortgage-backed securities - government agencies	*168,843*	–	*168,843*	–
Obligations of states and political subdivisions	*57,444*	–	*57,444*	–
Corporate equity securities	*699*	*699*	–	–
Total investment securities available-for-sale	*570,074*	*75,697*	*494,377*	–
Interest rate swaps	*178*	–	*178*	–
Total assets	$*570,252*	$*75,697*	$*494,555*	$ –
Liabilities				
Interest rate swaps	$*203*	$–	$*203*	$ –

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 *December 31, 2017* or *2016.*

MSRs are recorded at fair value upon capitalization, are amortized to correspond with estimated servicing income, and are periodically assessed for impairment based on fair value at the reporting date. Fair value is based on a valuation model that calculates the present value of estimated net servicing income. The model incorporates assumptions that market participants would use in estimating future net servicing income. These measurements are classified as Level *3.* At *December 31, 2017* and *2016* there was *no* valuation allowance for mortgage servicing rights, as fair value exceeded cost. Accordingly, MSRs are *not* included in either table below for *December 31, 2017* or *2016.* See Note *7* for more information regarding MSRs.

Table of Contents

For impaired loans in the table below, fair value is calculated carrying value of loans with a specific valuation allowance, less the specific allowance, and the carrying value of collateral dependent loans that have been charged down to their fair value. Fair value of impaired loans was primarily measured based on the value of collateral securing these loans. Impaired loans are classified within Level *3* of the fair value hierarchy. Collateral *may* be real estate and/or business assets including equipment, inventory, and/or accounts receivable. Bancorp determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals *may* utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for costs to sell and *may* be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. As of *December 31, 2017,* total impaired collateral dependent loans charged down to their fair value and impaired loans with a valuation allowance were *$2.6* million, and the specific allowance totaled *$48* thousand, resulting in a fair value of *$2.6* million, compared with total collateral dependent loans charged down to their fair value and impaired loans with a valuation allowance of *$4.2* million, and the specific allowance allocation totaling *$1.3* million, resulting in a fair value of *$2.9* million at *December 31, 2016.* Losses represent charge offs and changes in specific allowances for the period indicated.

Other real estate owned ("OREO"), 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 based on appraisals performed by external parties which use judgments and assumptions that are property-specific and sensitive to changes in the overall economic environment. Appraisals *may* be further discounted based on management's historical knowledge and/or changes in market conditions from the date of the most recent appraisal. Many of these inputs are *not* observable and, accordingly, these measurements are classified as Level *3.* For OREO in the table below, fair value is the carrying value of only parcels of OREO which have a carrying value equal to appraised value. Losses represent write-downs which occurred during the period indicated. At *December 31, 2017* and *2016,* carrying value of all other real estate owned was *$2.6* million and *$5.0* million, respectively.

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

(In thousands)	**Fair value at December 31, 2017**				
	Total	**Level 1**	**Level 2**	**Level 3**	**Total losses**
Impaired loans	$*2,569*	$ –	$ –	$*2,569*	$*(121*)
Other real estate owned	*2,640*	–	–	*2,640*	*(171*)
Total	$*5,209*	$ –	$ –	$*5,209*	$*(292*)

(In thousands)	**Fair value at December 31, 2016**				
	Total	**Level 1**	**Level 2**	**Level 3**	**Total losses**

Impaired loans	$2,933	$ –	$ –	$2,933	$(1,470)
Other real estate owned	4,488	–	–	4,488	(62)
Total	$7,421	$ –	$ –	$7,421	$(1,532)

43

Table of Contents

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 years ended *December 31, 2017, 2016* and *2015,* there were *no* transfers between Levels *1, 2,* or *3.* For Level *3* assets measured at fair value on a non-recurring basis as of *December 31, 2017,* the significant unobservable inputs used in the fair value measurements are presented below.

