

S Y BANCORP INC
Form 10-K
February 29, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-K

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

For the Fiscal Year Ended
December 31, 2011

Commission File Number
1-13661

S.Y. BANCORP, INC.

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

Incorporated in Kentucky

I.R.S. No. 61-1137529

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

Title of each class:
Common Stock, no par value

Preferred Share Purchase Rights

Name of each exchange on which registered:
NASDAQ
NASDAQ

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10.00% Cumulative Trust Preferred Securities and the guarantee with
respect thereto

NASDAQ

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

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

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

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

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐
(Do not check if a smaller reporting company)

Smaller reporting company ☐

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

The aggregate market value of registrant's voting stock (Common Stock, no par value) held by non-affiliates of the registrant as of June 30, 2011 (the last business day of the registrant's most recently completed second fiscal quarter) was \$283,763,000.

The number of shares of the registrant's Common Stock, no par value, outstanding as of February 21, 2012, was 13,823,555.

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Documents Incorporated By Reference

Portions of Registrant's definitive proxy statement related to Registrant's Annual Meeting of Shareholders to be held on April 25, 2012 (the Proxy Statement), to be filed with the Securities and Exchange Commission, are incorporated by reference into Part III of this Form 10-K.

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Part I

Item 1. Business

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

Stock Yards Bank & Trust Company

Stock Yards Bank & Trust Company is the banking subsidiary of Bancorp and was chartered in 1904. The Bank is headquartered in Louisville, Kentucky and provides commercial and personal banking services in the Louisville, Kentucky, Indianapolis, Indiana and Cincinnati, Ohio metropolitan markets through 30 full service banking offices (See ITEM 2. PROPERTIES). The Bank is chartered under the laws of the Commonwealth of Kentucky. In addition to traditional commercial and personal banking activities, the Bank has an investment management and trust department offering a wide range of trust administration, investment management, employee benefit plan and estate administration, and financial planning services. This department operates under the name of Stock Yards Trust Company. The Bank also originates and sells single-family residential mortgages through Stock Yards Mortgage Company. Additionally, the Bank offers securities brokerage services in the name of Stock Yards Financial Services through an arrangement with a third party broker-dealer. See Note 23 to Bancorp's consolidated financial statements for information relating to the Bank's business segments.

At December 31, 2011, the Bank had 480 full-time equivalent employees. Management of Bancorp strives to be an employer of choice and considers the relationship with employees to be good.

Supervision and Regulation

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

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

Kentucky and federal banking statutes delineate permissible activities for Kentucky state-chartered banks. Kentucky's statutes, however, contain a super parity provision for Kentucky banks having a top one or two rating in its most recent regulatory examination. This provision allows a state bank to engage in any banking activity in which a national bank in Kentucky, a state bank operating in any other state, or a federally chartered thrift could engage. The bank must first obtain a legal opinion specifying the statutory or regulatory provisions that permit the activity.

The Bank is subject to the supervision of the Kentucky Department of Financial Institutions and the Federal Deposit Insurance Corporation. The Federal Deposit Insurance Corporation (FDIC) insures the deposits of the Bank to the current maximums of \$250,000 per depositor for time and demand deposit accounts and self-directed retirement accounts. In addition, the FDIC insures all balances in non-interest bearing demand deposit accounts of the Bank through December 31, 2012 as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act signed into law in 2010.

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The Gramm-Leach-Bliley Act (the GLB Act) allows for affiliations among banks, securities firms and insurance companies by means of a financial holding company (FHC). In most cases, the creation of an FHC is a simple election and notice to the Federal Reserve Board. The GLB Act requires that, at the time of establishment of an FHC, all depository institutions within that corporate group must be well managed and well capitalized and must have received a rating of satisfactory or better under its most recent Community Reinvestment Act examination. Further, non-banking financial firms (for example an insurance company or securities firm) may establish an FHC and acquire a depository institution. While the distinction between banks and non-banking financial firms has been blurring over recent years, the GLB Act makes it less cumbersome for banks to offer services financial in nature but beyond traditional commercial banking activities. Likewise, non-banking financial firms may find it easier to offer services that had, heretofore, been provided primarily by depository institutions. Management of Bancorp has chosen not to become an FHC at this time, but continues to evaluate the benefits and costs of such a structure.

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

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

- Creation of a new Bureau of Consumer Financial Protection
- Determination of debit card interchange rates by the Federal Reserve Board
- New regulation over derivative instruments
- Establishment of new powers enabling federal regulators to seize and dismantle troubled financial firms
- Phase outs of certain forms of trust preferred debt and hybrids previously included as bank capital
- Increases to FDIC deposit coverage, increased bank premiums, and numerous other provisions affecting financial institution regulation, oversight of certain non-banking organizations, investor protection, etc.

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

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

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

Available Information

Bancorp files reports with the SEC including the Annual Report on Form 10-K, quarterly reports on Form 10-Q, current event reports on Form 8-K, and proxy statements, as well as any amendments to those reports. The

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

Item 1A. Risk Factors

Investments in Bancorp's common stock or trust preferred securities involve risk, and Bancorp's profitability and success may be affected by a number of factors including those discussed below.

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

Our success depends on general economic conditions both locally and nationally. Most of Bancorp's customers are in the Louisville, Indianapolis, and Cincinnati metropolitan areas. Some of Bancorp's customers are directly impacted by the local economy while others have more national or global business dealings. Some of the factors influencing general economic conditions include recession, unemployment, and inflation. Poor economic conditions have an unfavorable impact on the demand of customers for loans, the ability of some borrowers to repay these loans, availability of deposits and the value of the collateral securing these loans.

