Stock Yards Bancorp, Inc.
Form 10-Q
May 06, 2016
Table Of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from _____ to _____.

Commission file number 1-13661

**STOCK YARDS BANCORP, INC.**

(Exact name of registrant as specified in its charter)

| Kentucky | 61-1137529 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

1040 East Main Street, Louisville, Kentucky 40206

(Address of principal executive offices including zip code)

(502) 582-2571
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

Yes No

The number of shares of the registrant's Common Stock, no par value, outstanding as of April 25, 2016, was 14,985,768.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

Index


| Item | | Page |
|---|---|---|
| **part I – financial information** | | |
| Item 1. | Financial Statements | |
| | Consolidated Balance Sheets March 31, 2016 (Unaudited) and December 31, 2015 | 3 |
| | Consolidated Statements of Income (Unaudited) for the three months ended March 31, 2016 and 2015 | 4 |
| | Consolidated Statements of Comprehensive Income (Unaudited) for the three months ended March 31, 2016 and 2015 | 5 |
| | Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the three months ended March 31, 2016 and 2015 | 6 |
| | Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2016 and 2015 | 7 |
| | Notes to Consolidated Financial Statements (Unaudited) | 8 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 40 |
| Item 3. | Quantitative and Qualitative Disclosures about Market Risk | 57 |
| Item 4. | Controls and Procedures | 57 |
| **part II – other information** | | |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 57 |
| Item 6. | Exhibits | 58 |

1

Table Of Contents

**PART I – FINANCIAL INFORMATION**

**Glossary of Acronyms and Terms**

The following listing provides a comprehensive reference of common acronyms and terms used throughout the document:

| | |
|---|---|
| ASU | Accounting Standards Update |
| Bancorp | Stock Yards Bancorp, Inc. |
| Bank | Stock Yards Bank & Trust Company |
| BOLI | Bank Owned Life Insurance |
| BP | Basis Point = 1/100$^{th}$ of one percent |
| Dodd-Frank Act | Dodd-Frank Wall Street Reform and Consumer Protection Act |
| FASB | Financial Accounting Standards Board |
| FDIC | Federal Deposit Insurance Corporation |
| FHA | Federal Housing Administration |
| FHLB | Federal Home Loan Bank |
| FHLMC | Federal Home Loan Mortgage Corporation |
| FNMA | Federal National Mortgage Association |
| GNMA | Government National Mortgage Association |
| IM&T | Investment Management and Trust |
| LIBOR | London Interbank Offered Rate |
| MSR | Mortgage Servicing Right |
| OAEM | Other Assets Especially Mentioned |

| | |
|---|---|
| OREO | Other Real Estate Owned |
| PSU | Performance Stock Unit |
| RSU | Restricted Stock Unit |
| SAR | Stock Appreciation Right |
| SEC | Securities and Exchange Commission |
| TDR | Troubled Debt Restructuring |
| US GAAP | United States Generally Accepted Accounting Principles |
| VA | U.S. Department of Veterans Affairs |

Table Of Contents

Item 1. Financial Statements

**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

Consolidated Balance Sheets

March 31, 2016 and December 31, 2015

(In thousands, except share data)

| **Assets** | **March 31, 2016 (Unaudited)** | **December 31, 2015** |
|---|---|---|
| Cash and due from banks | $ 35,022 | $ 35,895 |
| Federal funds sold | 13,016 | 67,938 |
| Cash and cash equivalents | 48,038 | 103,833 |
| Mortgage loans held for sale | 3,984 | 6,800 |
| Securities available-for-sale (amortized cost of $561,906 in 2016 and $564,391 in 2015) | 569,012 | 565,876 |
| Federal Home Loan Bank stock and other securities | 6,347 | 6,347 |
| Loans | 2,094,488 | 2,033,007 |
| Less allowance for loan losses | 22,451 | 22,441 |
| Net loans | 2,072,037 | 2,010,566 |
| Premises and equipment, net | 39,975 | 39,557 |
| Bank owned life insurance | 31,217 | 30,996 |
| Accrued interest receivable | 7,146 | 6,610 |
| Other assets | 46,351 | 46,216 |
| Total assets | $ 2,824,107 | $ 2,816,801 |
| **Liabilities and Stockholders' Equity** | | |
| Deposits: | | |
| Non-interest bearing | $ 606,375 | $ 583,768 |
| Interest bearing | 1,759,725 | 1,787,934 |
| Total deposits | 2,366,100 | 2,371,702 |
| Securities sold under agreements to repurchase | 54,781 | 64,526 |
| Federal funds purchased | 30,083 | 22,477 |
| Accrued interest payable | 119 | 127 |
| Other liabilities | 33,465 | 27,982 |
| Federal Home Loan Bank advances | 43,236 | 43,468 |
| Total liabilities | 2,527,784 | 2,530,282 |
| Stockholders' equity: | | |
| Preferred stock, no par value. Authorized 1,000,000 shares; no shares issued or outstanding | — | — |
| | 10,835 | 10,616 |

| | | |
|---|---|---|
| Common stock, no par value. Authorized 40,000,000 shares; issued and outstanding 14,985,129 and 14,919,351 shares in 2016 and 2015, respectively | | |
| Additional paid-in capital | 45,733 | 44,180 |
| Retained earnings | 235,809 | 231,091 |
| Accumulated other comprehensive income | 3,946 | 632 |
| Total stockholders' equity | 296,323 | 286,519 |
| Total liabilities and stockholders' equity | $2,824,107 | $2,816,801 |

See accompanying notes to unaudited consolidated financial statements.

Table Of Contents

**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

Consolidated Statements of Income

For the three months ended March 31, 2016 and 2015 (Unaudited)

(In thousands, except per share data)

| | **2016** | **2015** |
|---|---|---|
| Interest income: | | |
| Loans | $21,993 | $20,415 |
| Federal funds sold | 189 | 68 |
| Mortgage loans held for sale | 60 | 39 |
| Securities – taxable | 2,155 | 2,034 |
| Securities – tax-exempt | 303 | 291 |
| Total interest income | 24,700 | 22,847 |
| Interest expense: | | |
| Deposits | 996 | 973 |
| Federal funds purchased | 15 | 7 |
| Securities sold under agreements to repurchase | 33 | 37 |
| Federal Home Loan Bank advances | 187 | 216 |
| Total interest expense | 1,231 | 1,233 |
| Net interest income | 23,469 | 21,614 |
| Provision for loan losses | 500 | — |
| Net interest income after provision for loan losses | 22,969 | 21,614 |
| Non-interest income: | | |
| Investment management and trust revenue | 4,612 | 4,552 |
| Service charges on deposit accounts | 2,146 | 2,080 |
| Bankcard transaction revenue | 1,310 | 1,122 |
| Mortgage banking revenue | 794 | 828 |
| Brokerage commissions and fees | 443 | 461 |
| Bank owned life insurance income | 221 | 222 |
| Other | 556 | 408 |
| Total non-interest income | 10,082 | 9,673 |
| Non-interest expenses: | | |
| Salaries and employee benefits | 12,195 | 11,100 |
| Net occupancy expense | 1,524 | 1,469 |
| Data processing expense | 1,544 | 1,454 |
| Furniture and equipment expense | 285 | 247 |
| FDIC insurance expense | 328 | 297 |
| Amortization of investment in tax credit partnerships | 1,015 | 158 |
| Other | 2,649 | 3,054 |
| Total non-interest expenses | 19,540 | 17,779 |
| Income before income taxes | 13,511 | 13,508 |
| Income tax expense | 3,676 | 4,253 |

| | | |
|---|---|---|
| Net income | $9,835 | $9,255 |
| Net income per share: | | |
| Basic | $0.66 | $0.63 |
| Diluted | $0.65 | $0.62 |
| Average common shares: | | |
| Basic | 14,836 | 14,647 |
| Diluted | 15,061 | 14,852 |

See accompanying notes to unaudited consolidated financial statements.

Table Of Contents

**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2016 and 2015 (Unaudited)

(In thousands)

| | 2016 | 2015 |
|---|---|---|
| Net income | $9,835 | $9,255 |
| Other comprehensive income, net of tax: | | |
| Unrealized gains on securities available-for-sale: | | |
| Unrealized gains arising during the period (net of tax of $1,968 and $1,011, respectively) | 3,653 | 1,880 |
| Unrealized (losses) gains on hedging instruments: | | |
| Unrealized (losses) gains arising during the period (net of tax of ($183) and ($9), respectively) | (339) | (19) |
| Other comprehensive income | 3,314 | 1,861 |
| Comprehensive income | $13,149 | $11,116 |

See accompanying notes to unaudited consolidated financial statements.

Table Of Contents

**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

Consolidated Statements of Changes in Stockholders' Equity

For the three months ended March 31, 2016 and 2015 (Unaudited)

(In thousands, except per share data)

| | Common stock | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income | Total |
|---|---|---|---|---|---|---|
| | Number of shares | Amount | | | | |
| Balance December 31, 2014 | 14,745 | $10,035 | $38,191 | $209,584 | $2,085 | $259,895 |
| Net income | — | — | — | 9,255 | — | 9,255 |
| Other comprehensive income, net of tax | — | — | — | — | 1,861 | 1,861 |
| Stock compensation expense | — | — | 501 | — | — | 501 |
| Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award | 66 | 219 | 1,112 | (1,346) | — | (15) |
| Cash dividends, $0.23 per share | — | — | — | (3,393) | — | (3,393) |
| Shares repurchased or cancelled | (16) | (51) | (452) | — | — | (503) |
| Balance March 31, 2015 | 14,795 | $10,203 | $39,352 | $214,100 | $3,946 | $267,601 |
| Balance December 31, 2015 | 14,919 | $10,616 | $44,180 | $231,091 | $632 | $286,519 |
| Net income | — | — | — | 9,835 | — | 9,835 |
| Other comprehensive income, net of tax | — | — | — | — | 3,314 | 3,314 |
| Stock compensation expense | — | — | 513 | — | — | 513 |
| Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award | 70 | 232 | 1,146 | (1,499) | — | (121) |
| Cash dividends, $0.25 per share | — | — | — | (3,737) | — | (3,737) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Shares repurchased or cancelled | (4) | (13) | (106) | 119 | — | — |
| Balance March 31, 2016 | 14,985 | $10,835 | $45,733 | $235,809 | $3,946 | $296,323 |

See accompanying notes to unaudited consolidated financial statements.

Table Of Contents

**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

Consolidated Statements of Cash Flows

For the three months ended March 31, 2016 and 2015 (Unaudited)

(In thousands)

| | 2016 | 2015 |
|---|---|---|
| Operating activities: | | |
| Net income | $9,835 | $9,255 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 500 | — |
| Depreciation, amortization and accretion, net | 2,662 | 1,672 |
| Deferred income tax provision | 1,179 | 1,090 |
| Gain on sales of mortgage loans held for sale | (462) | (560) |
| Origination of mortgage loans held for sale | (20,788) | (27,100) |
| Proceeds from sale of mortgage loans held for sale | 24,066 | 24,926 |
| Bank owned life insurance income | (221) | (222) |
| Loss on the disposal of premises and equipment | - | 9 |
| (Gain) loss on the sale of other real estate | (333) | 20 |
| Stock compensation expense | 513 | 501 |
| Excess tax benefits from share-based compensation arrangements | (404) | (154) |
| (Increase) decrease in accrued interest receivable and other assets | (4,774) | 237 |
| Increase (decrease) in accrued interest payable and other liabilities | 5,871 | (3,036) |
| Net cash provided by operating activities | 17,644 | 6,638 |
| Investing activities: | | |
| Purchases of securities available-for-sale | (117,915) | (70,664) |
| Proceeds from sale of securities available for sale | - | 5,934 |
| Proceeds from maturities of securities available-for-sale | 119,615 | 108,502 |
| Net increase in loans | (62,660) | (5,644) |
| Purchases of premises and equipment | (1,169) | (1,728) |
| Proceeds from sale of other real estate | 513 | 272 |
| Net cash (used in) provided by investing activities | (61,616) | 36,672 |
| Financing activities: | | |
| Net decrease in deposits | (5,602) | (13,398) |
| Net decrease in securities sold under agreements to repurchase and federal funds purchased | (2,139) | (42,635) |
| Proceeds from Federal Home Loan Bank advances | 30,000 | 10,000 |
| Repayments of Federal Home Loan Bank advances | (30,232) | (10,088) |
| Issuance of common stock for options and performance stock units | 495 | 167 |
| Excess tax benefits from share-based compensation arrangements | 404 | 154 |
| Common stock repurchases | (1,020) | (839) |
| Cash dividends paid | (3,729) | (3,393) |
| Net cash used in financing activities | (11,823) | (60,032) |
| Net decrease in cash and cash equivalents | (55,795) | (16,722) |

| | | |
|---|---|---|
| Cash and cash equivalents at beginning of period | 103,833 | 74,241 |
| Cash and cash equivalents at end of period | $48,038 | $57,519 |
| Supplemental cash flow information: | | |
| Income tax payments | - | 1 |
| Cash paid for interest | 1,239 | 1,237 |
| Supplemental non-cash activity: | | |
| Transfers from loans to other real estate owned | $689 | $146 |

See accompanying notes to unaudited consolidated financial statements.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**Notes to Consolidated Financial Statements (Unaudited)**

**(1) Summary of Significant Accounting Policies**

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all information and footnotes required by U.S. generally accepted accounting principles (US GAAP) for complete financial statements. The consolidated unaudited financial statements of Stock Yards Bancorp, Inc. (“Bancorp”) and its subsidiary reflect all adjustments (consisting only of adjustments of a normal recurring nature) which are, in the opinion of management, necessary for a fair presentation of financial condition and results of operations for the interim periods.