(Dollars in thousands)	**Carrying amount**	**Valuation technique**	**Significant unobservable input**	**Weighted average of input**	
Impaired loans - collateral dependent	$ *2,569*	Appraisal	Appraisal discounts (%)	*11.5*	%
Other real estate owned	*2,640*	Appraisal	Appraisal discounts (%)	*23.4*	

(*21*) Disclosure of Financial Instruments *Not* Reported at Fair Value

US GAAP requires disclosure of the fair value of financial assets and liabilities, including those financial assets and financial liabilities that are *not* measured and reported at fair value on a recurring basis or nonrecurring basis. Carrying amounts, estimated fair values, and placement in the fair value hierarchy of Bancorp's financial instruments are as follows:

(In thousands) **December 31, 2017**	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Cash and short-term investments	$*139,248*	$*139,248*	$*139,248*	$–	$–
Mortgage loans held for sale	*2,964*	*2,964*	–	*2,964*	–
Federal Home Loan Bank stock and other securities	*7,646*	*7,646*	–	*7,646*	–
Loans, net	*2,384,685*	*2,338,464*	–	–	*2,338,464*
Accrued interest receivable	*8,369*	*8,369*	*8,369*	–	–
Financial liabilities					
Deposits	*2,578,295*	*2,576,385*	–	–	*2,576,385*
Securities sold under agreement to repurchase	*70,473*	*70,473*	–	*70,473*	–
Federal funds purchased	*161,352*	*161,352*	–	*161,352*	–
FHLB Advances	*49,458*	*48,642*	–	*48,642*	–
Accrued interest payable	*232*	*232*	*232*	–	–
December 31, 2016					
Financial assets					

Cash and short-term investments	$*47,973*	$*47,973*	$*47,973*	$*–*	$*–*
Mortgage loans held for sale	*3,213*	*3,481*	*–*	*3,481*	*–*
Federal Home Loan Bank stock and other securities	*6,347*	*6,347*	*–*	*6,347*	*–*
Loans, net	*2,281,368*	*2,284,569*	*–*	*–*	*2,284,569*
Accrued interest receivable	*6,878*	*6,878*	*6,878*	*–*	*–*
Financial liabilities					
Deposits	*2,520,548*	*2,519,725*	*–*	*–*	*2,519,725*
Securities sold under agreement to repurchase	*67,595*	*67,595*	*–*	*67,595*	*–*
Federal funds purchased	*47,374*	*47,374*	*–*	*47,374*	*–*
FHLB Advances	*51,075*	*50,806*	*–*	*50,806*	*–*
Accrued interest payable	*144*	*144*	*144*	*–*	*–*

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

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

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

Mortgage loans held for sale

Mortgage loans held for sale are initially recorded at the lower of cost or market value. The portfolio is comprised of residential real estate loans and fair value is determined by market quotes for similar loans based on loan type, term, rate, size and the borrower’s credit score.

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 as it equals the amount due from FHLB or other issuer at upon redemption.

Loans, net

US GAAP prescribes the exit price concept for estimating fair value of loans. Because there is *not* an active market (exit price) for trading virtually all 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 by the Bank to borrowers with similar credit ratings and for the same remaining maturities (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 the rates currently offered by the Bank for deposits of similar remaining maturities.

Federal Home Loan Bank advances

Fair value of FHLB advances 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 losses, 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.

(*22*) Derivative Financial Instruments

Periodically, Bancorp enters into an interest rate swap transaction with a borrower, who desires to hedge their exposure to rising interest rates, while at the same time entering into an offsetting interest rate swap, with substantially matching terms, with another approved independent counterparty. These are undesignated derivative instruments and are recognized on the consolidated balance sheet at fair value. Because of matching terms of offsetting contracts and collateral provisions mitigating any non-performance risk, changes in fair value subsequent to initial recognition are expected to have an insignificant effect on earnings. Exchanges of cash flows related to the undesignated interest rate swap agreements for *2017* were offsetting and therefore had *no* net effect on Bancorp's earnings or cash flows.

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

Table of Contents

At *December 31, 2017* and *2016,* Bancorp had outstanding undesignated interest rate swap contracts as follows:

(Dollar amounts in thousands)	**Receiving**		**Paying**	
	December 31, 2017	**December 31, 2016**	**December 31, 2017**	**December 31, 2016**
Notional amount	$*54,964*	$ *43,986*	$*54,964*	$ *43,986*
Weighted average maturity (years)	*8.7*	*9.9*	*8.7*	*9.9*
Fair value	$*(259*)	$ *(178*)	$*283*	$ *178*