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

Declines in the housing market over the past few years, falling home prices, increasing foreclosures, unemployment and under employment have negatively impacted the credit performance of real estate related loans and resulted in significant write downs of asset values by many financial institutions. These write downs have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. This market turmoil has led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. To date, the impact of these adverse conditions has not been as severe in the markets Bancorp serves. Should market conditions not improve and foreclosed assets increase significantly, Bancorp's flexibility to approach collateral sales in an orderly fashion to minimize losses may be reduced and management may be forced to liquidate problem loans more rapidly, thus increasing the loss on these assets.

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

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

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Income from investment management and trust services constitutes an average of 40% of non-interest income. Trust assets under management are expressed in terms of market value, and a significant portion of fee income is based upon those values. While investment management and trust fees are based on market values, they typically do not fluctuate directly with the overall stock market. Accounts typically contain fixed income and equity asset classes, which generally react to market fluctuations inversely to each other. As a broad approximation, a 10% drop in the S&P 500 index would decrease investment management and trust fees approximately 2-4%.

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

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

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

Fluctuations in interest rates could reduce profitability.

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

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

- Inflation or deflation;
- recession;

- a rise in unemployment;
- tightening money supply;
- international disorder and instability in foreign financial markets;
- the Federal Reserve reducing rates; and
- competition from other financial institutions.

Bancorp's interest rate sensitivity analysis indicates an increase in interest rates of up to 2% would decrease net interest income, primarily because the majority of Bancorp's variable rate loans have floors of 4% or higher, and are indexed to the prime rate. Since the prime rate is currently 3.25%, rates would have to increase more than 75 bp before the rates on such loans will rise. This effect negatively impacts the effect of rising rates. Deposit rates generally do not reprice as quickly as loans which negatively affects earnings as

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rates decline. Bancorp's asset-liability management strategy, which is designed to mitigate risk from changes in market interest rates, may not be able to prevent changes in interest rates from having a material adverse effect on Bancorp's results of operations and financial condition. Bancorp's most recent earnings simulation model estimating the impact of changing interest rates on earnings indicates net interest income will be virtually unchanged if interest rates immediately decrease 100 basis points for the next 12 months and decrease approximately 0.5% if rates increase 200 basis points. Prevailing interest rates are at historically low levels, and current indications are that the Federal Reserve will likely maintain the low rates for the next few years.

Competition with other financial institutions could adversely affect profitability.

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

Credit unions, whose membership is no longer tied to a single company, have grown in popularity and size, and their expansion into business lending is growing. Because credit unions are not subject to federal income tax, and Bancorp pays federal income tax at a marginal rate 35%, these companies have a significant competitive advantage over Bancorp. This advantage may have a negative impact on Bancorp's growth and resultant financial results as these credit unions continue to expand.

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

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

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

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

Bancorp's operations depend upon, among other things, infrastructure, including equipment and facilities. Extended disruption of vital infrastructure by fire, power loss, natural disaster, telecommunications failure, information systems breaches, terrorist activity or the domestic and foreign response to such activity, or other events outside of Bancorp's control could have a material adverse impact on the financial services industry as a whole and on Bancorp's business, results of operations and financial condition. Bancorp's business continuity plan may not work as intended or may not prevent significant interruption of

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operations. The occurrence of any failures, interruptions, or security breaches of information systems could damage Bancorp's reputation, result in the loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have an adverse effect on Bancorp's financial condition and results of operation.

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

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

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

Item 1B. Unresolved Staff Comments

Bancorp has no unresolved SEC staff comments.

Item 2. Properties

The principal offices of Bancorp and the Bank are located at 1040 East Main Street, Louisville, Kentucky. The Bank's operations center is at a separate location. In addition to the main office complex and the operations center, the Bank owned 13 branch properties at December 31, 2011, two of which are located on leased land. At that date, the Bank also leased 16 branch facilities. Of the 30 banking locations, 25 are located in the Louisville Metropolitan Statistical Area (MSA), two are located in the Indianapolis MSA and three are located in the Cincinnati MSA. In 2011, Bancorp acquired property for one additional location in the Indianapolis market projected to open in 2012. See Notes 5 and 17 to Bancorp's consolidated financial statements for the year ended December 31, 2011, for additional information relating to amounts invested in premises, equipment and lease commitments.

Item 3. Legal Proceedings

See Note 17 to Bancorp's consolidated financial statements for the year ended December 31, 2011, for information relating to legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

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The following table lists the names and ages as of December 31, 2011 of all current executive officers of Bancorp and the Bank. Each executive officer is appointed by Bancorp's Board of Directors to serve at the discretion of the Board. There is no arrangement or understanding between any executive officer of Bancorp or the Bank and any other person(s) pursuant to which he/she was or is to be selected as an officer.

Name and Age of Executive Officer	Position and Offices with Bancorp and/or the Bank
David P. Heintzman Age 52	Chairman of the Board of Directors and Chief Executive Officer of Bancorp and the Bank
James A. Hillebrand Age 43	President and Director of Bancorp and the Bank
Kathy C. Thompson Age 50	Senior Executive Vice President and Director of Bancorp and the Bank
Nancy B. Davis Age 56	Executive Vice President, Secretary, Treasurer and Chief Financial Officer of Bancorp and the Bank
William M. Dishman III Age 48	Executive Vice President and Chief Risk Officer of the Bank
Gregory A. Hoeck Age 61	Executive Vice President of the Bank
Philip S. Poindexter Age 45	Executive Vice President and Chief Lending Officer of the Bank
T. Clay Stinnett Age 38	Executive Vice President and Chief Strategic Officer of Bancorp and the Bank

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

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

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

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

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

Mr. Hoeck joined the Bank and was appointed Executive Vice President in May 1998. He is the manager of Retail Banking for the Bank.