The unaudited consolidated financial statements include the accounts of Stock Yards Bancorp, Inc. and its wholly-owned subsidiary, Stock Yards Bank & Trust Company (“Bank”). Significant intercompany transactions and accounts have been eliminated in consolidation. In preparing the unaudited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of related revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of available-for sale securities, other real estate owned and income tax assets, and estimated liabilities and expense.

A description of other significant accounting policies is presented in the notes to Consolidated Financial Statements for the year ended December 31, 2015 included in Stock Yards Bancorp, Inc.’s Annual Report on Form 10-K. Certain reclassifications have been made in the prior year financial statements to conform to current year classifications.

Interim results for the three month period ended March 31, 2016 are not necessarily indicative of the results for the entire year.

**Critical Accounting Policies**

Management has identified the accounting policy related to the allowance and provision for loan losses as critical to the understanding of Bancorp's results of operations and discussed this conclusion with the Audit Committee of the Board of Directors. Since the application of this policy requires significant management assumptions and estimates, it could result in materially different amounts to be reported if conditions or underlying circumstances were to change. The provision reflects an allowance methodology that is driven by risk ratings, historical losses, and qualitative factors. Assumptions include many factors such as changes in borrowers' financial condition which can change quickly or historical loss ratios related to certain loan portfolios which may or may not be indicative of future losses. In the second quarter of 2015, Bancorp extended the historical period used to capture Bancorp's historical loss ratios from 12 quarters to 24 quarters. Management believes the extension of the look-back period is appropriate to capture the impact of a full economic cycle and more accurately represents the current level of risk inherent in the loan portfolio. To the extent that management's assumptions prove incorrect, the results from operations could be materially affected by a higher or lower provision for loan losses. The accounting policy related to the allowance for loan losses is applicable to the commercial banking segment of Bancorp.

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

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

Bancorp's allowance calculation includes allocations to loan portfolio segments at March 31, 2016 for qualitative factors including, among other factors, economic and business conditions in each of our primary markets, 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, dependency upon 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. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to the allowance for loan and lease losses based on their judgments and estimates.

**(2) Securities**

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

| (in thousands)<br>**March 31, 2016** | **Amortized cost** | **Unrealized Gains** | **Losses** | **Fair value** |
|---|---|---|---|---|
| Government sponsored enterprise obligations | $ 333,470 | $ 3,608 | $ 162 | $ 336,916 |
| Mortgage-backed securities - government agencies | 166,933 | 2,601 | 423 | 169,111 |
| Obligations of states and political subdivisions | 60,850 | 1,512 | 26 | 62,336 |
| Corporate equity securities | 653 | - | 4 | 649 |
| Total securities available for sale | $ 561,906 | $ 7,721 | $ 615 | $ 569,012 |
| **December 31, 2015** | | | | |
| U.S. Treasury and other U.S. Government obligations | $ 79,999 | $ 1 | $ - | $ 80,000 |
| Government sponsored enterprise obligations | 251,190 | 1,468 | 765 | 251,893 |
| Mortgage-backed securities - government agencies | 170,139 | 1,143 | 1,654 | 169,628 |
| Obligations of states and political subdivisions | 62,410 | 1,342 | 50 | 63,702 |
| Corporate equity securities | 653 | - | - | 653 |
| Total securities available for sale | $ 564,391 | $ 3,954 | $ 2,469 | $ 565,876 |

Corporate equity securities, included in the available-for-sale portfolio at March 31, 2016 and December 31, 2015, consisted of common stock in a publicly-traded small business investment company.

There were no securities classified as held to maturity as of March 31, 2016 or December 31, 2015.

No securities were sold in the first three months of 2016. In the first three months of 2015, Bancorp sold securities with total fair market value of $5.9 million, generating no gain or loss. These securities consisted of mortgage-backed securities with small remaining balances and agency securities. These 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

**Stock Yards Bancorp, inc. and subsidiary**

A summary of the available-for-sale investment securities by maturity groupings as of March 31, 2016 is shown below.

| (in thousands)<br>**Securities available-for-sale** | **Amortized cost** | **Fair value** |
|---|---|---|
| Due within 1 year | $ 115,644 | $ 115,721 |
| Due after 1 but within 5 years | 139,936 | 141,921 |
| Due after 5 but within 10 years | 23,300 | 23,675 |
| Due after 10 years | 115,440 | 117,935 |
| Mortgage-backed securities | 166,933 | 169,111 |
| Corporate equity securities | 653 | 649 |
| Total securities available-for-sale | $ 561,906 | $ 569,012 |

Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations. In addition to equity securities, 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 approximately $337.8 million at March 31, 2016 and $380.7 million at December 31, 2015 were pledged to secure accounts of commercial depositors in cash management accounts, public deposits, and cash balances for certain investment management and trust accounts.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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 | |
|---|---|---|---|---|---|---|
| **March 31, 2016** | **Fair value** | **Unrealized losses** | **Fair value** | **Unrealized losses** | **Fair value** | **Unrealized losses** |
| Government sponsored enterprise obligations | $141,052 | $ 90 | $7,848 | $ 72 | $148,900 | $ 162 |
| Mortgage-backed securities - government agencies | 7,917 | 31 | 28,823 | 392 | 36,740 | 423 |
| Obligations of states and political subdivisions | 5,054 | 15 | 1,339 | 11 | 6,393 | 26 |
| Corporate equity securities | 649 | 4 | - | - | 649 | 4 |
| Total temporarily impaired securities | $154,672 | $ 140 | $38,010 | $ 475 | $192,682 | $ 615 |
| **December 31, 2015** | | | | | | |
| Government sponsored enterprise obligations | $102,098 | $ 500 | $8,469 | $ 265 | $110,567 | $ 765 |
| Mortgage-backed securities - government agencies | 49,774 | 662 | 29,936 | 992 | 79,710 | 1,654 |
| Obligations of states and political subdivisions | 13,225 | 31 | 1,955 | 19 | 15,180 | 50 |
| Total temporarily impaired securities | $165,097 | $ 1,193 | $40,360 | $ 1,276 | $205,457 | $ 2,469 |

Applicable dates for determining when securities are in an unrealized loss position are March 31, 2016 and December 31, 2015. 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 an 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. These investments consist of 37 and 70 separate investment positions as of March 31, 2016 and December 31, 2015, respectively. Because management does not intend to sell the investments, and it is not likely that Bancorp will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Bancorp does not consider these securities to be other-than-temporarily impaired at March 31, 2016.

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

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**(3) Loans**

Composition of loans, net of deferred fees and costs, by primary loan portfolio class follows:

| (in thousands) | **March 31, 2016** | **December 31, 2015** |
|---|---|---|
| Commercial and industrial | $676,782 | $644,398 |
| Construction and development, excluding undeveloped land | 139,148 | 134,482 |
| Undeveloped land | 21,519 | 21,185 |
| | | |
| Real estate mortgage: | | |
| Commercial investment | 496,647 | 482,639 |
| Owner occupied commercial | 372,811 | 375,016 |
| 1-4 family residential | 234,199 | 226,575 |
| Home equity - first lien | 52,042 | 50,115 |
| Home equity - junior lien | 63,336 | 63,066 |
| Subtotal: Real estate mortgage | 1,219,035 | 1,197,411 |
| | | |
| Consumer | 38,004 | 35,531 |
| | | |
| Total loans | $2,094,488 | $2,033,007 |

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

The following table presents the balance in the recorded investment in loans and allowance for loan losses by portfolio segment and based on impairment evaluation method as of March 31, 2016 and December 31, 2015.

| (in thousands) | **Type of loan** | | | | | |
|---|---|---|---|---|---|---|
| **March 31, 2016** | **Commercial and industrial** | **Construction and development excluding undeveloped land** | **Undeveloped land** | **Real estate mortgage** | **Consumer** | **Total** |
| **Loans** | $676,782 | $ 139,148 | $ 21,519 | $1,219,035 | $ 38,004 | $2,094,488 |
| Loans collectively evaluated for impairment | $672,059 | $ 138,827 | $ 21,519 | $1,214,376 | $ 37,906 | $2,084,687 |
| Loans individually evaluated for impairment | $4,647 | $ - | $ - | $4,173 | $ 98 | $8,918 |
| Loans acquired with deteriorated credit quality | $76 | $ 321 | $ - | $486 | $ - | $883 |

| | **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) | 813 | 159 | 94 | (578) | 12 | 500 |
| Charge-offs | (348) | - | - | (203) | (117) | (668) |
| Recoveries | 32 | 10 | - | 20 | 116 | 178 |
| At March 31, 2016 | $ 9,142 | $ 1,929 | $ 908 | $ 10,114 | $ 358 | $ 22,451 |
| Allowance for loans collectively evaluated for impairment | $ 8,760 | $ 1,929 | $ 908 | $ 9,814 | $ 292 | $ 21,703 |
| Allowance for loans individually evaluated for impairment | $ 382 | $ - | $ - | $ 300 | $ 66 | $ 748 |
| Allowance for loans acquired with deteriorated credit quality | $ - | $ - | $ - | $ - | $ - | $ - |

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

| (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 collectively evaluated for impairment | $639,760 | $ 134,160 | $ 21,185 | $1,192,864 | $ 35,463 | $2,023,432 |
| Loans individually evaluated for impairment | $4,635 | $ - | $ - | $4,050 | $ 68 | $8,753 |
| 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 collectively evaluated for impairment | $ 8,377 | $ 1,760 | $ 814 | $ 10,667 | $ 279 | $ 21,897 |
| Allowance for loans individually evaluated for impairment | $ 268 | $ - | $ - | $ 208 | $ 68 | $ 544 |
| 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 the 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 an effect on the 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.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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

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 commercial real estate, repayment is dependent on financial strength of the borrower. For income-producing investment properties, repayment is dependent on financial strength of tenants in addition to the borrower. Underlying properties are generally located in Bancorp's primary market area. Cash flows of income producing investment properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on credit quality. 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 and stock prices, will have a significant effect on credit quality in this loan category.

Bancorp has 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. The carrying amount of those loans is included in the balance sheet amounts of loans at March 31, 2016 and December 31, 2015. Changes in the fair value adjustment for acquired impaired loans are shown in the following table.

| (in thousands) | **Accretable discount** | **Non-accretable discount** |
|---|---|---|
| Balance at December 31, 2014 | $ 62 | $ 266 |
| Accretion | (59) | (77) |
| Reclassifications from (to) non-accretable discount | - | - |
| Disposals | - | - |
| Balance at December 31, 2015 | $ 3 | $ 189 |
| Accretion | (3) | - |

| | | |
|---|---|---|
| Reclassifications from (to) non-accretable discount | - | - |
| Disposals | - | - |
| Balance at March 31, 2016 | $ - | $ 189 |

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

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

The following table presents loans individually evaluated for impairment.