In *2016,* Bancorp entered into an interest rate swap to hedge cash flows of a *$10* million rolling fixed-rate *three*-month FHLB borrowing. The swap began in *December 2016* and ends in *December 2021.* In *2015,* Bancorp entered into an interest rate swap to hedge cash flows of a *$20* million rolling fixed-rate *three*-month FHLB borrowing. The swap began in *December 2015* and matures in *December 2020.* For purposes of hedging, rolling fixed rate advances are considered to be floating rate liabilities. Interest rate swaps involve exchange of Bancorp's floating rate interest payments for fixed rate swap payments on underlying principal amounts. These swaps were designated, and qualified, for cash-flow hedge accounting. For derivative instruments that are designated and qualify as cash flow hedging instruments, the effective portion of gains or losses is reported as a component of other comprehensive income, and is subsequently reclassified into earnings as an adjustment to interest expense in periods in which the hedged forecasted transaction affects earnings. The following table details Bancorp's derivative position designated as a cash flow hedge, and the fair values as of *December 31, 2017* and *2016.*

(Dollars in thousands)

Notional amount	**Maturity date**	**Receive (variable) index**	**Pay fixed swap rate**	**Fair value December 31, 2017**	**Fair value December 31, 2016**
$10,000	12/6/2021	US 3 Month LIBOR	*1.89* %	$ *106*	$ *16*
20,000	12/6/2020	US 3 Month LIBOR	*1.79*	*190*	*9*
$30,000			*1.82* %	$ *296*	$ *25*

(*23*) 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 *1,* common equity Tier *1,* and total capital, as defined, to risk weighted assets and Tier *1* 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.

In *2013,* the Federal Reserve Board and the FDIC approved rules that substantially amended the regulatory risk-based capital rules applicable to Bancorp and Bank. The rules implemented the regulatory capital reforms of the Basel Committee on Banking Supervision reflected in “Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems” (“Basel III”) and changes required by the Dodd-Frank Act. The Basel III regulatory capital reforms became effective for Bancorp and Bank on *January 1, 2015,* and included new minimum risk-based capital and leverage ratios. For Bancorp, key differences under Basel III include risk weighting for loan commitments under *one* year and higher risk weighting for certain commercial real estate and construction loans. These differences resulted in higher risk-weighted assets, and therefore, somewhat lower risk-based capital ratios. Bancorp and the Bank met all capital requirements to which they were subject as of *December 31, 2017* and *2016.*

Table of Contents

The following table sets forth consolidated Bancorp's and the Bank's risk based capital amounts and ratios as of *December 31, 2017* and *2016* follows:

(Dollars in thousands)	Actual		Minimum for adequately capitalized		Minimum for well capitalized	
December 31, 2017	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total risk-based capital						
Consolidated	$359,866	13.52%	$213,012	8.0 %	NA	NA
Bank	347,840	13.07	212,891	8.0	$266,114	10.0 %
Common Equity Tier 1 risk-based capital						
Consolidated	334,631	12.57	119,820	4.5	NA	NA
Bank	322,605	12.12	212,891	4.5	172,974	6.5
Tier 1 risk-based capital						
Consolidated	334,631	12.57	159,760	6.0	NA	NA
Bank	322,605	12.12	159,668	6.0	212,891	8.0
Leverage (1)						
Consolidated	334,631	10.70	125,122	4.0	NA	NA
Bank	322,605	10.32	125,040	4.0	156,300	5.0

	Actual		Minimum for adequately capitalized		Minimum for well capitalized	
December 31, 2016	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total risk-based capital						
Consolidated	$338,525	13.04%	$207,684	8.0 %	NA	NA
Bank	325,630	12.57	207,243	8.0	$258,986	10.0 %
Common Equity Tier 1 risk-based capital						
Consolidated	314,147	12.10	116,832	4.5	NA	NA
Bank	301,252	11.63	116,564	4.5	168,341	6.5
Tier 1 risk-based capital						
Consolidated	314,147	12.10	155,775	6.0	NA	NA
Bank	301,252	11.63	155,418	6.0	207,189	8.0
Leverage (1)						
Consolidated	314,147	10.54	119,221	4.0	NA	NA
Bank	301,252	10.11	119,190	4.0	148,927	5.0

Ratio is computed in relation to risk-weighted assets.

(*1*) Ratio is computed in relation to average assets.