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

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

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

Bancorp's common stock is traded on the NASDAQ Global Select Market under the ticker symbol SYBT. Prior to July 2006, the stock traded on the American Stock Exchange under the symbol SYI. The table below sets forth the quarterly high and low market closing prices of Bancorp's common stock and dividends declared per share. The payment of dividends by the Bank to Bancorp is subject to the restriction described in Note 16 to the consolidated financial statements. Management believes that Bancorp will continue to generate adequate earnings to continue to pay dividends on a quarterly basis. On December 31, 2011, Bancorp had approximately 1,457 shareholders of record, and approximately 3,600 non-objecting beneficial owners holding shares in nominee or street name.

Quarter	2011			2010		
	High	Low	Cash dividends declared	High	Low	Cash dividends declared
First	\$ 25.16	\$ 23.71	\$ 0.18	\$ 23.34	\$ 20.00	\$ 0.17
Second	25.76	22.50	0.18	24.98	22.88	0.17
Third	23.97	18.06	0.18	25.44	22.99	0.17
Fourth	21.24	18.25	0.18	25.20	23.86	0.18

The following table shows information relating to the repurchase of shares of common stock by Bancorp during the three months ended December 31, 2011.

	Total number of Shares Purchased (1)	Average price Paid Per Share	Total number of Shares Purchased as Part of Publicly Announced Plan (2)	Maximum Number of Shares that May Yet Be Purchased Under the Plan
October 1-October 31	6,078	\$ 20.40		
November 1-November 30	11,733	20.76		
December 1-December 31	648	20.71		
Total	18,459	\$ 20.64		

(1) Fourth quarter 2011 activity represents shares surrendered by officers to pay the exercise price of stock options. This activity has no impact on the number of shares that may be purchased under a Board-approved plan.

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

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

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The graph compares the performance of Bancorp Common Stock to the Russell 2000 index, the SNL NASDAQ Bank index and the SNL Midwest Bank index for Bancorp's last five fiscal years. The graph assumes the value of the investment in Bancorp Common Stock and in each index was \$100 at December 31, 2006 and that all dividends were reinvested.

Index	Period Ending					
	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
S.Y. Bancorp, Inc.	100.00	87.71	103.54	82.85	98.05	84.75
Russell 2000 Index	100.00	98.43	65.18	82.89	105.14	100.75
SNL Midwest Bank Index	100.00	77.94	51.28	43.45	53.96	50.97
SNL NASDAQ Bank Index	100.00	78.51	57.02	46.25	54.57	48.42

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(Dollars in thousands except per share data)	Years ended December 31				
	2011	2010	2009	2008	2007
Net interest income	\$ 70,732	\$ 66,879	\$ 58,675	\$ 56,858	\$ 53,691
Provision for loan losses	12,600	11,469	12,775	4,050	3,525
Net income	23,604	22,953	16,308	21,676	24,052
Per share data					
Net income, basic	\$ 1.71	\$ 1.68	\$ 1.20	\$ 1.61	\$ 1.70
Net income, diluted	1.71	1.67	1.19	1.59	1.67
Cash dividends declared	0.72	0.69	0.68	0.68	0.63
Book value	13.58	12.37	11.29	10.72	9.78
Market value	20.53	24.55	21.35	27.50	23.94
Average balances					
Stockholders' equity	\$ 179,638	\$ 163,572	\$ 150,721	\$ 136,112	\$ 139,357
Assets	1,959,609	1,847,452	1,717,474	1,567,967	1,413,614
Federal Home Loan Bank advances	60,436	69,159	80,904	86,011	65,699
Long-term debt	40,900	40,901	40,930	3,361	93
Selected ratios					
Return on average assets	1.20%	1.24%	0.95%	1.38%	1.70%
Return on average stockholders' equity	13.14	14.03	10.82	15.93	17.26
Average stockholders' equity to average assets	9.17	8.85	8.78	8.68	9.86
Net interest rate spread	3.79	3.74	3.43	3.60	3.63
Net interest rate margin, fully tax-equivalent	3.99	3.99	3.74	3.99	4.25
Efficiency ratio	56.47	56.01	58.70	57.27	54.68
Non-performing loans to total loans	1.51	1.28	0.84	0.35	0.28
Non-performing assets to total assets	1.51	1.30	0.77	0.39	0.49
Net charge offs to average loans	0.55	0.40	0.59	0.16	0.20
Allowance for loan losses to total loans	1.93	1.69	1.39	1.14	1.12

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

Financial Section Roadmap

The financial section of this Form 10-K includes management's discussion and analysis, consolidated financial statements, and the notes to those financial statements. Bancorp has prepared the following summary, or "roadmap," to assist in your review of the financial section. It is designed to give you an overview of S.Y. Bancorp, Inc. and summarize some of the more important activities and events that occurred during 2011.

Our Business

S.Y. Bancorp, Inc. (Bancorp), incorporated in 1988, has no active business operations. Thus, Bancorp's business is substantially the same as that of its wholly owned subsidiary, Stock Yards Bank & Trust Company (the Bank). The Bank has operated continuously since it opened in 1904. The Bank conducted business at one location for 85 years and began branching in 1989. At December 31, 2011, the Bank had 25 full service banking locations in the Louisville MSA, two full service banking locations in the Indianapolis MSA, and three full service banking locations in the Cincinnati MSA. In 2011, Bancorp acquired property for one additional location in the Indianapolis market projected to open in the first quarter of 2012. The Bank's focus on flexible, attentive customer service has been key to its growth and profitability. The wide range of services added by investment management and trust, securities brokerage, and mortgage origination helps support the corporate philosophy of capitalizing on full service customer relationships.