| (in thousands)<br>**March 31, 2016** | **Recorded investment** | **Unpaid principal balance** | **Related allowance** | **Average recorded investment** |
|---|---|---|---|---|
| Loans with no related allowance recorded: | | | | |
| Commercial and industrial | $ 3,544 | $ 4,581 | $ - | $ 3,332 |
| Construction and development, excluding undeveloped land | - | - | - | - |
| Undeveloped land | - | - | - | - |
| Real estate mortgage | | | | |
| Commercial investment | 204 | 204 | - | 241 |
| Owner occupied commercial | 1,693 | 2,132 | - | 1,718 |
| 1-4 family residential | 1,115 | 1,115 | - | 1,011 |
| Home equity - first lien | - | - | - | 7 |
| Home equity - junior lien | 289 | 289 | - | 191 |
| Subtotal: Real estate mortgage | 3,301 | 3,740 | - | 3,168 |
| Consumer | 32 | 32 | - | 16 |
| Subtotal | $ 6,877 | $ 8,353 | $ - | $ 6,516 |
| Loans with an allowance recorded: | | | | |
| Commercial and industrial | $ 1,103 | $ 1,578 | $ 382 | $ 1,310 |
| Construction and development, excluding undeveloped land | - | - | - | - |
| Undeveloped land | - | - | - | - |
| Real estate mortgage | | | | |
| Commercial investment | - | - | - | - |
| Owner occupied commercial | 872 | 872 | 300 | 945 |
| 1-4 family residential | - | - | - | - |
| Home equity - first lien | - | - | - | - |
| Home equity - junior lien | - | - | - | - |
| Subtotal: Real estate mortgage | 872 | 872 | 300 | 945 |
| Consumer | 66 | 66 | 66 | 67 |
| Subtotal | $ 2,041 | $ 2,516 | $ 748 | $ 2,322 |
| Total: | | | | |

| | | | | |
|---|---|---|---|---|
| Commercial and industrial | $ 4,647 | $ 6,159 | $ 382 | $ 4,642 |
| Construction and development, excluding undeveloped land | - | - | - | - |
| Undeveloped land | - | - | - | - |
| | | | | |
| Real estate mortgage | - | - | - | - |
| Commercial investment | 204 | 204 | - | 241 |
| Owner occupied commercial | 2,565 | 3,004 | 300 | 2,663 |
| 1-4 family residential | 1,115 | 1,115 | - | 1,011 |
| Home equity - first lien | - | - | - | 7 |
| Home equity - junior lien | 289 | 289 | - | 191 |
| Subtotal: Real estate mortgage | 4,173 | 4,612 | 300 | 4,113 |
| | | | | |
| Consumer | 98 | 98 | 66 | 83 |
| Total | $ 8,918 | $ 10,869 | $ 748 | $ 8,838 |

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

| (in thousands)<br>**December 31, 2015** | **Recorded investment** | **Unpaid principal balance** | **Related allowance** | **Average recorded investment** |
|---|---|---|---|---|
| Loans with no related allowance recorded: | | | | |
| Commercial and industrial | $ 3,119 | $ 3,859 | $ - | $ 1,414 |
| Construction and development, excluding undeveloped land | - | 151 | - | 21 |
| Undeveloped land | - | - | - | - |
| | | | | |
| Real estate mortgage | | | | |
| Commercial investment | 278 | 278 | - | 178 |
| Owner occupied commercial | 1,743 | 2,713 | - | 1,622 |
| 1-4 family residential | 906 | 906 | - | 661 |
| Home equity - first lien | 13 | 13 | - | 37 |
| Home equity - junior lien | 92 | 92 | - | 69 |
| Subtotal: Real estate mortgage | 3,032 | 4,002 | - | 2,567 |
| | | | | |
| Consumer | - | - | - | 3 |
| Subtotal | $ 6,151 | $ 8,012 | $ - | $ 4,005 |
| | | | | |
| Loans with an allowance recorded: | | | | |
| Commercial and industrial | $ 1,516 | $ 3,087 | $ 268 | $ 4,612 |
| Construction and development, excluding undeveloped land | - | - | - | 368 |
| Undeveloped land | - | - | - | - |
| | | | | |
| Real estate mortgage | | | | |
| Commercial investment | - | - | - | 92 |
| Owner occupied commercial | 1,018 | 1,018 | 208 | 1,266 |
| 1-4 family residential | - | - | - | 188 |
| Home equity - first lien | - | - | - | - |
| Home equity - junior lien | - | - | - | - |
| Subtotal: Real estate mortgage | 1,018 | 1,018 | 208 | 1,546 |
| | | | | |
| Consumer | 68 | 68 | 68 | 72 |
| Subtotal | $ 2,602 | $ 4,173 | $ 544 | $ 6,598 |
| | | | | |
| Total: | | | | |
| Commercial and industrial | $ 4,635 | $ 6,946 | $ 268 | $ 6,026 |
| Construction and development, excluding undeveloped land | - | 151 | - | 389 |
| Undeveloped land | - | - | - | - |

| | | | | |
|---|---|---|---|---|
| Real estate mortgage | - | - | - | - |
| Commercial investment | 278 | 278 | - | 270 |
| Owner occupied commercial | 2,761 | 3,731 | 208 | 2,888 |
| 1-4 family residential | 906 | 906 | - | 849 |
| Home equity - first lien | 13 | 13 | - | 37 |
| Home equity - junior lien | 92 | 92 | - | 69 |
| Subtotal: Real estate mortgage | 4,050 | 5,020 | 208 | 4,113 |
| | | | | |
| Consumer | 68 | 68 | 68 | 75 |
| Total | $ 8,753 | $ 12,185 | $ 544 | $ 10,603 |

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.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

Impaired loans include non-accrual loans and accruing loans accounted for as troubled debt restructurings (TDR), which continue to accrue interest. Non-performing loans include the balance of impaired loans plus any loans over 90 days past due and still accruing interest. Bancorp did not have any loans past due more than 90 days and still accruing interest, compared to $176 thousand at December 31, 2015.

The following table presents the recorded investment in non-accrual loans as of March 31, 2016 and December 31, 2015.

| (in thousands) | **March 31, 2016** | **December 31, 2015** |
|---|---|---|
| Commercial and industrial | $3,673 | $ 3,643 |
| Construction and development, excluding undeveloped land | - | - |
| Undeveloped land | - | - |
| | | |
| Real estate mortgage | | |
| Commercial investment | 204 | 278 |
| Owner occupied commercial | 2,565 | 2,761 |
| 1-4 family residential | 1,115 | 906 |
| Home equity - first lien | - | 13 |
| Home equity - junior lien | 289 | 92 |
| Subtotal: Real estate mortgage | 4,173 | 4,050 |
| | | |
| Consumer | 32 | - |
| | | |
| Total | $7,878 | $ 7,693 |

At March 31, 2016 and December 31, 2015, Bancorp had $1.0 million and $1.1 million of accruing loans classified as TDR, respectively. Bancorp did not modify and classify any additional loans as TDR during the three months ended March 31, 2016 or 2015.

Bancorp did not have any loans accounted for as TDR that were restructured and experienced a subsequent payment default during the three and twelve month periods ended March 31, 2016 or 2015. Loans accounted for as TDR include modifications from original terms such as those due to bankruptcy proceedings, certain modifications of

amortization periods or extended suspension of principal payments due to customer financial difficulties. Loans accounted for as TDR, which have not defaulted, are individually evaluated for impairment and, at March 31, 2016, had a total allowance allocation of $330 thousand, compared to $177 thousand at December 31, 2015.

At March 31, 2016 and December 31, 2015, Bancorp did not have any outstanding commitments to lend additional funds to borrowers whose loans have been modified as TDR.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

The following table presents the aging of the recorded investment in loans as of March 31, 2016 and December 31, 2015.

| (in thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | **90 or more days past due** | | | | **Recorded investment > 90 days** |
| **March 31, 2016** | **30-59 days past due** | **60-89 days past due** | **(includes) non-accrual)** | **Total past due** | **Current** | **Total loans** | **and accruing** |
| Commercial and industrial | $654 | $37 | $ 3,673 | $4,364 | $672,418 | $676,782 | $ - |
| Construction and development, excluding undeveloped land | - | - | - | - | 139,148 | 139,148 | - |
| Undeveloped land | 1,859 | - | - | 1,859 | 19,660 | 21,519 | - |
| Real estate mortgage | | | | | | | |
| Commercial investment | 315 | 278 | 204 | 797 | 495,850 | 496,647 | - |
| Owner occupied commercial | 1,495 | 95 | 2,565 | 4,155 | 368,656 | 372,811 | - |
| 1-4 family residential | 626 | 193 | 1,115 | 1,934 | 232,265 | 234,199 | - |
| Home equity - first lien | - | - | - | - | 52,042 | 52,042 | - |
| Home equity - junior lien | 129 | 120 | 289 | 538 | 62,798 | 63,336 | - |
| Subtotal: Real estate mortgage | 2,565 | 686 | 4,173 | 7,424 | 1,211,611 | 1,219,035 | - |
| Consumer | 224 | 5 | 32 | 261 | 37,743 | 38,004 | - |
| Total | $5,302 | $728 | $ 7,878 | $13,908 | $2,080,580 | $2,094,488 | $ - |
| **December 31, 2015** | | | | | | | |
| Commercial and industrial | $238 | $327 | $ 3,643 | $4,208 | $640,190 | $644,398 | $ - |
| Construction and development, excluding undeveloped land | - | - | - | - | 134,482 | 134,482 | - |
| Undeveloped land | - | - | - | - | 21,185 | 21,185 | - |
| Real estate mortgage | | | | | | | |
| Commercial investment | 290 | 140 | 278 | 708 | 481,931 | 482,639 | - |
| Owner occupied commercial | - | - | 2,761 | 2,761 | 372,255 | 375,016 | - |
| 1-4 family residential | 1,147 | 94 | 1,082 | 2,323 | 224,252 | 226,575 | 176 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Home equity - first lien | 35 | 51 | 13 | 99 | 50,016 | 50,115 | - |
| Home equity - junior lien | 285 | 173 | 92 | 550 | 62,516 | 63,066 | - |
| Subtotal: Real estate mortgage | 1,757 | 458 | 4,226 | 6,441 | 1,190,970 | 1,197,411 | 176 |
| Consumer | 343 | 8 | - | 351 | 35,180 | 35,531 | - |
| Total | $2,338 | $793 | $ 7,869 | $11,000 | $2,022,007 | $2,033,007 | $ 176 |

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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 included 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 potential weaknesses that deserve 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 a well-defined weakness or weaknesses that 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 all the characteristics of substandard loans and have been placed on non-accrual status or have been accounted for as troubled debt restructurings. Loans are placed on non-accrual 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.

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

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

As of March 31, 2016 and December 31, 2015, the internally assigned risk grades of loans by category were as follows:

| (in thousands)<br>**March 31, 2016** | **Pass** | **OAEM** | **Substandard** | **Substandard non-performing** | **Doubtful** | **Total loans** |
|---|---|---|---|---|---|---|
| Commercial and industrial | $642,042 | $22,907 | $ 7,186 | $ 4,647 | $ - | $676,782 |
| Construction and development, excluding undeveloped land | 137,924 | - | 1,224 | - | - | 139,148 |
| Undeveloped land | 20,854 | - | 665 | - | - | 21,519 |
| Real estate mortgage | | | | | | |
| Commercial investment | 494,426 | 1,950 | 67 | 204 | - | 496,647 |
| Owner occupied commercial | 354,090 | 12,591 | 3,565 | 2,565 | - | 372,811 |
| 1-4 family residential | 232,502 | 582 | - | 1,115 | - | 234,199 |
| Home equity - first lien | 52,042 | - | - | - | - | 52,042 |
| Home equity - junior lien | 62,997 | 50 | - | 289 | - | 63,336 |
| Subtotal: Real estate mortgage | 1,196,057 | 15,173 | 3,632 | 4,173 | - | 1,219,035 |
| Consumer | 37,906 | - | - | 98 | - | 38,004 |
| Total | $2,034,783 | $38,080 | $ 12,707 | $ 8,918 | $ - | $2,094,488 |
| **December 31, 2015** | | | | | | |
| Commercial and industrial | $612,853 | $19,672 | $ 7,238 | $ 4,635 | $ - | $644,398 |
| Construction and development, excluding undeveloped land | 133,342 | 773 | 367 | - | - | 134,482 |
| Undeveloped land | 20,513 | 517 | 155 | - | - | 21,185 |
| Real estate mortgage | | | | | | |
| Commercial investment | 480,178 | 2,183 | - | 278 | - | 482,639 |
| Owner occupied commercial | 351,707 | 17,135 | 3,413 | 2,761 | - | 375,016 |
| 1-4 family residential | 224,645 | 848 | - | 1,082 | - | 226,575 |
| Home equity - first lien | 50,102 | - | - | 13 | - | 50,115 |
| Home equity - junior lien | 62,924 | 50 | - | 92 | - | 63,066 |
| Subtotal: Real estate mortgage | 1,169,556 | 20,216 | 3,413 | 4,226 | - | 1,197,411 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Consumer | 35,463 | - | - | 68 | - | 35,531 |
| Total | $1,971,727 | $41,178 | $ 11,173 | $ 8,929 | $ - | $2,033,007 |

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**(4) Securities Sold Under Agreements to Repurchase**

Securities sold under agreements to repurchase, which represent excess funds from commercial customers as part of a cash management service, totaled $54.8 million and $64.5 million at March 31, 2016 and December 31, 2015, respectively. Bancorp enters into sales of securities under agreement to repurchase at a specified future date. At March 31, 2016, 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 under the control of Bancorp.