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

Table of Contents

(*24*) Stock Yards Bancorp, Inc. (parent company only)

Condensed Balance Sheets

(In thousands)	**December 31, 2017**	**2016**
Assets		
Cash on deposit with subsidiary bank	$*10,648*	$*6,972*
Investment in and receivable from subsidiaries	*321,617*	*300,977*
Other assets	*1,521*	*6,005*
Total assets	$*333,786*	$*313,954*
Liabilities and stockholders' equity		
Other liabilities	$*142*	$*82*
Total stockholders' equity	*333,644*	*313,872*
Total liabilities and stockholders' equity	$*333,786*	$*313,954*

Condensed Statements of Income

(In thousands)	**Years ended December 31, 2017**	**2016**	**2015**
Income - dividends and interest from subsidiaries	$*18,160*	$*16,147*	$*14,244*
Other income	*82*	*1*	*15*
Less expenses	*3,255*	*2,235*	*2,511*
Income before income taxes and equity in undistributed net income of subsidiary	*14,987*	*13,913*	*11,748*
Income tax benefit	*(1,985*)	*(987*)	*(1,016*)
Income before equity in undistributed net income of subsidiary	*16,972*	*14,900*	*12,764*
Equity in undistributed net income of subsidiary	*21,071*	*26,127*	*24,423*
Net income	$*38,043*	$*41,027*	$*37,187*

Table of Contents

Condensed Statements of Cash Flows

(In thousands)	Years ended December 31 2017	2016	2015
Operating activities			
Net income	$38,043	$41,027	$37,187
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(21,071)	(26,127)	(24,423)
(Increase) decrease in receivable from subsidiaries	–	–	(842)
Stock compensation expense	2,892	2,473	2,134
Excess tax benefits from share-based compensation arrangements	(1,463)	(1,705)	(673)
Recover of impairment loss on other assets held for investment		(588)	–
Depreciation, amortization and accretion, net	4	10	11
Proceeds from liquidation of private investment fund	(81)	–	–
Decrease (increase) in other assets	5,943	(990)	531
Increase in other liabilities	10	11	91
Net cash provided by operating activities	24,277	14,111	14,016
Investing activities			
Proceeds from sale of other assets held for investment	–	1,108	–
Proceeds from liquidation of private investment fund	81	–	–
Net cash provided by investing activities	81	1,108	–
Financing activities			
Common stock repurchases	(2,389)	2,337	3,249
Excess tax benefit from share-based compensation arrangements	–	1,705	673
Proceeds (used for) and received from settlement of stock awards	(216)	(1,918)	(918)
Cash dividends paid	(18,077)	(16,093)	(14,224)
Net cash used in financing activities	(20,682)	(13,969)	(11,220)
Net increase (decrease) in cash	3,676	1,250	2,796
Cash at beginning of year	6,972	5,722	2,926
Cash at end of year	$10,648	$6,972	$5,722

Table of Contents

(*25*) Segments

Bancorp’s principal activities include commercial banking and wealth management and trust (WM&T). Commercial banking provides a full range of loan and deposit products to individual consumers and businesses, plus origination of consumer mortgages and investment product sales. WM&T provides investment management, trust and estate administration, and retirement plan services.

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

Principally, all of the net assets of Stock Yards Bancorp, Inc. are involved in the commercial banking segment. Bancorp has goodwill of *$682,000* related to a bank acquisition in *1996* which has been assigned to the commercial banking segment. Assets assigned to WM&T consist of premises and equipment, net of accumulated depreciation.

Selected financial information by business segment follows:

(In thousands)	**Commercial banking**	**Wealth management and trust**	**Total**
Year ended December 31, 2017			
Net interest income	$ *103,302*	$ *301*	$ *103,603*
Provision for loan losses	*2,550*	–	*2,550*
Investment management and trust services	–	*20,505*	*20,505*
All other non-interest income	*24,615*	–	*24,615*
Non-interest expense	*78,752*	*12,239*	*90,991*
Income before income taxes	*46,615*	*8,567*	*55,182*
Income tax expense	*14,080*	*3,059*	*17,139*
Net income	$ *32,535*	$ *5,508*	$ *38,043*
Segment assets	$ *3,237,656*	$ *1,990*	$ *3,239,646*
Year ended December 31, 2016			
Net interest income	$ *96,986*	$ *268*	$ *97,254*