Financial Section Overview

The financial section includes the following:

Management's discussion and analysis, or MD&A (pages 13 through 42) provides information as to the analysis of the consolidated financial condition and results of operations of Bancorp. It contains management's view about industry trends, risks, uncertainties, accounting policies that Bancorp views as critical in light of its business, results of operations including discussion of the key performance drivers, financial position, cash flows, commitments and contingencies, important events, transactions that have occurred over the last three years, and forward-looking information, as appropriate.

Financial statements (pages 43 through 47) include Consolidated Balance Sheets as of the end of the last two years, and Consolidated Statements of Income, Changes in Stockholders' Equity, Comprehensive Income, and Cash Flows for each of the last three years. Bancorp's financial statements are prepared in accordance with US GAAP.

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Notes to the financial statements (pages 48 through 84) provide insight into, and are an integral part of, the financial statements. The notes contain explanations of significant accounting policies, details about certain captions on the financial statements, information about significant events or transactions that have occurred, discussions about legal proceedings, commitments and contingencies, and selected financial information relating to business segments. The notes to the financial statements also are prepared in accordance with US GAAP.

Reports related to the financial statements and internal control over financial reporting (pages 83 through 87) include the following:

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

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Forward-Looking Statements

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

Critical Accounting Policies

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

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

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

Overview of 2011

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

In 2011, Bancorp completed a year of asset and deposit growth with net income totaling \$23,604,000, an increase of 3% over 2010. Increased profitability was primarily due to a decline in interest expense and tax expense, partially offset by higher non-interest expenses. Diluted earnings per share for 2011 increased 2% over 2010 to \$1.71, exceeding the highest amount recorded in any prior year.

As is the case with most banks, the primary source of Bancorp's revenue is net interest income and fees from various financial services provided to customers. Net interest income is the difference between interest

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income earned on loans, investment securities and other interest earning assets less interest expense on deposit accounts and other interest bearing liabilities. Loan volume and the interest rates earned on those loans are critical to overall profitability. Similarly deposit volume is crucial to funding loans and rates paid on deposits directly impact profitability. Business volumes are influenced by overall economic factors including market interest rates, business spending, consumer confidence and competitive conditions within the marketplace.

Bancorp's loan portfolio increased 2% during 2011 to \$1.5 billion. Increased loan volume contributed to interest income in 2011, but the increase resulting from volume was offset by declining interest rates on loans and investments over the past year. As a result, interest income for 2011 was essentially level with 2010. Despite significant deposit growth, interest expense declined due to lower funding costs on deposits and borrowings. While rates on earning assets decreased, rates paid on liabilities decreased slightly more, resulting in an increased net interest spread and a stable net interest margin compared to 2010.

The magnitude of its investment management and trust revenue distinguishes Bancorp from other similarly sized community banks, making total non-interest income a continuing key contributor to earnings in 2011. Total non-interest income in 2011 was essentially level with 2010. Income from investment management and trust services, which constitutes an average of 40% of non-interest income, increased 4% for 2011 due to higher asset values and an expanding client base. Trust assets under management rose to \$1.74 billion at December 31, 2011, compared to \$1.70 billion at December 31, 2010. While fees are based on market values, they typically do not fluctuate directly with the overall stock market. Accounts typically contain fixed income and equity asset classes, which generally react inversely to each other. As a broad approximation, a 10% drop in the S&P 500 index would decrease fees approximately 2-4%. Nonrecurring fees such as estate, financial planning, insurance, and some retirement fees are not affected by the fluctuations in the market. In addition, Bancorp experienced increases in bankcard transaction income and brokerage income. Offsetting these increases was a decline in value of Bancorp's investment in a domestic private investment fund.

Higher non-interest expenses for 2011 resulted from increases in occupancy, data processing expenses, losses on other real estate owned and other expenses, partially offset by decreases in salaries and benefits and FDIC insurance expense. Bancorp's efficiency ratio for 2011 of 56.5% increased slightly from 56.0% in 2010.

Also affecting 2011 results, Bancorp's provision for loan losses increased to \$12,600,000 compared to \$11,469,000 for 2010, in response to Bancorp's assessment of inherent risk in the loan portfolio. The provision for loan losses is calculated after considering credit quality factors, and ultimately relies on an overall internal analysis of the risk in the loan portfolio. The provision results from an allowance methodology that is driven by risk ratings which reflects the impact on risk ratings resulting from the ongoing economic stress on borrowers witnessed from 2008 through 2011. Management continues to be concerned that the prolonged economic downturn and prospects for uncertain recovery will continue to take a toll on Bancorp's loan portfolio and underlying collateral values, extending its impact to lending relationships that have to date not been identified. Bancorp's allowance for loan losses was 1.93% of total loans at December 31, 2011, compared with 1.69% of total loans at December 31, 2010.

Bancorp's effective tax rate decreased to 25.8% in 2011 from 28.3% in 2010. The decrease in the 2011 effective tax rate was primarily due to an adjustment of approximately \$700,000, or \$0.05 per share, to Bancorp's deferred tax assets relating to tax-advantaged investments that Bancorp has made in its primary market area over the years. The lower income tax expense also reflected adjustments to update the Bancorp's reserve for uncertain tax positions, which was reduced when the statute of limitations expired with the relevant taxing authorities.

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

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A summary of Bancorp's TCE ratios at December 31, 2011 and 2010 is shown in the following table.