**(5) Federal Home Loan Bank Advances**

Bancorp had outstanding borrowings of $43.2 million and $43.5 million at March 31, 2016 and December 31, 2015, respectively, via 12 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 $13.2 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) | **March 31, 2016** | | **December 31, 2015** | |
|---|---|---|---|---|
| **Year** | **Advance** | **Fixed Rate** | **Advance** | **Fixed Rate** |
| 2016 | $30,000 | 0.59 % | $30,000 | 0.55 % |
| 2020 | 1,826 | 2.23 | 1,838 | 2.23 |
| 2021 | 411 | 2.12 | 429 | 2.12 |
| 2024 | 2,815 | 2.36 | 2,865 | 2.36 |
| 2025 | 6,849 | 2.44 | 6,991 | 2.44 |
| 2028 | 1,335 | 1.48 | 1,345 | 1.48 |
| Total | $43,236 | 1.11 % | $43,468 | 1.09 % |

Advances from the FHLB are collateralized by certain commercial and residential real estate mortgage loans totaling $557.1 million under a blanket mortgage collateral agreement and FHLB stock. Bancorp believes these borrowings to be an effective alternative to higher cost time deposits to manage interest rate risk associated with long-term fixed rate loans. At March 31, 2016, the amount of available credit from the FHLB totaled $355.6 million.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**(6) 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 three months ended March 31, 2016 and 2015.

| (in thousands) | Net unrealized gains 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 income (loss) | 1,880 | (19) | - | 1,861 |
| Net current period other comprehensive income (loss) | 1,880 | (19) | - | 1,861 |
| Balance at March 31, 2015 | $ 4,336 | $ (3) | $ (387) | $3,946 |
| Balance at December 31, 2015 | $ 965 | $ (60) | $ (273) | $632 |
| Other comprehensive income (loss) | 3,653 | (339) | - | 3,314 |
| Net current period other comprehensive income (loss) | 3,653 | (339) | - | 3,314 |
| Balance at March 31, 2016 | $ 4,618 | $ (399) | $ (273) | $3,946 |

**(7) Derivative Financial Instruments**

Occasionally, Bancorp enters into free-standing interest rate swaps for the benefit of its commercial customers who desire to hedge their exposure to changing interest rates. Bancorp offsets its interest rate exposure on these transactions by entering into offsetting swap agreements with substantially matching terms with approved reputable independent counterparties. These undesignated derivative instruments 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 the first three months of 2016 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 and monitoring procedures, and does not expect any counterparties to fail their obligations.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

At March 31, 2016 and December 31, 2015, Bancorp had outstanding undesignated interest rate swap contracts as follows:

| (dollar amounts in thousands) | **Receiving** | | **Paying** | |
|---|---|---|---|---|
| | **March 31, 2016** | **December 31, 2015** | **March 31, 2016** | **December 31, 2015** |
| Notional amount | $20,560 | $ 10,788 | $20,560 | $ 10,788 |
| Weighted average maturity (years) | 6.8 | 6.9 | 6.8 | 6.9 |
| Fair value | $(944) | $ (461) | $944 | $ 461 |

In 2013, 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 December 6, 2013 and ends December 6, 2016. 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 December 9, 2015 and matures December 6, 2020. For purposes of hedging, the rolling fixed rate advances are considered to be floating rate liabilities. The 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 March 31, 2016 and December 31, 2015.

(dollars in thousands)

| **Notional amount** | **Maturity date** | **Receive (variable) index** | **Pay fixed swap rate** | **Fair value March 31, 2016** | **Fair value December 31, 2015** |
|---|---|---|---|---|---|
| $10,000 | 12/6/2016 | US 3 Month LIBOR | 0.72 % | $(1) | $ 8 |
| 20,000 | 12/6/2020 | US 3 Month LIBOR | 1.79 % | (614) | (101) |

| | | | |
|---|---|---|---|
| $30,000 | 1.43 % | $(615 ) | $ (93 ) |

**(8) Goodwill and Intangible Assets**

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

In 2013, Bancorp completed the acquisition of THE BANCorp, Inc., parent company of THE BANK – Oldham County, Inc. As a result, Bancorp recorded a core deposit intangible totaling $2.5 million which is being amortized over the expected life of the underlying deposits to which the intangible is attributable. For money market, savings and interest bearing checking accounts, this intangible asset is being amortized using a straight line method over 15 years. For the remainder of deposits, it is being amortized over a 10-year period using an accelerated method which anticipates the life of the underlying deposits. At March 31, 2016, the unamortized core deposit intangible was $1.5 million.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

Mortgage servicing rights (MSRs) are initially recognized at fair value when mortgage loans are sold with servicing retained. The MSRs are amortized in proportion to and over the period of estimated net servicing income, considering appropriate prepayment assumptions. MSRs are evaluated quarterly for impairment by comparing carrying value to fair value. Estimated fair values of MSRs at March 31, 2016 and December 31, 2015 were $2.7 million and $3.1 million, respectively. Total outstanding principal balances of loans serviced for others were $402.3 million and $410.8 million at March 31, 2016, and December 31, 2015, respectively.

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

| | **For three months ended March 31,** | |
|---|---|---|
| (in thousands) | **2016** | **2015** |
| Balance at beginning of period | $1,018 | $1,131 |
| Additions for mortgage loans sold | 29 | 116 |
| Amortization | (58) | (180) |
| Balance at March 31 | $989 | $1,067 |

**(9) Defined Benefit Retirement Plan**

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 benefits to participants. Benefits vest based on 25 years of service. The retired officer and one current officer are fully vested, and one current officer will be fully vested in 2017. Actuarially determined pension costs are expensed and accrued over the service period, and benefits are paid from Bancorp's assets. Net periodic benefits costs, which include interest cost and amortization of net losses, totaled $33 thousand and $36 thousand, for the three months ended March 31, 2016 and 2015, respectively.

**(10) Commitments and Contingent Liabilities**

As of March 31, 2016, 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 $613.8 million including standby letters of credit of $13.4 million represent normal banking transactions. Commitments to extend credit were $636.9 million, including letters of credit of $12.8 million, as of December 31, 2015. Commitments to extend credit are agreements to lend to a customer as long as collateral is available and there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Commitments to extend credit are mainly comprised of commercial lines of credit, construction and home equity credit lines 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 March 31, 2016, Bancorp has accrued $387 thousand in other liabilities for inherent risks related to unfunded credit commitments.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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.

Also, as of March 31, 2016, 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.

**(11) Preferred Stock**

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

**(12) Stock-Based Compensation**

The fair value of all 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 March 31, 2016, there were 226,608 shares available for future awards. The 2005 Stock Incentive Plan expired in April 2015; however, options and SARs granted under this plan expire as late as 2025.

Options, which have not been granted since 2007, generally had a vesting schedule of 20% per year. Stock appreciation rights (“SARs”) granted have a vesting schedule of 20% per year. Options and SARs 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 2016, 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 and a single three-year performance period which begins January 1 of the first year of the performance period. Because grantees are not entitled to dividend payments during the performance period, the fair value of these PSUs is estimated based upon the fair 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. For 2015 and 2016, the fair value of such grants incorporates a liquidity discount of 4.80% and 4.50%, respectively, related to the holding period.

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 fair value of underlying shares on the date of grant.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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

| (in thousands) | For three months ended March 31, 2016 | 2015 |
|---|---|---|
| Stock-based compensation expense before income taxes | $513 | $501 |
| Less: deferred tax benefit | (180) | (176) |
| Reduction of net income | $333 | $325 |

Bancorp expects to record an additional $1.7 million of stock-based compensation expense in 2016 for equity grants outstanding as of March 31, 2016. As of March 31, 2016, Bancorp has $5.4 million of unrecognized stock-based compensation expense that is expected to be recorded as compensation expense over the next five years as awards vest. Bancorp received cash of $495 thousand and $167 thousand from the exercise of options during the first three months of 2016 and 2015, respectively.

Fair values of Bancorp's stock options and SARs are estimated at the date of grant using the Black-Scholes option pricing model, a leading formula for calculating the value of stock options and SARs. This model requires the input of 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:

| | 2016 | 2015 |
|---|---|---|
| Dividend yield | 2.94 % | 2.97 % |
| Expected volatility | 19.31% | 22.81% |
| Risk free interest rate | 1.70 % | 1.91 % |
| Expected life of SARs (years) | 7.3 | 7.5 |

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

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

A summary of stock option and SAR activity and related information for the three months ended March 31, 2016 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 | 437 | $21.03-29.16 | $ 23.62 | $ 6,191 | $ 5.09 | 3.7 |
| Unvested | 177 | 22.86-36.83 | 27.99 | 1,733 | 4.93 | 7.7 |
| Total outstanding | 614 | 21.03-36.83 | 24.88 | 7,924 | 5.04 | 4.8 |
| Granted | 58 | 38.63 | 38.63 | - | 5.33 | |
| Exercised | (26) | 24.07-26.83 | 26.14 | 293 | 6.06 | |
| Forfeited | - | - | - | - | - | |
| At March 31, 2016 | | | | | | |
| Vested and exercisable | 472 | 21.03-34.43 | 23.81 | 6,952 | 4.99 | 4.0 |
| Unvested | 174 | 22.86-38.63 | 32.21 | 1,105 | 5.15 | 8.5 |
| Total outstanding | 646 | 21.03-38.63 | 26.07 | $ 8,057 | 5.03 | 5.2 |
| Vested year-to-date | 61 | 22.86-34.43 | 26.14 | $ 753 | 4.70 | |

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. 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.

For the periods ending December 31, 2015 and March 31, 2016, Bancorp granted shares of restricted common stock as outlined in the following table:

| | Number | Grant date weighted-average cost |
|---|---|---|
| Unvested at December 31, 2014 | 114,093 | $ 24.95 |
| Shares awarded | 35,265 | 34.48 |
| Restrictions lapsed and shares released to employees | (40,510 ) | 23.84 |
| Shares forfeited | (4,649 ) | 28.46 |
| Unvested at December 31, 2015 | 104,199 | $ 28.46 |
| Shares awarded | 33,630 | 38.63 |
| Restrictions lapsed and shares released to employees | (31,456 ) | 26.78 |
| Shares forfeited | (4,040 ) | 29.47 |
| Unvested at March 31, 2016 | 102,333 | $ 32.28 |

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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 | Expected shares to be awarded |
|---|---|---|---|
| 2014 | 3 | $26.42 | 33,349 |
| 2015 | 3 | 30.03 | 21,258 |
| 2016 | 3 | 33.92 | 18,442 |

In the first quarter of 2016, Bancorp awarded 5,432 RSUs to directors of Bancorp with a grant date fair value of $200 thousand.

**(13) Net Income Per Share**

The following table reflects, for the three months ended March 31, 2016 and 2015, net income (numerator) and average shares outstanding (denominator) for basic and diluted net income per share computations:

| (In thousands, except per share data) | Three months ended March 31 | |
|---|---|---|
| | 2016 | 2015 |
| Net income | $9,835 | $9,255 |
| Average shares outstanding | 14,836 | 14,647 |
| Dilutive securities | 225 | 205 |
| Average shares outstanding including dilutive securities including dilutive securities | 15,061 | 14,852 |
| Net income per share, basic | $0.66 | $0.63 |
| Net income per share, diluted | $0.65 | $0.62 |

**(14) Segments**

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

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

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

Selected financial information by business segment for the three month periods ended March 31, 2016 and 2015 follows:

| (in thousands) | Commercial banking | Investment management and trust | Total |
|---|---|---|---|
| **Three months ended March 31, 2016** | | | |
| Net interest income | $ 23,407 | $ 62 | $23,469 |
| Provision for loan losses | 500 | - | 500 |
| Investment management and trust revenue | - | 4,612 | 4,612 |
| All other non-interest income | 5,470 | - | 5,470 |
| Non-interest expense | 16,895 | 2,645 | 19,540 |
| Income before income taxes | 11,482 | 2,029 | 13,511 |
| Tax expense | 2,951 | 725 | 3,676 |
| Net income | $ 8,531 | $ 1,304 | $9,835 |
| | | | |
| **Three months ended March 31, 2015** | | | |
| Net interest income | $ 21,560 | $ 54 | $21,614 |
| Provision for loan losses | - | - | - |
| Investment management and trust revenue | - | 4,552 | 4,552 |
| All other non-interest income | 5,121 | - | 5,121 |
| Non-interest expense | 15,191 | 2,588 | 17,779 |
| Income before income taxes | 11,490 | 2,018 | 13,508 |
| Tax expense | 3,534 | 719 | 4,253 |
| Net income | $ 7,956 | $ 1,299 | $9,255 |

**(15) Income Taxes**

Components of income tax expense from operations were as follows:

| | Three months ended March 31, | |
|---|---|---|
| (in thousands) | 2015 | 2014 |
| Current tax expense | | |

| | | |
|---|---|---|
| Federal | $2,373 | $3,076 |
| State | 124 | 87 |
| Total current tax expense | 2,497 | 3,163 |
| | | |
| Deferred tax expense | | |
| Federal | 1,101 | 984 |
| State | 78 | 106 |
| Total deferred tax expense | 1,179 | 1,090 |
| Total income tax expense | $3,676 | $4,253 |

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

An analysis of the difference between statutory and effective tax rates for the three months ended March 31, 2016 and 2015 follows:

| | Three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| U.S. federal statutory tax rate | 35.0% | 35.0% |
| Tax credits | (9.7 ) | (2.4 ) |
| Tax exempt interest income | (1.3 ) | (1.4 ) |
| Cash surrender value of life insurance | (0.8 ) | (1.0 ) |
| State income taxes | 1.0 | 0.9 |
| Other, net | 3.0 | 0.4 |
| Effective tax rate | 27.2% | 31.5% |

State income tax expense represents tax owed in Indiana. Kentucky and Ohio state bank taxes are based on capital levels, and are recorded as other non-interest expense.