Provision for loan losses	*3,000*	*–*	*3,000*
Investment management and trust services	*–*	*19,155*	*19,155*
All other non-interest income	*24,382*	*–*	*24,382*
Non-interest expense	*70,230*	*11,290*	*81,520*
Income before income taxes	*48,138*	*8,133*	*56,271*
Income tax expense	*12,340*	*2,904*	*15,244*
Net income	$ *35,798*	$ *5,229*	$ *41,027*
Segment assets	$ *3,037,394*	$ *2,087*	$ *3,039,481*
Year ended December 31, 2015			
Net interest income	$ *88,124*	$ *194*	$ *88,318*
Credit for loan losses	*750*	*–*	*750*
Investment management and trust services	*–*	*18,026*	*18,026*
All other non-interest income	*21,924*	*–*	*21,924*
Non-interest expense	*62,748*	*10,650*	*73,398*
Income before income taxes	*46,550*	*7,570*	*54,120*
Income tax expense	*14,238*	*2,695*	*16,933*
Net income	$ *32,312*	$ *4,875*	$ *37,187*
Segment assets	$ *2,816,373*	$ *428*	$ *2,816,801*

Table of Contents

(*26*) Quarterly Operating Results (unaudited)

Following is a summary of quarterly operating results for *2017, 2016* and *2015:*

	2017 **4th quarter**	**3rd quarter**	**2nd quarter**	**1st quarter**
Interest income	$*29,092*	$*28,111*	$*27,013*	$*26,633*
Interest expense	*2,069*	*1,947*	*1,781*	*1,449*
Net interest income	*27,023*	*26,164*	*25,232*	*25,184*
Provision for loan losses	*900*	*150*	*600*	*900*
Net interest income after provision	*26,123*	*26,014*	*24,632*	*24,284*
Non-interest income	*11,545*	*11,103*	*11,675*	*10,797*
Non-interest expenses	*27,180*	*21,317*	*21,346*	*21,148*
Income before income taxes	*10,488*	*15,800*	*14,961*	*13,933*
Income tax expense	*5,542*	*4,096*	*4,359*	*3,142*
Net income	$*4,946*	$*11,704*	$*10,602*	$*10,791*
Basic earnings per share	$*0.22*	$*0.52*	$*0.47*	$*0.48*
Diluted earnings per share	*0.22*	*0.51*	*0.46*	*0.47*

(In thousands, except per share data)	**2016** **4th quarter**	**3rd quarter**	**2nd quarter**	**1st quarter**
Interest income	$*26,368*	$*25,942*	$*25,162*	$*24,700*
Interest expense	*1,293*	*1,182*	*1,212*	*1,231*
Net interest income	*25,075*	*24,760*	*23,950*	*23,469*
Provision for loan losses	*500*	*1,250*	*750*	*500*
Net interest income after provision	*24,575*	*23,510*	*23,200*	*22,969*
Non-interest income	*11,319*	*11,358*	*10,778*	*10,082*
Non-interest expenses	*21,269*	*20,518*	*20,193*	*19,540*
Income before income taxes	*14,625*	*14,350*	*13,785*	*13,511*
Income tax expense	*4,009*	*3,883*	*3,676*	*3,676*
Net income	$*10,616*	$*10,467*	$*10,109*	$*9,835*
Basic earnings per share	$*0.47*	$*0.47*	$*0.45*	$*0.44*
Diluted earnings per share	*0.46*	*0.46*	*0.45*	*0.44*

(In thousands, except per share data)	2015 4th quarter	3rd quarter	2nd quarter	1st quarter
Interest income	$*24,039*	$*23,284*	$*23,000*	$*22,847*
Interest expense	*1,217*	*1,203*	*1,199*	*1,233*
Net interest income	*22,822*	*22,081*	*21,801*	*21,614*
Provision for loan losses	*750*	–	–	–
Net interest income after provision	*22,072*	*22,081*	*21,801*	*21,614*
Non-interest income	*10,073*	*9,985*	*10,219*	*9,673*
Non-interest expenses	*18,322*	*18,430*	*18,867*	*17,779*
Income before income taxes	*13,823*	*13,636*	*13,153*	*13,508*
Income tax expense	*4,177*	*4,352*	*4,151*	*4,253*
Net income	$*9,646*	$*9,284*	$*9,002*	$*9,255*
Basic earnings per share	$*0.43*	$*0.42*	$*0.41*	$*0.42*
Diluted earnings per share	*0.43*	*0.41*	*0.40*	*0.42*

Note: The sum of earnings per share of each of the quarters in *2017, 2016* and *2015 may not* add to the year-to-date amount reported in Bancorp's consolidated financial statements due to rounding.