(in thousands, except per share data)	December 31, 2011	December 31, 2010
Total equity	\$ 187,686	\$ 169,861
Less goodwill	(682)	(682)
Tangible common equity	187,004	169,179
Total assets	2,053,097	1,902,945
Less goodwill	(682)	(682)
Total tangible assets	2,052,415	1,902,263
Tangible common equity ratio	9.11%	8.89%
Number of outstanding shares	13,819	13,737
Tangible common equity per share	\$ 13.53	\$ 12.32

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

Challenges for 2012 will include managing credit quality, achieving continued loan growth, and managing increasing regulatory requirements.

- Management continues to be concerned that a continued economic recession will cause a higher level of non-performing loans and potentially lower loan demand, both of which would negatively impact net income. The extended duration of the economic downturn continues to weaken already stressed borrowers. These conditions will likely have an ongoing effect on certain borrowers until overall business and real estate conditions improve. Moreover, should market conditions not improve and foreclosed assets increase significantly, Bancorp's flexibility to approach collateral sales in an orderly fashion to minimize losses may be reduced and management may be forced to liquidate problem loans more rapidly, thus increasing the loss on these assets.
- To achieve profitability goals for 2012, net loan growth must continue at a pace in excess of 2011. This will be impacted by competition and prevailing economic conditions. Bancorp believes there is an opportunity for growth, and Bancorp's ability to deliver attractive growth over the long-term is linked to Bancorp's success in each market.
- The Federal Reserve Board lowered its key short term rate in 2008 to unprecedentedly low levels, and rates have remained low throughout 2009, 2010 and 2011. Indications are that the Federal Reserve will keep short term rates low through late 2014. Approximately 40% of the Bank's loans are indexed to the prime interest rate and reprice immediately with Federal Reserve rate changes. However, approximately 72% of variable rate loans have reached their contractual floor of 4% or higher, meaning they will not reprice immediately when the prime rate increases. Deposit rates generally do not reprice as quickly as loans. Once rates begin to rise, Bancorp's net interest margin likely will be negatively affected until the increase exceeds 75 basis points from today's levels.
- Bancorp expects net interest margin to be fairly consistent in 2012 with the level achieved in the fourth quarter of 2011 as rates are expected to be largely unchanged through the fourth quarter of 2012. This would result in a net interest margin for 2012 similar to the level seen in 2011. Increased deposit and loan rate competition could negatively impact this expectation, as could a decrease in longer term interest rates.
- Bancorp expects a decrease in non-interest income for 2012 in gains on sales of mortgage loans held for sale, as Bancorp does not expect the volume of refinance activity to continue at the pace experienced from 2009 through 2011. Bancorp expects year-over-year increases

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in non-interest expense including personnel and occupancy expenses as it opened a new operations center and renovated the main office complex in 2011, and expects to add an additional branch location in 2012.

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

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

Results of Operations

Net income was \$23,604,000 or \$1.71 per share on a diluted basis for 2011 compared to \$22,953,000 or \$1.67 per share for 2010 and \$16,308,000 or \$1.19 per share for 2009. Net income for 2011 was positively impacted by:

- A 6% or \$3.9 million increase in net interest income.
- A 10% or \$0.8 million decrease in income tax expense

Net income for 2011 was negatively impacted by:

- A 10% or \$1.1 million increase in provision for loan losses.
- A 1% or \$0.5 million decrease in non-interest income.
- A 4% or \$2.5 million increase in non-interest expenses.

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

Net Interest Income

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

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Comparative information regarding net interest income follows:

(Dollars in thousands)	2011	2010	2009	2011/2010 Change	2010/2009 Change
Net interest income, tax-equivalent basis	\$ 72,262	\$ 68,264	\$ 59,729	5.9%	14.3%
Net interest spread	3.79%	3.74%	3.43%	5bp	31bp
Net interest margin	3.99%	3.99%	3.74%	0bp	25bp
Average earning assets	\$ 1,809,043	\$ 1,712,173	\$ 1,596,989	5.7%	7.2%
Five year Treasury bond rate at year end	0.83%	2.02%	2.69%	(119)bp	(67)bp
Average five year Treasury bond rate	1.50%	1.91%	2.19%	(41)bp	(28)bp
Prime rate at year end	3.25%	3.25%	3.25%	0bp	0bp
Average prime rate	3.25%	3.25%	3.25%	0bp	0bp

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

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All references above to net interest margin consistently apply a revised methodology for calculating net interest margin and net interest spread, implemented in the fourth quarter of 2011, and applied to all years presented herein, to exclude participation loans sold from the calculations. Such loans remain on Bancorp's balance sheet as required by generally accepted accounting principles because Bancorp retains some form of effective control; however, Bancorp receives no interest income on the sold portion of these loans. Under its revised methodology, these participation loans sold are excluded in the calculation of margins, which, in Bancorp's view, provides a more accurate determination of the performance of its loan portfolio.

Prime rate and the five year Treasury bond rate are included above to provide a general indication of the interest rate environment in which the Bank operated. Approximately \$618 million, or 40%, of the Bank's loans are variable rate; most of these loans are indexed to the prime rate and may reprice as that rate changes. However, approximately \$441 million, or 72% of variable rate loans, have reached their contractual floor of 4% or higher. Approximately \$75 million or 12% of variable rate loans have contractual floors below 4%. The remaining \$102 million or 16% of variable rate loans have no contractual floor. The Bank intends to establish floors whenever possible upon renewal of the loans. The Bank's variable rate loans are primarily comprised of commercial lines of credit and real estate loans. At inception, most of the Bank's fixed rate loans are priced in relation to the five year Treasury bond.