US GAAP provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. As of March 31, 2016 and December 31, 2015, the gross amount of unrecognized tax benefits, including penalties and interest, was $45 thousand and $42 thousand, respectively. 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 2011.

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

Bancorp follows the provisions of authoritative guidance for fair value measurements. This guidance is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by US GAAP. 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 the markets in which the assets and liabilities trade and the reliability of assumptions used to determine fair value. These levels are:

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

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

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

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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 generally observable in the market place and can be derived from or supported by observable data. These measurements are classified as Level 2 in the hierarchy above.

Interest rate swaps are valued using primarily Level 2 inputs. Fair value measurements generally 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 a counterparty's inability to perform and the change in value of derivative assets and liabilities attributable to credit risk was not significant during 2016.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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

| (in thousands) | Fair value at March 31, 2016 | | | |
|---|---|---|---|---|
| **Assets** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| **Investment securities available-for-sale** | | | | |
| Government sponsored enterprise obligations | $336,916 | $- | $336,916 | $ - |
| Mortgage-backed securities - government agencies | 169,111 | - | 169,111 | - |
| Obligations of states and political subdivisions | 62,336 | - | 62,336 | - |
| Corporate equity securities | 649 | 649 | - | - |
| **Total investment securities available-for-sale** | 569,012 | 649 | 568,363 | - |
| **Interest rate swaps** | 944 | - | 944 | - |
| **Total assets** | $569,956 | $649 | $569,307 | $ - |
| **Liabilities** | | | | |
| **Interest rate swaps** | $1,559 | $- | $1,559 | $ - |

| (in thousands) | Fair value at December 31, 2015 | | | |
|---|---|---|---|---|
| **Assets** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| **Investment securities available-for-sale** | | | | |
| U.S. Treasury and other U.S. government obligations | $80,000 | $80,000 | $- | $ - |
| Government sponsored enterprise obligations | 251,893 | - | 251,893 | - |
| Mortgage-backed securities - government agencies | 169,628 | - | 169,628 | - |
| Obligations of states and political subdivisions | 63,702 | - | 63,702 | - |
| Corporate equity securities | 653 | 653 | - | - |
| **Total investment securities available-for-sale** | 565,876 | 80,653 | 485,223 | - |
| **Interest rate swaps** | 461 | - | 461 | - |
| **Total assets** | $566,337 | $80,653 | $485,684 | $ - |

| | | | | |
|---|---|---|---|---|
| **Liabilities** | | | | |
| **Interest rate swaps** | $554 | $- | $554 | $ - |

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 March 31, 2016 or December 31, 2015.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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 March 31, 2016 and December 31, 2015 there was no valuation allowance for the mortgage servicing rights, as the fair value exceeded the cost. Accordingly, the MSRs are not included in either table below for March 31, 2016 or December 31, 2015. See Note 8 for more information regarding MSRs.

For impaired loans in the table below, the fair value is calculated as the carrying value of only loans with a specific valuation allowance, less the specific allowance. Fair value of impaired loans was primarily measured based on the value of the 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 March 31, 2016, total impaired loans with a valuation allowance were $2.0 million, and the specific allowance totaled $748 thousand, resulting in a fair value of $1.3 million, compared to total impaired loans with a valuation allowance of $2.6 million, and the specific allowance allocation totaling $544 thousand, resulting in a fair value of $2.1 million at December 31, 2015. Losses represent the change 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 March 31, 2016 and December 31, 2015, carrying value of all other real estate owned was $5.0 million and $4.5 million, respectively.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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

| (in thousands) | Fair value at March 31, 2016 | | | | Losses for 3 month period ended March 31, 2016 |
|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | |
| Impaired loans | $1,294 | $ - | $ - | $1,294 | $ (406 ) |
| Other real estate owned | 4,291 | - | - | 4,291 | - |
| Total | $5,585 | $ - | $ - | $5,585 | $ (406 ) |

| (in thousands) | Fair value at December 31, 2015 | | | | Losses for 3 month period ended March 31, 2015 |
|---|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 | |
| Impaired loans | $2,058 | $ - | $ - | $2,058 | $ (206 ) |
| Other real estate owned | 3,782 | - | - | 3,782 | - |
| Total | $5,840 | $ - | $ - | $5,840 | $ (206 ) |

For the securities portfolio, Bancorp monitors the valuation technique utilized by pricing agencies to ascertain when transfers between levels have occurred. The nature of other assets and liabilities measured at fair value is such that transfers in and out of any level are expected to be rare. For the three months ended March 31, 2016, 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 March 31, 2016, the significant unobservable inputs used in the fair value measurements are presented below.

| | Fair | Valuation | Significant unobservable | Weighted average of |
|---|---|---|---|---|

| (Dollars in thousands) | Value | technique | input | input | |
|---|---|---|---|---|---|
| Impaired loans - collateral dependent | $1,294 | Appraisal | Appraisal discounts (%) | 6.0 | % |
| Other real estate owned | 4,291 | Appraisal | Appraisal discounts | 17.6 | |

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**(17) 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)<br>**March 31, 2016** | **Carrying amount** | **Fair value** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and short-term investments | $48,038 | $48,038 | $48,038 | $- | $- |
| Mortgage loans held for sale | 3,984 | 4,119 | - | 4,119 | - |
| Federal Home Loan Bank stock and other securities | 6,347 | 6,347 | - | 6,347 | - |
| Loans, net | 2,072,037 | 2,095,613 | - | - | 2,095,613 |
| Accrued interest receivable | 7,146 | 7,146 | 7,146 | - | - |
| **Financial liabilities** | | | | | |
| Deposits | 2,366,100 | 2,366,239 | - | - | 2,366,239 |
| Short-term borrowings | 84,864 | 84,864 | - | 84,864 | - |
| FHLB advances | 43,236 | 44,385 | - | 44,385 | - |
| Accrued interest payable | 119 | 119 | 119 | - | - |

| (in thousands)<br>**December 31, 2015** | **Carrying amount** | **Fair value** | **Level 1** | **Level 2** | **Level 3** |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Cash and short-term investments | $103,833 | $103,833 | $103,833 | $- | $- |
| Mortgage loans held for sale | 6,800 | 7,112 | - | 7,112 | - |
| Federal Home Loan Bank stock and other securities | 6,347 | 6,347 | - | 6,347 | - |
| Loans, net | 2,010,566 | 2,021,776 | - | - | 2,021,776 |
| Accrued interest receivable | 6,610 | 6,610 | 6,610 | - | - |
| **Financial liabilities** | | | | | |
| Deposits | 2,371,702 | 2,371,300 | - | - | 2,371,300 |
| Short-term borrowings | 87,003 | 87,003 | - | 87,003 | - |
| FHLB advances | 43,468 | 43,647 | - | 43,647 | - |

| | | | | | |
|---|---|---|---|---|---|
| Accrued interest payable | 127 | 127 | 127 | - | - |

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.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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

**Limitations**

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

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**(18) 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 include new minimum risk-based capital and leverage ratios. Bancorp and the Bank met all capital requirements to which they were subject as of March 31, 2016.

The following table sets forth consolidated Bancorp’s and the Bank’s risk based capital amounts and ratios as of March 31, 2016 and December 31, 2015.

| (Dollars in thousands) | **Actual** | | **Minimum for adequately capitalized** | | **Minimum for well capitalized** | |
|---|---|---|---|---|---|---|
| **March 31, 2016** | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| Total risk-based capital (1) | | | | | | |
| Consolidated | $313,931 | 13.19% | $190,405 | 8.00 % | NA | NA |
| Bank | 304,384 | 12.81 | 190,091 | 8.00 | $237,614 | 10.00% |
| Common Equity Tier 1 risk-based capital | | | | | | |
| Consolidated | 291,093 | 12.23 | 107,107 | 4.50 | NA | NA |

| | | | | | | |
|---|---|---|---|---|---|---|
| Bank | 281,546 | 11.85 | 106,916 | 4.50 | 142,555 | 6.00 |
| | | | | | | |
| Tier 1 risk-based capital (1) | | | | | | |
| Consolidated | 291,093 | 12.23 | 142,809 | 6.00 | NA | NA |
| Bank | 281,546 | 11.85 | 142,555 | 6.00 | 142,555 | 6.00 |
| | | | | | | |
| Leverage (2) | | | | | | |
| Consolidated | 291,093 | 10.35 | 112,500 | 4.00 | NA | NA |
| Bank | 281,546 | 10.02 | 112,394 | 4.00 | 140,492 | 5.00 |

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

| (Dollars in thousands) | **Actual** | | **Minimum for adequately capitalized** | | **Minimum for well capitalized** | |
|---|---|---|---|---|---|---|
| **December 31, 2015** | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| Total risk-based capital (1) | | | | | | |
| Consolidated | $307,666 | 13.31% | $184,923 | 8.00 % | NA | NA |
| Bank | 298,129 | 12.91 | 184,743 | 8.00 | $230,929 | 10.00% |
| Common Equity Tier 1 risk-based capital | | | | | | |
| Consolidated | 284,793 | 12.32 | 104,023 | 4.50 | NA | NA |
| Bank | 275,256 | 11.92 | 103,914 | 4.50 | 138,552 | 6.00 |
| Tier 1 risk-based capital (1) | | | | | | |
| Consolidated | 284,793 | 12.32 | 138,698 | 6.00 | NA | NA |
| Bank | 275,256 | 11.92 | 138,552 | 6.00 | 138,552 | 6.00 |
| Leverage (2) | | | | | | |
| Consolidated | 284,793 | 10.53 | 108,183 | 4.00 | NA | NA |
| Bank | 275,256 | 10.19 | 108,049 | 4.00 | 135,062 | 5.00 |

(1) Ratio is computed in relation to risk-weighted assets.
(2) Ratio is computed in relation to average assets.
NA Not applicable. Regulatory framework does not define well capitalized for holding companies.

**(19) Subsequent Event**

On April 29, 2016, Bancorp's Board of Directors approved 3 for 2 stock split to be effected as a 50% stock dividend, payable on May 27, 2016 for shareholders of record on May 13, 2016. Based on our shares outstanding totaling 14,985,768 as of April 25, 2016, Bancorp expects this transaction to result in the issuance of approximately 7,490,000 additional shares. No share or per share amounts included in this Form 10-Q have been adjusted for this stock split.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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

This item discusses the results of operations for Stock Yards Bancorp, Inc. ("Bancorp" or "Company"), and its subsidiary, Stock Yards Bank & Trust Company ("Bank") for the three months ended March 31, 2016 and compares this period with the same period of the previous year. Unless otherwise indicated, all references in this discussion to the Bank include Bancorp. In addition, the discussion describes the significant changes in the financial condition of Bancorp and the Bank that have occurred during the first three months of 2016 compared to the same period in the year ended December 31, 2015. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes presented in Part 1, Item 1 of this report.

This report contains forward-looking statements under the Private Securities Litigation Reform Act that involve risks and uncertainties. Although Bancorp believes assumptions underlying forward-looking statements contained herein are reasonable, any of these assumptions could be inaccurate. Factors that could cause actual results to differ from results discussed in forward-looking statements include, but are not limited to the following: economic conditions both generally and more specifically in markets in which Bancorp and the Bank operate; competition for Bancorp's customers from other providers of financial services; government legislation and regulation which change from time to time and over which Bancorp has no control; changes in interest rates; material unforeseen changes in liquidity, results of operations, or financial condition of Bancorp's customers; and other risks detailed in Bancorp's filings with the Securities and Exchange Commission, all of which are difficult to predict and many of which are beyond the control of Bancorp.

**Overview of 2016 through March 31**

Bancorp completed the first quarter of 2016 with net income of $9.8 million or 6% more than the comparable period of 2015. The increase is due to higher net interest income, higher non-interest income and lower income tax expense. These increases were partially offset by the provision for loan losses and higher non-interest expenses. Diluted earnings per share for the first quarter of 2016 were $0.65, compared to the first quarter of 2015 at $0.62. Bancorp's performance for the first quarter of 2016 reflected several positive factors, including:

Remarkable net loan growth, accelerating from the pace set over the past two years;

Ongoing strength in credit quality;

The benefit of diverse sources of fee income, which together continued to contribute to revenue growth; and

Solid returns on average assets and equity of 1.40% and 13.52%, respectively.

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

Net interest income increased $1.9 million, or 8.6%, for the first quarter of 2016, compared to the same period in 2015. The positive effects of increased volumes of earning assets and lower costs on time deposits were partially offset by the negative effect of declining interest rates earned. Net interest margin declined to 3.56% for the first three months of 2016, compared to 3.72% for the same period of 2015.