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Stock Yards Bancorp, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Stock Yards Bancorp, Inc. and subsidiary (the Company) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017 and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 13, 2018 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

(signed) KPMG LLP

We have served as the Company's auditor since 1988.

Louisville, Kentucky

March 13, 2018

Table of Contents

Management's Report on Consolidated Financial Statements

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

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

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

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements of Bancorp included in this Annual Report on Form 10-K, has issued a report on Bancorp's internal control over financial reporting as of December 31, 2017. The report expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017.

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

/s/ David P. Heintzman
David P. Heintzman
Chairman and Chief
Executive Officer

/s/ Nancy B. Davis
Nancy B. Davis
Executive Vice
President and Chief
Financial Officer

Table of Contents

Part IV

Item 15. Exhibits and Financial Statement Schedules

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

Consolidated Balance Sheets – December 31, 2017 and 2016
Consolidated Statements of Income - years ended December 31, 2017, 2016 and 2015
Consolidated Statements of Comprehensive Income - years ended December 31, 2017, 2016 and 2015

Consolidated Statements of Changes in Stockholders' Equity - years ended December 31, 2017, 2016 and 2015
Consolidated Statements of Cash Flows - years ended December 31, 2017, 2016 and 2015
Notes to Consolidated Financial Statements
Report of Independent Registered Public Accounting Firm

(a) 2. List of Financial Statement Schedules

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

(a) 3. List of Exhibits

Exhibit Number	
2.1	Agreement and Plan of Merger by and among THE BANCorp, Inc., S.Y. Bancorp, Inc. and Sanders Merger Sub, Inc. on December 19, 2012. Exhibit 2.1 to Form 8-K filed December 20, 2012, is incorporated by reference herein.
2.2	First Amendment to Agreement and Plan of Merger dated as of February 26, 2013 by and among S.Y. Bancorp, Inc., Sanders Merger Sub, LLC, and THE BANCorp, Inc. Exhibit 2.2 to form S-4 (File No. 333-186930) filed February 27, 2013, is incorporated by reference herein.
3.1	Second Amended and Restated Articles of Incorporation of S.Y. Bancorp, Inc., filed with the Secretary of State of Kentucky on April 25, 2013. Exhibit 3.1 to Form 8-K filed April 25, 2013, is incorporated by reference herein.
3.2	Articles of Amendment to the Second Amended and Restated Articles of Incorporation to change the name of the company to Stock Yards Bancorp, Inc., filed with the Secretary of State of Kentucky on April 23, 2014.

	Exhibit 3.1 to Form 8-K filed April 25, 2014, is incorporated by reference herein.
3.3	Articles of Amendment to the Second Amended and Restated Articles of Incorporation to increase the number of authorized shares of common stock and adopt majority voting in uncontested director elections, filed with the Secretary of State of Kentucky on April 23, 2015. Exhibit 3.1 to Form 8-K filed April 27, 2015, is incorporated by reference herein.
3.4	Bylaws of Bancorp as currently in effect. Exhibit 3.2 to Form 8-K filed April 27, 2015, is incorporated by reference herein.
10.1*	Stock Yards Bank & Trust Company Executive Nonqualified Deferred Compensation Plan (as Amended and Restated in 2009), as filed as Exhibit 10.4 to Form 8-K filed on December 19, 2008, is incorporated by reference herein.