Average loan balances increased \$55 million or 3.8% in 2011; however, the declining interest rate environment drove average loan yields lower by 21 basis points. Bancorp grew average interest bearing deposits \$54 million or 4.4%. Average interest costs on interest bearing deposits decreased 29 basis points, again reflecting the declining interest rate market and a more favorable mix of deposits. Average Federal Home Loan Bank (FHLB) advances decreased by \$8.7 million or 12.6%, with average rates decreasing by 86 basis points. Rate changes, combined with volume changes on loans and deposits, resulted in a relatively stable net interest income and net interest margin for 2011 compared to 2010.

Management anticipates a stable prime rate for 2012. Time deposit maturities of approximately \$144 million, or 35% of total time deposits, in the first two quarters could spark slight improvement in interest expense. However, this will be offset by declining overall rates in the loan portfolio as persistent low prevailing rates are expected to erode the overall yield on loans and investments. The margin could be impacted negatively if competition causes increases in deposit rates or a decline in loan pricing in Bancorp's markets.

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.

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The December 31, 2011 simulation analysis, which shows very little interest rate sensitivity, indicates that an increase in interest rates of 100 to 200 basis points would have a slightly negative effect on net interest income, and a decrease of 100 basis points in interest rates would have a slightly positive effect on net interest income. These estimates are summarized below.

	Net interest income % change
Increase 200 bp	(0.51)
Increase 100 bp	(1.70)
Decrease 100 bp	0.01
Decrease 200 bp	N/A

Loans indexed to the prime rate, with floors of 4% or higher, comprise approximately 30% of total loans. Since the prime rate is currently 3.25%, rates would have to increase more than 75 bp before the rates on such loans will rise. This effect, captured in the simulation analysis above, negatively impacts the effect of rising rates. Analysis of rates increasing 300 bp or higher indicates a positive effect on net interest income.

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

Undesignated derivative instruments described in Note 20 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.

The following table presents the increases in net interest income due to changes in rate and volume computed on a tax-equivalent basis and indicates how net interest income in 2011 and 2010 was impacted by volume increases and the lower average interest rate environment. The tax-equivalent adjustments are based on a 35% federal tax rate. The change in interest due to both rate and volume has been allocated to the change due to rate and the change due to volume in proportion to the relationship of the absolute dollar amounts of the change in each.

Table of Contents**Taxable Equivalent Rate/Volume Analysis**

(In thousands)	2011/2010			2010/2009		
	Net change	Increase (decrease) due to Rate	Volume	Net change	Increase (decrease) due to Rate	Volume
Interest income						
Loans	\$ (69)	\$ (3,048)	\$ 2,979	\$ 2,615	\$ (1,610)	\$ 4,225
Federal funds sold	117	36	81	59	28	31
Mortgage loans held for sale	(108)	(34)	(74)	(50)	(34)	(16)
Securities						
Taxable	(100)	(84)	(16)	(104)	(666)	562
Tax-exempt	198	(428)	626	101	(327)	428
Total interest income	38	(3,558)	3,596	2,621	(2,609)	5,230
Interest expense						
Deposits						
Interest bearing demand deposits	118	51	67	18	(29)	47
Savings deposits	(54)	(65)	11	46	19	27
Money market deposits	(649)	(1,011)	362	685	(86)	771
Time deposits	(2,480)	(1,745)	(735)	(5,580)	(4,102)	(1,478)
Securities sold under agreements to repurchase						
	(79)	(105)	26	61	29	32
Federal funds purchased and other short-term borrowings						
	(7)	(4)	(3)	(18)	(15)	(3)
Federal Home Loan Bank advances						
	(806)	(545)	(261)	(1,075)	(631)	(444)
Long-term debt						
	(3)	(3)		(51)	(49)	(2)
Total interest expense	(3,960)	(3,427)	(533)	(5,914)	(4,864)	(1,050)
Net interest income	\$ 3,998	\$ (131)	\$ 4,129	\$ 8,535	\$ 2,255	\$ 6,280

Bancorp's tax equivalent net interest income increased \$4.0 million for the year ended December 31, 2011 compared to the same period of 2010 while 2010 increased \$8.5 million compared to 2009. Net interest income for 2011 compared to 2010 was positively impacted by an increase in loan and securities volume and a decrease in deposit and other borrowing rates, a more favorable mix of deposits, and the volume of interest-bearing liabilities. Net interest income was negatively impacted by a decline in the average rate earned on assets. Loan volume increases boosted net interest income by \$3.0 million and declining rates on deposits, particularly time deposits, contributed \$2.8 million to the increase of net interest income. Partially offsetting the increases, declining rates on loans negatively impacted net interest income by \$3.0 million.

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For the year 2010 compared to 2009, loan interest income increased \$2.6 million. This is the net effect of a \$4.2 million increase attributable to loan growth, offset by a \$1.6 million decrease attributed to lower rates on loans. Lower rates on deposits resulted in a decreased interest expense of \$4.2 million, and lower volumes of liabilities resulted in decreased interest expense of \$1.1 million.

Provision for Loan Losses

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

(Dollars in thousands)	2011	2010	2009
Provision for loan losses	\$ 12,600	\$ 11,469	\$ 12,775
Allowance to loans at year end	1.93%	1.69%	1.39%
Allowance to average loans for year	1.94%	1.74%	1.44%

The provision for loan losses is determined by Bancorp's assessment of inherent risk in the loan portfolio. The provision for loan losses is calculated after considering credit quality factors, and ultimately relies on an overall internal analysis of the risk in the loan portfolio. The provision reflects an allowance methodology that is driven by risk ratings, and reflected the impact of downgrading various loans' status due to the ongoing economic stress on borrowers witnessed from 2008 through 2011. Bancorp intends to continue with its historically conservative stance toward credit quality, remaining cautious in assessing the potential risk in the loan portfolio.