In response to assessment of risk in the loan portfolio, Bancorp recorded a $500 thousand provision for loan losses in the first three months of 2016, compared to no provision in the first three months of 2015. The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's evaluation, is adequate to provide coverage for the inherent losses on outstanding loans.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

Total non-interest income in the first three months of 2016 increased $409 thousand, or 4.2%, compared to the same period in 2015, and comprised 30% of total revenues. Increases in bankcard transaction revenue, service charges and investment management and trust revenue contributed to the growth, partially offset by decreases in mortgage banking and brokerage income.

Total non-interest expense in the first quarter of 2016 increased $1.8 million, or 9.9%, compared to the same period in 2015, largely due to increases in salaries and benefits and higher amortization of expense of investments in tax credit partnerships. These were partially offset by sales of foreclosed assets and lower other non-interest expenses. Bancorp's efficiency ratio in the first three months of 2016 was 57.9% compared with 56.4% in the same period in 2015. Excluding the amortization of the investments in tax credit partnerships, the adjusted efficiency ratio, a non-GAAP measure, would have been 54.9% and 55.9% for the first quarters of 2016 and 2015, respectively. See the Non-GAAP Financial Measures section for details on reconcilement to US GAAP measures.

Bancorp’s effective tax rate decreased to 27.2% in 2016 from 31.5% in 2015. The decrease in the effective tax rate from 2015 to 2016 is the result of higher tax credits in 2016, partially offset by proportionally lower nontaxable income from the increase in cash value of life insurance.

Tangible common equity (TCE), a non-GAAP measure, is a measure of a company's capital which is useful in evaluating the quality and adequacy of capital. The ratio of tangible common equity to total tangible assets was 10.42% as of March 31, 2016, compared to 10.10% at December 31, 2015. See the Non-GAAP Financial Measures section for details on reconcilement to US GAAP measures.

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

***a) Results Of Operations***

Net income of $9.8 million for the three months ended March 31, 2016 increased $580 thousand, or 6.3%, from $9.3 million for the comparable 2015 period. Basic net income per share was $0.66 for the first quarter of 2016, an increase of 4.8% from the $0.63 for the first quarter of 2015. Diluted net income per share was $0.65 for the first quarter of 2016, an increase of 4.8% from the $0.62 for the first quarter of 2015. See Note 13 for additional information related

to net income per share.

Return on average assets and annualized return on average stockholders' equity were 1.40% and 13.52%, respectively, for the first quarter of 2016, compared to 1.49% and 14.18%, respectively, for the same period in 2015.

**Net Interest Income**

The following tables present the average balance sheets for the three month periods ended March 31, 2016 and 2015 along with the related calculation of tax-equivalent net interest income, net interest margin and net interest spread for the related periods. See the notes following the tables for further explanation.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**Average Balances and Interest Rates – Taxable Equivalent Basis**

| | Three months ended March 31 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | 2015 | | | |
| (Dollars in thousands) | Average balances | Interest | Average rate | | Average balances | Interest | Average rate | |
| **Earning assets:** | | | | | | | | |
| Federal funds sold | $143,679 | $189 | 0.53 | % | $86,855 | $68 | 0.32 | % |
| Mortgage loans held for sale | 4,249 | 60 | 5.68 | | 3,631 | 39 | 4.36 | |
| Securities: | | | | | | | | |
| Taxable | 420,584 | 2,091 | 2.00 | | 358,094 | 1,970 | 2.23 | |
| Tax-exempt | 62,546 | 434 | 2.79 | | 59,764 | 416 | 2.82 | |
| FHLB stock and other securities | 6,347 | 64 | 4.06 | | 6,347 | 64 | 4.09 | |
| Loans, net of unearned income | 2,036,437 | 22,081 | 4.36 | | 1,869,542 | 20,525 | 4.45 | |
| **Total earning assets** | 2,673,842 | 24,919 | 3.75 | | 2,384,233 | 23,082 | 3.93 | |
| Less allowance for loan losses | 22,685 | | | | 25,210 | | | |
| | 2,651,157 | | | | 2,359,023 | | | |
| Non-earning assets: | | | | | | | | |
| Cash and due from banks | 38,517 | | | | 36,836 | | | |
| Premises and equipment | 39,712 | | | | 39,513 | | | |
| Accrued interest receivable and other assets | 88,686 | | | | 90,381 | | | |
| **Total assets** | $2,818,072 | | | | $2,525,753 | | | |
| **Interest bearing liabilities:** | | | | | | | | |
| Deposits: | | | | | | | | |
| Interest bearing demand deposits | $726,627 | $258 | 0.14 | % | $500,952 | $129 | 0.10 | % |
| Savings deposits | 131,051 | 12 | 0.04 | | 114,381 | 10 | 0.04 | |
| Money market deposits | 657,371 | 356 | 0.22 | | 674,924 | 334 | 0.20 | |
| Time deposits | 263,298 | 370 | 0.57 | | 306,345 | 500 | 0.66 | |
| Securities sold under agreements to repurchase | 58,871 | 33 | 0.23 | | 64,344 | 37 | 0.23 | |
| Federal funds purchased and other short term borrowings | 23,456 | 15 | 0.26 | | 15,874 | 7 | 0.18 | |
| FHLB advances | 43,316 | 187 | 1.74 | | 36,774 | 216 | 2.38 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Total interest bearing liabilities** | 1,903,990 | 1,231 | 0.26 | | 1,713,594 | 1,233 | 0.29 | |
| **Non-interest bearing liabilities:** | | | | | | | | |
| Non-interest bearing demand deposits | 592,472 | | | | 520,253 | | | |
| Accrued interest payable and other liabilities | 29,070 | | | | 27,212 | | | |
| **Total liabilities** | 2,525,532 | | | | 2,261,059 | | | |
| **Stockholders' equity** | 292,540 | | | | 264,694 | | | |
| **Total liabilities and stockholders'equity** | $2,818,072 | | | | $2,525,753 | | | |
| **Net interest income** | | $23,688 | | | | $21,849 | | |
| **Net interest spread** | | | 3.49 | % | | | 3.64 | % |
| **Net interest margin** | | | 3.56 | % | | | 3.72 | % |

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

Notes to the average balance and interest rate tables:

Net interest income, the most significant component of the Bank's earnings is total interest income less total interest expense. The level of net interest income is determined by mix and volume of interest earning assets, interest bearing deposits and borrowed funds, and changes in interest rates.

Net interest spread is the difference between the taxable equivalent rate earned on interest earning assets less the rate expensed on interest bearing liabilities.

Net interest margin represents net interest income on a taxable equivalent basis as a percentage of average interest earning assets. Net interest margin is affected by both interest rate spread and the level of non-interest bearing sources of funds, primarily consisting of demand deposits and stockholders’ equity.

Interest income on a fully tax equivalent basis includes the additional amount of interest income that would have been earned if investments in certain tax-exempt interest earning assets had been made in assets subject to federal taxes yielding the same after-tax income. Interest income on municipal securities and loans have been calculated on a fully tax equivalent basis using a federal income tax rate of 35%. Approximate tax equivalent adjustments to interest income were $219 thousand and $235 thousand, respectively, for the three month periods ended March 31, 2016 and 2015.

Average balances for loans include the principal balance of non-accrual loans and exclude participation loans accounted for as secured borrowings. These participation loans averaged $7.0 million and $8.1 million for the three month periods ended March 31, 2016 and 2015.

Fully taxable equivalent net interest income of $23.7 million for the three months ended March 31, 2016 increased $1.8 million, or 8.4%, from $21.8 million when compared to the same period last year. The positive effects of increased volumes of loans and lower costs on time deposits were partially offset by the negative effect of declining interest rates earned. Net interest spread and net interest margin were 3.49% and 3.56%, respectively, for the first quarter of 2016 and 3.64% and 3.72%, respectively, for the first quarter of 2015.

Average earning assets increased $289.6 million or 12.2%, to $2.67 billion for the first three months of 2016 compared to 2015, reflecting growth in the loan portfolio, investment securities and fed funds sold. Average interest

bearing liabilities increased $190.4 million, or 11.1%, to $1.90 billion for the first three months of 2016 compared to 2015 primarily due to increases in interest bearing demand and savings deposits, federal funds purchased and FHLB advances, partially offset by decreases in time and money market deposits and securities sold under agreements to repurchase.

**Asset/Liability Management and Interest Rate Risk**

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

**Interest Rate Simulation Sensitivity Analysis**

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

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

Bancorp assumes certain correlation rates, often referred to as a “deposit beta” of interest-bearing deposits, wherein the rates paid to customers change at a different pace when compared to changes in benchmark interest rates. Generally, certificates of deposit are assumed to have a higher correlation rate, while interest-bearing checking accounts are assumed to have a lower correlation rate. Actual results may differ due to factors including competitive pricing and money supply; however, Bancorp uses its historical experience as well as industry data to inform its assumptions.

The March 31, 2016 simulation analysis, which shows little interest rate sensitivity, indicates that an increase in interest rates of 100 to 200 basis points would have a negative effect on net interest income, and a decrease of 100 basis points in interest rates would also have a negative impact. These estimates are summarized below.

| | **Net interest income change** |
|---|---|
| Increase 200bp | (2.38)% |
| Increase 100bp | (1.83) |
| Decrease 100bp | (1.80) |
| Decrease 200bp | N/A |

Management expects that net interest margin will remain under pressure through 2016, and any near-term increases in prevailing interest rates will not immediately benefit Bancorp. Approximately 65% of its loan portfolio has fixed rates and 14% of its loan portfolio is priced at variable rates with floors of 4% or higher. Since the prime rate is currently 3.50%, a rise in rates would have a short-term negative impact on net interest income since rates would have to increase more than 50 bps before the rates on such loans will rise to compensate for higher interest costs. This effect is captured in the simulation analysis above. The extent of margin compression also will be affected by the need to respond to competitive pressures on funding sources.

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

Undesignated derivative instruments described in Note 7 are recognized on the consolidated balance sheet at fair value, with changes in fair value, due to changes in prevailing interest rates, recorded in other non-interest income. Because of matching terms of offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in fair value subsequent to initial recognition have a minimal effect on earnings, and are therefore not included in the simulation analysis results above.

Derivatives designated as cash flow hedges described in Note 7 are recognized on the consolidated balance sheet at fair value, with changes in fair value, due to changes in prevailing interest rates, recorded net of tax in other comprehensive income.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**Provision for Loan Losses**

The provision for loan losses represents a charge to earnings necessary to establish an allowance for loan losses that, in management's evaluation, is adequate to provide coverage for inherent losses on outstanding loans. The allowance for loan losses is calculated after considering credit quality factors, and ultimately relies on an overall internal analysis of risk in the loan portfolio. Based on this analysis, the provision for loan losses is determined and recorded. The provision reflects an allowance methodology that is driven by risk ratings, historical losses, and qualitative factors. Bancorp recorded a $500 thousand provision for loan losses in the first three months of 2016, compared to no provision for the same period of 2015.

Management utilizes loan grading procedures which result in specific allowance allocations for estimated inherent risk of loss. For all loans graded, but not individually reviewed for allowance purposes, a general allowance allocation is computed using historical data based on actual loss experience. Specific and general allocations plus consideration of qualitative factors represent management's best estimate of probable losses contained in the loan portfolio at the evaluation date. Although the allowance for loan losses is comprised of specific and general allocations, the entire allowance is available to absorb any credit losses. Based on this detailed analysis of credit risk, management considers the allowance for loan losses adequate to cover probable losses inherent in the loan portfolio at March 31, 2016.