10.2*	Stock Yards Bank & Trust Company Director Nonqualified Deferred Compensation Plan (as Amended and Restated in 2009), as filed as Exhibit 10.3 to Form 8-K filed on December 19, 2008, is incorporated by reference herein.
10.3*	Form of Stock Yards Bank & Trust Company Executive Nonqualified Deferred Compensation Plan Employer Contribution Agreement, as filed as Exhibit 10.3 to Form 8-K filed on October 23, 2006, is incorporated by reference herein.
10.4*	Stock Yards Bank & Trust Company 2009 Restated Senior Officers Security Plan Exhibit 10.1 to Form 8-K filed December 19, 2008, is incorporated by reference herein.
10.5*	Form of Change in Control Severance Agreement (Poindexter, Dishman, Stinnett and Croce), Exhibit 10.5 to Form 8-K filed January 28, 2010, is incorporated by reference herein.
10.6*	S.Y. Bancorp, Inc. 2005 Stock Incentive Plan. Exhibit 10.1 to Form 8-K filed May 2, 2005, is incorporated by reference herein.
10.7*	Amendment No. 1 to S. Y. Bancorp, Inc. 2005 Stock Incentive Plan, as filed as Exhibit 10.1 to Form 8-K filed on April 22, 2010, is incorporated by reference herein.
10.8*	Form of Employer Contribution Agreement, Nancy Davis, Participant, as filed as Exhibit 10.4 to Form 8-K filed on October 23, 2006, is incorporated by reference herein.
10.9*	Terms of Restricted Stock Program, as filed as Exhibit 10.1 to Form 8-K filed on February 26, 2007, is incorporated by reference herein.
10.10*	Form of Restricted Stock Agreement (3 year vesting), as filed as Exhibit 10.2 to Form 8-K filed on February 26, 2007, is incorporated by reference herein.
10.11*	Form of Stock Option Grant and Agreement (6 months vesting), as filed as Exhibit 10.1 to Form 8-K filed on January 19, 2006, is incorporated by reference herein.
10.12*	Form of Stock Option Grant and Agreement (5 year vesting), as filed as Exhibit 10.2 to Form 8-K filed on January 19, 2006, is incorporated by reference herein.
10.13*	Form of Stock Appreciation Right Grant Agreement (6 month vesting), as filed as Exhibit 10.1 to Form 8-K filed on February 22, 2008, is incorporated by reference herein.
10.14*	Form of Stock Appreciation Right Grant Agreement (5 year vesting), as filed as Exhibit 10.2 to Form 8-K filed on February 22, 2008, is incorporated by reference herein.
10.15*	Form of Indemnification Agreement between Stock Yards Bank & Trust Company, S.Y. Bancorp, Inc. and each member of the Board of Directors. Exhibit 10.3 to Annual Report on Form 10-K for the year ended December 31, 2001, of Bancorp is incorporated by reference herein.
10.16*	Form of Restricted Stock Award Agreement (5 year vesting) between S.Y. Bancorp, Inc. and each recipient of restricted stock. Exhibit 10.21 to Annual Report on Form 10-K for the year ended December 31, 2010, of Bancorp is incorporated by reference herein.
10.17*	Form of Director Restricted Stock Award Agreement (1 year vesting) between S.Y. Bancorp, Inc. and each member of the Board of Directors. Exhibit 10.22 to Annual Report on Form 10-K for the year ended December 31, 2010, of Bancorp is incorporated by reference herein.
10.18*	Amendment No. 2 to the S. Y. Bancorp, Inc. 2005 Stock Incentive Plan, as filed as Exhibit 10.1 to Form 8-K filed on April 22, 2011, is incorporated by reference herein.
10.19*	Form of S.Y. Bancorp, Inc. Restricted Stock Unit Grant Agreement for grants prior to 2014, as filed as Exhibit 10.2 to Form 8-K filed on April 22, 2011, is incorporated by reference herein.
10.20*	Form of Stock Appreciation Right Grant Agreement (5 year vesting) between S.Y. Bancorp, Inc. and each recipient of stock appreciation rights. Exhibit 10.25 to Annual Report on Form 10-K for the year ended December 31, 2012, of Bancorp is incorporated by reference herein.
10.21*	Form of S.Y. Bancorp, Inc. Restricted Stock Unit Grant Agreement 2012 and Amendment thereto, as filed as Exhibit 10.1 to Form 8-K filed on March 20, 2013, is incorporated by reference herein.
10.22*	Form of Annual Cash Incentive Plan, as filed as Exhibit 10.1 to Form 8-K filed on April 26, 2013, is incorporated by reference herein.