Non-performing loans increased from \$19.3 million at year-end 2010 to \$23.3 million at December 31, 2011. The ratio of non-performing loans to total loans was 1.51% at December 31, 2011, up from 1.28% at December 31, 2010. Net charge-offs totaled 0.55% of average loans at year-end 2011, up from 0.40% at year-end 2010. The increase in non-performing loans, including non-accrual loans, in 2011 reflected the reclassification of several unrelated loans to non-performing status due to ongoing economic stress on borrowers. While Bancorp's metrics for net charge-offs and non-performing loans remain at relatively low levels compared to the banking industry, management continues to be concerned that a prolonged recession will place additional pressure on credit quality and result in an increase in the level of non-performing loans. See Financial Condition-Non-performing Loans and Assets for further discussion of non-performing loans. See Financial Condition-Summary of Loan Loss Experience for further discussion of loans charged off during the year.

The Bank's loan portfolio is diversified with no significant concentrations of credit. Geographically, most loans are extended to borrowers in the metropolitan areas of Louisville, Indianapolis and Cincinnati. The adequacy of the allowance is monitored on an ongoing basis and it is the opinion of management that the balance of the allowance for loan losses at December 31, 2011 is adequate to absorb probable losses inherent in the loan portfolio as of the financial statement date. See Financial Condition-Allowance for Loan Losses for more information on the allowance for loan losses.

Table of Contents**Non-Interest Income and Non-Interest Expenses**

The following table provides a comparison of the components of non-interest income for 2011, 2010 and 2009. The table shows the dollar and percentage change from 2010 to 2011 and from 2009 to 2010. Below the table is a discussion of significant changes and trends.

(Dollars in thousands)	2011	2010	2009	2011/2010 Change	%	2010/2009 Change	%
Investment management and trust services	\$ 13,841	\$ 13,260	\$ 11,180	\$ 581	4.4%	\$ 2,080	18.6%
Service charges on deposit accounts	8,348	8,600	8,531	(252)	(2.9)	69	0.8
Bankcard transaction revenue	3,722	3,313	2,909	409	12.3	404	13.9
Gain on sales of mortgage loans held for sale	2,122	2,321	2,163	(199)	(8.6)	158	7.3
Gain (loss) on sales of securities available for sale		159	(339)	(159)	(100.0)	498	(146.9)
Brokerage commissions and fees	2,219	2,136	1,749	83	3.9	387	22.1
Bank owned life insurance income	1,019	995	988	24	2.4	7	0.7
Other	1,973	2,955	2,855	(982)	(33.2)	100	3.5
	\$ 33,244	\$ 33,739	\$ 30,036	\$ (495)	(1.5)%	\$ 3,703	12.3%

Total non-interest income decreased 1.5% for the year ended December 31, 2011 compared to 2010. The largest component of non-interest income is investment management and trust revenue. Along with the effects of improving investment market conditions in 2010 and 2011, this area of the Bank continued to grow through attraction of new business and retention of existing business, despite normal attrition. Trust assets under management totaled \$1.74 billion at December 31, 2011, compared to \$1.70 billion at December 31, 2010. Most recurring fees earned for managing accounts are based on a percentage of market value on a monthly basis. Some revenues of the investment management and trust department, most notably executor, insurance, and some employee benefit plan-related fees, are non-recurring in nature and the timing of these revenues corresponds with the related administrative activities. For 2011, 2010 and 2009 executor fees totaled approximately \$362,000, \$668,000 and \$225,000, respectively.

Service charges on deposit accounts decreased \$252,000 or 2.9%, for the year ended December 31, 2011 compared to the same period a year ago. Service charge income is driven by transaction volume, which can fluctuate throughout the year. Recent legislation required that Bancorp's customers opt in to access their overdraft protection beginning in the third quarter of 2010. Management believes this requirement has resulted in fewer overdrafts and a corresponding decline in service charge income in 2011.

Bankcard transaction revenue increased \$409,000 or 12.3% in 2011 compared to 2010 and primarily represents income the Bank derives from customers' use of debit cards. Results in 2011 compared favorably to 2010 as bankcard transaction volume continued to increase. Most of this revenue is interchange income based on rates set by service providers in a competitive market. Beginning in October 2011, this rate was set by the Federal Reserve Board for banks with over \$10 billion in assets. While this threshold indicates Bancorp will not be directly affected, it appears this change will indirectly affect Bancorp as vendors continue to push for lower fees to be paid to all banks. While there are many uncertainties about its effect or ultimately when these changes may take place, the Dodd-Frank legislation may negatively affect this source of income.

The Bank's mortgage banking division originates residential mortgage loans to be sold in the secondary market. Interest rates on the loans sold are locked with the borrower and investor prior to closing the loans,

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thus Bancorp bears no interest rate risk related to these loans. The division offers conventional, VA and FHA financing, for purchases and refinances, as well as programs for low-income and first time home buyers. The mortgage banking division also offers home equity conversion or reverse mortgages. Gains on sales of mortgage loans decreased \$199,000, or 8.6%, in 2011 compared to 2010. Interest rates on mortgage loans directly impact the volume of business transacted by the mortgage banking division. Prevailing mortgage interest rates decreased during late 2011 and as a result refinance volume increased late in the year.

Bancorp had no gains on securities available for sale in 2011, compared to \$159,000 for 2010. In 2010, for tax planning purposes, Bancorp sold securities with a cost of \$26,905,000, resulting in gains totaling \$159,000. In 2009, Bancorp sold trust preferred securities, generating a loss of \$359,000, and mortgage-backed securities, generating gains of \$20,000.