An analysis of the changes in the allowance for loan losses and selected ratios for the three month periods ended March 31, 2016 and 2015 follows:

| (Dollars in thousands) | **Three months ended March 31, 2016** | **2015** |
|---|---|---|
| Balance at the beginning of the period | $22,441 | $24,920 |
| Provision for loan losses | 500 | - |
| Loan charge-offs, net of recoveries | (490) | (38) |
| Balance at the end of the period | $22,451 | $24,882 |
| Average loans, net of unearned income | $2,043,450 | $1,877,594 |
| Provision for loan losses to average loans (1) | 0.02% | 0.00% |
| Net loan charge-offs to average loans (1) | 0.02% | 0.00% |
| Allowance for loan losses to average loans | 1.10% | 1.33% |

| | | | | |
|---|---|---|---|---|
| Allowance for loan losses to period-end loans | 1.07 | % | 1.33 | % |

(1) Amounts not annualized

Loans are charged off when deemed uncollectible and a loss is identified or after underlying collateral has been liquidated; however, collection efforts may continue and future recoveries may occur. Periodically, loans are partially charged off to net realizable value based upon collateral analysis and collection status.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

An analysis of net charge-offs by loan category for the three month periods ended March 31, 2016 and 2015 follows:

| (in thousands) | Three months ended March 31, | |
|---|---|---|
| **Net loan charge-offs (recoveries)** | **2016** | **2015** |
| Commercial and industrial | $316 | $5 |
| Construction and development, excluding undeveloped land | (10) | - |
| Undeveloped land | - | - |
| Real estate mortgage - commercial investment | (1) | - |
| Real estate mortgage - owner occupied commercial | 183 | 1 |
| Real estate mortgage - 1-4 family residential | 1 | 51 |
| Home equity | - | (4) |
| Consumer | 1 | (15) |
| Total net loan charge-offs | $490 | $38 |

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**Non-interest Income and Expenses**

The following table sets forth major components of non-interest income and expenses for the three month periods ended March 31, 2016 and 2015.

| (dollars in thousands) | Three months ended March 31, 2016 | 2015 | Change | % |
|---|---|---|---|---|
| Non-interest income: | | | | |
| Investment management and trust revenue | $4,612 | $4,552 | $60 | 1.3 % |
| Service charges on deposit accounts | 2,146 | 2,080 | 66 | 3.2 % |
| Bankcard transaction revenue | 1,310 | 1,122 | 188 | 16.8 % |
| Mortgage banking revenue | 794 | 828 | (34) | -4.1 % |
| Brokerage commissions and fees | 443 | 461 | (18) | -3.9 % |
| Bank owned life insurance income | 221 | 222 | (1) | -0.5 % |
| Other | 556 | 408 | 148 | 36.3 % |
| Total non-interest income | $10,082 | $9,673 | $409 | 4.2 % |
| Non-interest expenses: | | | | |
| Salaries and employee benefits | $12,195 | $11,100 | $1,095 | 9.9 % |
| Net occupancy expense | 1,524 | 1,469 | 55 | 3.7 % |
| Data processing expense | 1,544 | 1,454 | 90 | 6.2 % |
| Furniture and equipment expense | 285 | 247 | 38 | 15.4 % |
| FDIC insurance expense | 328 | 297 | 31 | 10.4 % |
| Amortization of investments in tax credit partnerships | 1,015 | 158 | 857 | * |
| Other | 2,649 | 3,054 | (405) | -13.3 % |
| Total non-interest expenses | $19,540 | $17,779 | $1,761 | 9.9 % |

(*) - Amount exceeds 100%

The largest component of non-interest income is investment management and trust (“IM&T”) revenue. The magnitude of IM&T revenue distinguishes Bancorp from other community banks of similar asset size. Assets under management, stated at market value, totaled $2.26 billion at March 31, 2016, compared to $2.29 billion at March 31, 2015. IM&T services revenue, which constitutes an average of 45% of non-interest income, increased $60 thousand, or 1.3%, for

the first quarter of 2016 compared to the same period in 2015. Recurring fees, which generally comprise over 95% of the IM&T revenue, decreased $23 thousand, or 1%, in the first three months of 2016, compared to 2015. Most recurring fees earned for managing accounts are based on a percentage of market value on a monthly basis. Some revenues of the IM&T department, most notably executor, insurance, and some employee benefit plan-related fees, are non-recurring in nature and the timing of these revenues corresponds with the related administrative activities. Total non-recurring fees increased $83 thousand for the first three months of 2016, compared to 2015. Management believes the IM&T department will continue to factor significantly in Bancorp’s financial results and provide strategic diversity to revenue streams but notes that increased market volatility could affect near-term results.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

Service charges on deposit accounts increased $66 thousand, or 3.2%, in the first quarter of 2016 compared to the same period in 2015. Service charge income is driven by transaction volume, which can fluctuate throughout the year. A significant component of service charges is related to fees earned on overdrawn checking accounts. Management expects this source of revenue to slowly decline due to anticipated changes in customer behavior and ongoing regulatory restrictions.

Bankcard transaction revenue increased $188 thousand, or 16.8%, in the first quarter of 2016 compared to the same period in 2015, and primarily represents interchange income the Bank derives from customers' use of debit and credit cards. Interchange income on debit cards increased $45,000, or 4.0%, as a result of increased volume. However, Bancorp expects a slight decrease in interchange rates on debit cards as service providers gravitate to lower cost options in a competitive market. Late in 2015, Bancorp began offering credit cards to business customers. Income on credit cards totaled $143,000 in the first quarter of 2016. Bancorp expects volume of credit card transactions to increase slowly over 2016.

Mortgage banking revenue primarily includes gains on sales of mortgage loans. Bancorp's mortgage banking department originates residential mortgage loans to be sold in the secondary market. Interest rates on the loans sold are locked with the borrower and investor prior to closing the loans, thus Bancorp bears no interest rate risk related to these loans. The department offers conventional, VA and FHA financing, for purchases and refinances, as well as programs for first-time home buyers. Interest rates on mortgage loans directly impact the volume of business transacted by the mortgage banking division. Mortgage banking revenue decreased $34 thousand, or 4.1%, in the first quarter of 2016 compared to the same period in 2015. As rates declined in 2016 compared to the same period in 2015, Bancorp experienced a slight increase in purchase transactions, but it was more than offset by a decrease in refinance activity. The lower rates were not enough to stimulate refinance activity at a level previously experienced.

Brokerage commissions and fees decreased $18 thousand, or 3.9%, in the first quarter of 2016 compared to the same period in 2015, corresponding to overall brokerage volume. Brokerage commissions and fees earned consist primarily of stock, bond and mutual fund sales as well as wrap fees on accounts. Wrap fees are charges for investment programs that bundle together a suite of services, such as brokerage, advisory, research and management, and are based on a percentage of assets. Bancorp deploys its brokers primarily through its branch network via an arrangement with a third party broker-dealer, while larger managed accounts are serviced in the Bank's IM&T department.

Bank Owned Life Insurance (BOLI) income was essentially flat for the first quarter of 2016 compared to 2015. BOLI represents the cash surrender value for life insurance policies on certain key employees who have provided consent for

Bancorp to be the beneficiary of a portion of such policies. The related change in cash surrender value and any death benefits received under the policies are recorded as non-interest income. This income helps offset the cost of various employee benefits.

Other non-interest income increased $148 thousand, or 36.3%, in the first three months of 2016 compared to the same period in 2015. Included in this category is swap fee income, which totaled $171 thousand for the first quarter of 2016. Bancorp earned no swap fee income in the first quarter of 2015. Opportunities to earn swap fee income are infrequent due to the specialized nature of the transactions. This category includes a variety of other factors, none of which had individually significant variances.

Salaries and employee benefits increased $1.1 million, or 9.9%, for the first quarter of 2016 compared to the same period of 2015, due largely to higher salaries and wages, reflecting both increased incentive compensation related to accelerating loan and earnings growth as well as the addition of personnel associated with continued expansion in the Cincinnati and Indianapolis markets. Somewhat offsetting the increase in salaries and wages was a reversal of accrued health insurance expense that coincided with the Bancorp’s self-insured plan year. At March 31, 2016 Bancorp had 550 full-time equivalent employees compared to 533 at March 31, 2015.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

Net occupancy expense increased $55 thousand, or 3.7%, in the first quarter of 2016 compared to the same period of 2015. The increase was largely due to higher rent and depreciation for locations added during 2015 and increased maintenance expense.

Data processing expense increased $90 thousand, or 6.2% in the first quarter of 2016 compared to the same period of 2015 due to processing expenses related to credit cards as well as a variety of other factors, none of which was individually significant. This category also includes ongoing computer software amortization and maintenance related to investments in new technology needed to maintain and improve the quality of delivery channels and internal resources.

Furniture and equipment expense increased $38 thousand, or 15.4% for the first quarter of 2016 compared to the same period in 2015. These fluctuations relate to a variety of factors, none of which were individually significant. Costs of capital asset additions flow through the statement of income over the lives of the assets in the form of depreciation expense.

FDIC insurance expense increased $31 thousand, or 10.4%, for the first quarter of 2016 compared to the same period in 2015. The assessment is calculated by the FDIC and adjusted quarterly. The increase in expense is due primarily to higher level of net assets, partially offset by a reduction in the assessment rate, which was driven by improved credit metrics.

Amortization of investments in tax credit partnerships increased $857 thousand for the first three months of 2016, compared to the same period of 2015. This expense reflects amortization of investments in partnerships which generate historic and new market federal income tax credits and can vary widely depending upon the timing of investments and related amortization. See the Income Taxes section below for details on amortization and income tax impact for these credits.

Other non-interest expenses decreased $405 thousand or 13.3% in the first quarter of 2016 compared to the same period in 2015. The decrease is largely due to $333 thousand of gains on sales of foreclosed assets in 2016 compared to $20 thousand of losses in 2015. Also included is MSR amortization, which declined $122 from 2015 to 2016 as pools of MSRs added several years ago were fully amortized in 2015. This category also includes legal and professional fees, advertising, printing, mail and telecommunications, none of which had individually significant

variances.

**Income Taxes**

In the first quarter of 2016, Bancorp recorded income tax expense of $3.7 million, compared to $4.3 million for the same period in 2015. The effective rate for the three month period was 27.2% in 2016 and 31.5% in 2015. The decrease in the effective tax rate from 2015 to 2016 is the result of higher utilization of tax credits in 2016, partially offset by proportionally lower nontaxable income from the increase in cash value of life insurance.

Bancorp invests in certain partnerships that yield low-income housing, historic and new market tax credits. The tax benefits and related investment amortization expenses for low-income housing credits are recognized in income tax expense using a proportional amortization method which amortizes the investment in proportion to the tax credits and other tax benefits received. The amortization method for investments in new markets and historic tax credit partnerships is the cost method which matches the amortization period with the time frame over which the credits are realized. For each of Bancorp’s investments in tax credit partnerships, when taken as a whole, the tax benefit compared to the amortization results in a positive effect on net income.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**Commitments**

Bancorp uses a variety of financial instruments in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. A discussion of Bancorp’s commitments is included in Note 10.

Other commitments discussed in Bancorp’s Annual Report on Form 10-K for the year ended December 31, 2015, have not materially changed since that report was filed, relative to qualitative and quantitative disclosures of fixed and determinable contractual obligations.

***b) Financial Condition***

**Balance Sheet**

Total assets increased $7.3 million, or 0.3%, from $2.817 billion on December 31, 2015 to $2.824 billion on March 31, 2016. Loans grew $61.5 million in the first three months of 2016 as a result of loan production which outpaced record production in 2015. All of this growth has been organic and, importantly, each of Bancorp's three markets continues to participate in the accelerated lending activity. It has been especially apparent in the Cincinnati market due to Bancorp's expansion into the northern Kentucky area of the Cincinnati MSA in mid-2015. Securities available-for-sale increased $3.1 million. Included in securities available-for-sale are short term obligations of U.S. Treasury or U.S. government sponsored entities. These securities, which totaled $100 million at March 31, 2016 and December 31, 2015, normally have a maturity of less than one month, and are purchased at quarter-end as part of a tax minimization strategy. Cash and cash equivalents decreased $55.8 million, while mortgage loans held for sale decreased $2.8 million.

Total liabilities decreased $2.5 million, or 0.1%, from $2.530 billion on December 31, 2015 to $2.528 billion on March 31, 2016. Deposits decreased $5.6 million or 0.2% and securities sold under agreement to repurchase decreased $9.7 million or 15.1%. Federal funds purchased increased $7.6 million, or 33.8%. Bancorp utilizes short-term lines of credit to manage its overall liquidity position. Other liabilities increased $5.5 million or 19.6% as the result of a short term payable amount.

50

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**Elements of Loan Portfolio**

The following table sets forth the major classifications of the loan portfolio.

(in thousands)

| **Loans by Type** | **March 31, 2016** | **December 31, 2015** |
|---|---|---|
| Commercial and industrial | $676,782 | $644,398 |
| Construction and development, excluding undeveloped land | 139,148 | 134,482 |
| Undeveloped land (1) | 21,519 | 21,185 |
| Real estate mortgage: | | |
| Commercial investment | 496,647 | 482,639 |
| Owner occupied commercial | 372,811 | 375,016 |
| 1-4 family residential | 234,199 | 226,575 |
| Home equity - first lien | 52,042 | 50,115 |
| Home equity - junior lien | 63,336 | 63,066 |
| Subtotal: Real estate mortgage | 1,219,035 | 1,197,411 |
| Consumer | 38,004 | 35,531 |
| Total Loans | $2,094,488 | $2,033,007 |

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

Bancorp occasionally enters into loan participation agreements with other banks to diversify credit risk. For certain sold participation loans, Bancorp has retained effective control of the loans, typically by restricting the participating institutions from pledging or selling their share of the loan without permission from Bancorp. US GAAP requires the participated portion of these loans to be recorded as secured borrowings. These participated loans are included in the commercial and industrial and real estate mortgage loan totals above, and a corresponding liability is recorded in other liabilities. At March 31, 2016 and December 31, 2015, the total participated portions of loans of this nature were $6.7 million and $7.2 million, respectively.