10.23*	Amendment No. 3 to the S. Y. Bancorp, Inc. 2005 Stock Incentive Plan, as filed as Exhibit 10.1 to Form 8-K filed on November 22, 2013, is incorporated by reference herein.
10.24*	Amendment No. 1 to the Director Nonqualified Deferred Compensation Plan, as filed as Exhibit 10.2 to Form 8-K filed on November 22, 2013, is incorporated by reference herein.
10.25*	Form of Director Restricted Stock Unit Award Agreement, as filed as Exhibit 10.3 to Form 8-K filed on November 22, 2013, is incorporated by reference herein.
10.26*	Form of Amended and Restated Change in Control Severance Agreement (for David Heintzman, Ja Hillebrand, Kathy Thompson and Nancy Davis), as filed as Exhibit 10.1 to Form 8-K filed on December 17, 2013, is incorporated by reference herein.

10.27*	Form of Annual Cash Bonus Plan (as amended December 16, 2013), as filed as Exhibit 10.2 to Form 8-K filed on December 17, 2013, is incorporated by reference herein.
10.28*	Form of Restricted Stock Unit Grant Agreement for grants awarded 2014 and later, as filed as Exhibit 10.3 to Form 8-K filed on December 17, 2013, is incorporated by reference herein.
10.29*	Form of Amendment No. 1 Stock Yards Bank & Trust Company Executive Nonqualified Deferred Compensation Plan, as filed as Exhibit 10.1 to Form 8-K filed on December 18, 2014, is incorporated by reference herein.
10.30*	Form of Amendment No. 2 Stock Yards Bank & Trust Company Director Nonqualified Deferred Compensation Plan, as filed as Exhibit 10.2 to Form 8-K filed on December 18, 2014, is incorporated by reference herein.
10.31*	Form of Restricted Stock Unit Grant Agreement as filed as Exhibit 10.1 to Form 8-K filed on March 19, 2015, is incorporated by reference herein.
10.32*	Amendment to Form of Restricted Stock Unit Grant Agreement as filed as Exhibit 10.1 to Form 8-K/A filed on March 19, 2015, is incorporated by reference herein.
10.33*	Stock Yards Bancorp, Inc. 2015 Omnibus Equity Compensation Plan, as filed as Exhibit 10.1 to Form 8K, on April 27, 2015 is incorporated by reference herein.
10.34*	Form of Performance-Vested Stock Units (PSU's) Agreement, as filed as Exhibit 10.1 to Form 8-K filed on March 17, 2016, is incorporated by reference herein.
10.35*	Form of Stock Appreciation Rights (SARS) Agreement, as filed as Exhibit 10.2 to Form 8-K filed on March 17, 2016, is incorporated by reference herein.
10.36*	Form of Performance-Vested Stock Unit Grant Agreement, as filed as Exhibit 10.1 to Form 8-K filed on March 27, 2017, is incorporated by reference herein.
***10.37*	Amendment No. 1 to the Stock Yards Bancorp 2015 Omnibus Equity Compensation Plan.
***14	Code of Ethics for the Chief Executive Officer and Financial Executives.
***21	Subsidiary of the Registrant.
**23	Consent of Independent Registered Public Accounting Firm.
**31.1	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act by David P. Heintzman.
**31.2	Certifications pursuant to Section 302 of the Sarbanes-Oxley Act by Nancy B. Davis.
**32.1	Certifications pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David P. Heintzman.
**32.2	Certifications pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Nancy B. Davis.
***101	The following financial statements from the Stock Yards Bancorp, Inc. December 31, 2017 Annual Report on Form 10-K, filed on March 13, 2017, formatted in eXtensible Business Reporting Language (XBRL):

(1) Consolidated Balance Sheets
(2) Consolidated Statements of Income
(3) Consolidated Statements of Comprehensive Income
(4) Consolidated Statements of Changes in Stockholders' Equity
(5) Consolidated Statements of Cash Flows
(6) Notes to Consolidated Financial Statements

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

** Contained herewith.

*** Previously filed.

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

(b) Exhibits

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

(c) Financial Statement Schedules

None

Table of Contents

Where You Can Find More Information

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

Table of Contents

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amendment No.1 to its annual report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

April 4, 2018	STOCK YARDS BANCORP, INC.
	BY: /s/ David P. Heintzman David P. Heintzman Chairman and Chief Executive Officer