Brokerage commissions and fees earned consist primarily of stock, bond and mutual fund sales as well as wrap fees on accounts. Wrap fees are charges for investment programs that bundle together a suite of services, such as brokerage, advisory, research, and management, and are charged a fee based on a percentage of assets. Total securities brokerage fees increased \$83,000 or 3.9% for 2011 compared to the prior year corresponding to higher overall brokerage volume. Bancorp deploys its brokers primarily through its branch network, while larger managed accounts are serviced in the investment management and trust department.

Income related to bank-owned life insurance (BOLI) was \$1,019,000 in 2011 compared to \$995,000 for 2010. BOLI represents the cash surrender value for life insurance policies on certain key employees who have provided consent for the Bank to be the beneficiary of a portion of such policies. The related change in cash surrender value and proceeds received under the policies, none of which have occurred to date, are recorded as non-interest income. This income helps offset the cost of employee benefits.

Other non-interest income decreased \$982,000, or 33.2%, during 2011 compared to 2010 primarily due to a decrease of the value of a domestic private investment fund. Bancorp's investment in a domestic private investment fund is comprised of bank and other financial industry securities and is accounted for in accordance with FASB ASC 323-10 Investments Equity Method and Joint Ventures . The value of Bancorp's investment decreased by \$404,000 in 2011, compared to an increase of \$606,000 in 2010. Primarily because of income statement related volatility, management has chosen to liquidate its investment in this fund and expects this to occur by March 31, 2012. Other non-interest income increased in 2010 compared to 2009 as a result of an increase in the value of the domestic private investment fund, partially offset by decreases in fees related to mortgage banking, combined with a variety of factors none of which are individually significant.

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The following table provides a comparison of the components of non-interest expenses for 2011, 2010 and 2009. The table shows the dollar and percentage change from 2010 to 2011 and from 2009 to 2010. Below the table is a discussion of significant changes and trends.

(Dollars in thousands)	2011	2010	2009	2011/2010 Change	%	2010/2009 Change	%
Salaries and employee benefits	\$ 33,125	\$ 33,485	\$ 30,147	\$ (360)	(1.1)%	\$ 3,338	11.1%
Net occupancy expense	5,192	4,934	4,185	258	5.2	749	17.9
Data processing expense	5,014	4,834	4,479	180	3.7	355	7.9
Furniture and equipment expense	1,299	1,272	1,234	27	2.1	38	3.1
FDIC insurance	1,655	2,038	2,687	(383)	(18.8)	(649)	(24.2)
Losses (gains) on other real estate owned	1,716	(11)		1,727	*	(11)	(100.0)
Other	11,580	10,579	9,963	1,001	9.5	616	6.2
	\$ 59,581	\$ 57,131	\$ 52,695	\$ 2,450	4.3%	\$ 4,436	8.4%

* Ratio exceeds 100%

Salaries and benefits are the largest component of non-interest expenses and decreased \$360,000 or 1.1% for 2011 compared to 2010, primarily due to decreases in performance-based incentive accruals. At December 31, 2011, the Bank had 480 full-time equivalent employees compared to 475 at the same date in 2010 and 470 for 2009.

Net occupancy expense increased \$258,000 or 5.2% from 2010 to 2011, primarily due to an increase in depreciation expense, much of which is attributable to the new operations center location opened in 2011. The Bank opened no new branch locations in 2011, after opening two new locations in 2010. At December 31, 2011 the Bank had thirty banking center locations including the main office.

Data processing expense increased \$180,000 or 3.7% largely due to increased computer equipment depreciation and higher costs for processing debit cards as volume increased.

Furniture and equipment expense increased \$27,000 or 2.1% in 2011, as compared to 2010, due to a variety of factors, none of which is individually significant. Costs of capital asset additions flow through the statement of income over the lives of the assets in the form of depreciation expense.

FDIC insurance expense decreased \$383,000, or 18.8% for the year ended December 31, 2011, as compared to the same period in 2010. The decrease is due to a change in the base on which the assessment is calculated and lower assessment rates in 2011.

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Losses on other real estate owned (OREO) totaled \$1,716,000 for the year ended December 31, 2011, compared to gains totaling \$11,000 for the same period in 2010. In 2011, Bancorp recorded write-downs on OREO intended to position Bancorp to move those properties more quickly from the balance sheet.

Other non-interest expenses increased \$1,001,000, or 9.5% for the year ended December 31, 2011 compared to the same period of 2010. The increases included a \$380,000 write-down of fixed assets related to a building renovation, and an increase of \$395,000 in donations. In addition, bank franchise taxes increased \$407,000 from 2010 to 2011. Also included in this category are amortization expenses related to mortgage servicing rights (MSRs). Mortgage volume increased the amount of MSRs over 2010 and 2011, resulting in a corresponding increase of MSR amortization of \$198,000 in 2011 compared to 2010. Offsetting the increases in 2011 were decreases of \$254,000 in professional fees and a variety of factors including advertising, printing, mail and telecommunications, none of which is individually significant.

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Income Taxes

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

(Dollars in thousands)	2011		2010		2009	
Income tax expense	\$	8,191	\$	9,065	\$	6,933
Effective tax rate		25.8%		28.3%		29.8%

The decrease in the income tax expense and the effective tax rate primarily reflected an adjustment of approximately \$700,000 to the Company's deferred tax assets relating to tax-advantaged investments that the Company has made in its primary market area over the years. The lower income tax expense also reflected adjustments to update the Company's reserve for uncertain tax positions, which was reduced when the statute of limitations expired with the relevant taxing authorities. For more information regarding income taxes and the effective tax rate see Note 7 to Bancorp's consolidated financial statements.

Financial Condition

Earning Assets and Interest Bearing Liabilities

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

(Dollars in thousands)	2011	2010	2009	2011/2010		2010/2009	
				Change	%	Change	%