51

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**Non-performing Loans and Assets**

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

| (Dollars in thousands) | **March 31, 2016** | **December 31, 2015** |
|---|---|---|
| Non-accrual loans | $7,878 | $ 7,693 |
| Troubled debt restructuring | 1,040 | 1,060 |
| Loans past due 90 days or more and still accruing | - | 176 |
| Non-performing loans | 8,918 | 8,929 |
| Foreclosed real estate | 5,049 | 4,541 |
| Non-performing assets | $13,967 | $ 13,470 |
| Non-performing loans as a percentage of total loans | 0.43 % | 0.44 % |
| Non-performing assets as a percentage of total assets | 0.49 % | 0.48 % |

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

(in thousands)

| **Non-accrual loans by type** | **March 31, 2016** | **December 31, 2015** |
|---|---|---|
| Commercial and industrial | $3,673 | $ 3,643 |
| Construction and development, excluding undeveloped land | - | - |
| Undeveloped land | - | - |
| Real estate mortgage - commercial investment | 204 | 278 |
| Real estate mortgage - owner occupied commercial | 2,565 | 2,761 |
| Real estate mortgage - 1-4 family residential | 1,115 | 906 |
| Home equity and consumer loans | 321 | 105 |

| | | |
|---|---|---|
| Total loans | $7,878 | $ 7,693 |

***c) Liquidity***

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

Bancorp's most liquid assets are comprised of cash and due from banks, available-for-sale marketable investment securities and federal funds sold. Federal funds sold totaled $13.0 million at March 31, 2016. These investments normally have overnight maturities and are used for general daily liquidity purposes. The fair value of the available-for-sale investment portfolio was $569.0 million at March 31, 2016. The portfolio includes maturities of approximately $115.7 million over the next twelve months, including $100 million of short-term securities which matured in April 2016. Combined with federal funds sold, these offer substantial resources to meet either new loan demand or reductions in Bancorp's deposit funding base. Bancorp pledges portions of its investment securities portfolio to secure public fund deposits, cash balances of certain investment management and trust accounts, and securities sold under agreements to repurchase. At March 31, 2016, total investment securities pledged for these purposes comprised 59% of the available-for-sale investment portfolio, leaving $231.2 million of unpledged securities.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

Bancorp has a large base of non-maturity customer deposits, defined as demand, savings, and money market deposit accounts. At March 31, 2016, such deposits totaled $2.11 billion and represented 89% of Bancorp's total deposits. Because these deposits are less volatile and are often tied to other products of Bancorp through long lasting relationships they do not put heavy pressure on liquidity. However, many of Bancorp's overall deposit balances are historically high. When market conditions improve, these balances will likely decrease, putting some strain on Bancorp's liquidity position. As of March 31, 2016, Bancorp had only $498 thousand or 0.02% of total deposits, in brokered deposits.

Included in the total deposit balances at March 31, 2016 is $173.5 million of public funds deposits, generally comprised of accounts from local government agencies and public schools in our markets. As a result of property tax collections in late 2015, these accounts have an estimated $60 million of seasonal excess balances, which are expected to decline over the next three to six months. While this excess liquidity is maintained in low-yielding short-term investments and consequently results in lower net interest margin, it has a positive impact on net interest income.

Other sources of funds available to meet daily needs include FHLB advances. As a member of the FHLB of Cincinnati, Bancorp has access to credit products offered by the FHLB. Bancorp views these borrowings as a low cost alternative to other time deposits. At March 31, 2016, available credit from the FHLB totaled $355.6 million. Additionally, Bancorp had available federal funds purchased lines with correspondent banks totaling $75 million at March 31, 2016.

Bancorp's principal source of cash revenues is dividends paid to it as sole shareholder of the Bank. At March 31, 2016, the Bank may pay up to $63.7 million in dividends to Bancorp without regulatory approval subject to the ongoing capital requirements of the Bank.

***d) Capital Resources***

At March 31, 2016, stockholders' equity totaled $296.3 million, an increase of $9.8 million since December 31, 2015. See the Consolidated Statement of Changes in Stockholders' Equity for further detail of the changes in equity since the end of 2015. One component of equity is accumulated other comprehensive income which, for Bancorp, consists of net unrealized gains or losses on securities available-for-sale and hedging instruments, as well as a minimum pension liability, each net of taxes. Accumulated other comprehensive income was $3.9 million at March 31, 2016 compared to $632 thousand on December 31, 2015. The $3.3 million increase is primarily a reflection of the positive effect of

the changing interest rate environment during the first three months of 2016 on the valuation of Bancorp's portfolio of securities available-for-sale.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

The following table sets forth Bancorp's and the Bank's risk based capital ratios as of March 31, 2016 and December 31, 2015.

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Total risk-based capital (1) | | |
| Consolidated | 13.19 % | 13.31 % |
| Bank | 12.81 | 12.91 |
| Common equity tier 1 risk-based capital (1) | | |
| Consolidated | 12.23 | 12.32 |
| Bank | 11.85 | 11.92 |
| Tier 1 risk-based capital (1) | | |
| Consolidated | 12.23 | 12.32 |
| Bank | 11.85 | 11.92 |
| Leverage (2) | | |
| Consolidated | 10.35 | 10.53 |
| Bank | 10.02 | 10.19 |

(1) Under the banking agencies risk-based capital guidelines, assets and credit-equivalent amounts of derivatives and off-balance sheet exposures are assigned to broad risk categories. The aggregate dollar amount in each risk category is multiplied by the associated risk weight of the category. The resulting weighted values are added together, resulting in the Bancorp's total risk-weighted assets. These ratios are computed in relation to average assets.

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

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. The new minimum capital level requirements applicable to bank holding companies and banks subject to the rules are:

- new common equity Tier 1 capital ratio of 4.5%,
- Tier 1 risk-based capital ratio of 6% (increased from 4%),
- total risk-based capital ratio of 8% (unchanged from current rules), and
- Tier 1 leverage ratio of 4% for all institutions.

The rules also established a "capital conservation buffer" of 2.5%, to be phased in over three years, above the new regulatory minimum risk-based capital ratios, and will result in the following minimum ratios once the capital conservation buffer is fully phased in:

- common equity Tier 1 risk-based capital ratio of 7.0%,
- Tier 1 risk-based capital ratio of 8.5%, and
- total risk-based capital ratio of 10.5%.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

The rules allowed banks and their holding companies with less than $250 billion in assets a one-time opportunity to opt-out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. Bancorp opted out of this requirement.

As of March 31, 2016, Bancorp meets the requirements to be considered well capitalized under the new rules, and is not subject to limitations due to the capital conservation buffer.

***e) Non-GAAP Financial Measures***

In addition to capital ratios defined by banking regulators, Bancorp considers various ratios when evaluating capital adequacy, including tangible common equity to tangible assets, and tangible common equity per share, all of which are non-GAAP measures. Bancorp believes these ratios are important because of their widespread use by investors as means to evaluate capital adequacy, as they reflect the level of capital available to withstand unexpected market conditions. Because US GAAP does not include capital ratio measures, there are no US GAAP financial measures comparable to these ratios.

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

| (in thousands, except per share data) | **March 31, 2016** | **December 31, 2015** |
|---|---|---|
| Total equity | $296,323 | $286,519 |
| Less core deposit intangible | (1,549) | (1,601) |
| Less goodwill | (682) | (682) |
| Tangible common equity | $294,092 | $284,236 |
| | | |
| Total assets | $2,824,107 | $2,816,801 |
| Less core deposit intangible | (1,549) | (1,601) |
| Less goodwill | (682) | (682) |
| Total tangible assets | $2,821,876 | $2,814,518 |
| | | |
| Total shareholders' equity to total assets | 10.49 % | 10.17 % |
| Tangible common equity ratio | 10.42 | 10.10 |

| | | |
|---|---|---|
| Number of outstanding shares | 14,985 | 14,919 |
| | | |
| Book value per share | $19.77 | $19.20 |
| Tangible common equity per share | 19.63 | 19.05 |

The efficiency ratio is normally used by investors to analyze a bank's overhead as a percentage of its revenue. In addition to the efficiency ratio normally presented, Bancorp considers an adjusted efficiency ratio which is a non-GAAP measure. Bancorp believes excluding amortization of investments in tax credit partnerships from non-interest expense in this ratio is important because it provides a meaningful comparison to both prior periods and to other companies who do not invest in these partnerships.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

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

| (amounts in thousands) | **Three months ended March 31, 2016** | **2015** |
|---|---|---|
| Non-interest expense | $19,540 | $17,779 |
| Net interest income (tax-equivalent) | 23,688 | 21,849 |
| Non-interest income | 10,082 | 9,673 |
| Total revenue | $33,770 | $31,522 |
| Efficiency ratio | 57.86 % | 56.40 % |

| (amounts in thousands) | **2016** | **2015** |
|---|---|---|
| Non-interest expense | $19,540 | $17,779 |
| Less: amortization of investments in tax credit partnerships | (1,015 ) | (158 ) |
| Adjusted non-interest expense | 18,525 | 17,621 |
| Net interest income (tax-equivalent) | 23,688 | 21,849 |
| Non-interest income | 10,082 | 9,673 |
| Total revenue | $33,770 | $31,522 |
| Adjusted efficiency ratio | 54.86 % | 55.90 % |

***f) Recently Issued Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for use in accounting for revenue arising from contracts with customers, and supersedes most current revenue recognition guidance. The ASU was originally effective for fiscal years and interim periods beginning after December 15, 2016. In August 2015, FASB issued ASU 2015-14 which delays the effective date. The effective date will be annual reporting periods beginning after December 15, 2017, and the interim periods within that year. Bancorp is still evaluating the potential impact of adoption of ASU 2014-09.

In February 2016, FASB issued ASU No. 2016-02, *Leases,* which requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize on the balance sheet a liability to make

lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for lease term. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2018. The amendment should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. Bancorp is currently evaluating the potential impact of adoption of ASU 2016-02.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

In March 2016, FASB issued ASU No. 2016-09, *Compensation – Stock Compensation*. The new guidance simplifies certain aspects related to income taxes, statement of cash flows, and forfeitures when accounting for share-based payment transactions. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2016. Certain of the amendments related to timing of the recognition of tax benefits and tax withholding requirements should be applied using a modified retrospective transition method. Amendments related to the presentation of the statement of cash flows should be applied retrospectively. All other provisions may be applied on a prospective or modified retrospective basis. Bancorp is currently evaluating the potential impact of adoption of ASU 2016-09.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information required by this item is included in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Item 4. Controls and Procedures

Bancorp maintains disclosure controls and procedures designed to ensure that it is able to collect the information it is required to disclose in reports it files with the Securities and Exchange Commission (“SEC”), and to record, process, summarize and report this information within the time periods specified in the rules and forms of the SEC. Based on their evaluation of Bancorp’s disclosure controls and procedures as of the end of the quarterly period covered by this report, the Chief Executive and Chief Financial Officers believe that these controls and procedures are effective to ensure that Bancorp is able to collect, process and disclose the information it is required to disclose in reports it files with the SEC within the required time periods.

Based on the evaluation of Bancorp’s disclosure controls and procedures by the Chief Executive and Chief Financial Officers, there were no significant changes during the quarter ended March 31, 2016 in Bancorp’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Bancorp’s internal control over financial reporting.

**PART II – OTHER INFORMATION**

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table shows information relating to the repurchase of shares of common stock by Bancorp during the three months ended March 31, 2016.

| | **Total number of shares purchased (1)** | **Average price paid per share** | **Total number of shares purchased as part of publicly announced plan** | **Maximum number of shares that may yet be purchased under the plan** |
|---|---|---|---|---|
| January 1 - January 31 | — | $ — | — | — |
| February 1 - February 29 | 7,883 | 37.03 | — | — |
| March 1 - March 31 | 18,984 | 38.28 | — | — |
| Total | 26,867 | $ 37.91 | — | — |

(1) Activity represents shares of stock withheld to pay taxes due upon vesting of restricted stock or share-based awards.

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

Item 6. Exhibits

The following exhibits are filed or furnished as a part of this report:

**Exhibit**

| **Number** | **Description of exhibit** |
|---|---|
| 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 | Certifications pursuant to 18 U.S.C. Section 1350 |
| 101 | The following financial statements from the Stock Yards Bancorp, Inc. March 31, 2016 Quarterly Report on Form 10-Q, filed on May 6, 2016, 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

Table Of Contents

**Stock Yards Bancorp, inc. and subsidiary**

**Signatures**

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

**STOCK YARDS BANCORP, INC.**

| | | |
|---|---|---|
| Date: May 6, 2016 | By: | /s/ David P. Heintzman<br>David P. Heintzman, Chairman<br>and Chief Executive Officer |
| Date: May 6, 2016 | By: | /s/ Nancy B. Davis<br>Nancy B. Davis, Executive Vice<br>President,<br>Treasurer and Chief Financial Officer |