

Stock Yards Bancorp, Inc.  
Form 10-Q  
November 05, 2015  
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 September 30, 2015

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.)

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

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 October 27, 2015, was 14,870,711.

---

Table Of Contents

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

Index

<b><u>ITEM</u></b>	<b><u>PAGE</u></b>
<b>PART I - FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	
The following consolidated financial statements of Stock Yards Bancorp, Inc. and Subsidiary are submitted herewith:	
<u>Consolidated Balance Sheets September 30, 2015 (Unaudited) and December 31, 2014</u>	2
<u>Consolidated Statements of Income (Unaudited) for the three and nine months ended September 30, 2015 and 2014</u>	3
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the three and nine months ended September 30, 2015 and 2014</u>	4
<u>Consolidated Statements of Changes in Stockholders' Equity (Unaudited) for the nine months ended September 30, 2015 and 2014</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2015 and 2014</u>	6
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	56
<u>Item 4. Controls and Procedures</u>	56
<b><u>PART II - OTHER INFORMATION</u></b>	56
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	56
<u>Item 6. Exhibits</u>	57



Table Of Contents**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

## Consolidated Balance Sheets

September 30, 2015 and December 31, 2014

(In thousands, except share data)

	<b>September 30, 2015 (Unaudited)</b>	<b>December 31, 2014</b>
<b>Assets</b>		
Cash and due from banks	\$ 37,335	\$42,216
Federal funds sold	17,859	32,025
Cash and cash equivalents	55,194	74,241
Mortgage loans held for sale	5,539	3,747
Securities available-for-sale (amortized cost of \$498,633 and \$509,276 in 2015 and 2014, respectively)	504,366	513,056
Federal Home Loan Bank stock and other securities	6,347	6,347
Loans	1,954,425	1,868,550
Less allowance for loan losses	21,614	24,920
Net loans	1,932,811	1,843,630
Premises and equipment, net	39,951	39,088
Bank owned life insurance	30,777	30,107
Accrued interest receivable	6,058	5,980
Other assets	43,564	47,672
Total assets	\$ 2,624,607	\$2,563,868
<b>Liabilities and Stockholders' Equity</b>		
Deposits:		
Non-interest bearing	\$ 595,039	\$523,947
Interest bearing	1,546,539	1,599,680
Total deposits	2,141,578	2,123,627
Securities sold under agreements to repurchase	67,557	69,559
Federal funds purchased	62,101	47,390
Accrued interest payable	126	131
Other liabilities	28,598	26,434
Federal Home Loan Bank advances	43,699	36,832
Total liabilities	2,343,659	2,303,973
Stockholders' equity:		
Preferred stock, no par value. Authorized 1,000,000 shares; no shares issued or outstanding	—	—
Common stock, no par value. Authorized 20,000,000 shares; issued and outstanding 14,868,894 and 14,744,684 shares in 2015 and 2014, respectively	10,448	10,035
Additional paid-in capital	42,217	38,191

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Retained earnings	225,178	209,584
Accumulated other comprehensive income	3,105	2,085
Total stockholders' equity	280,948	259,895
Total liabilities and stockholders' equity	\$ 2,624,607	\$ 2,563,868

See accompanying notes to unaudited consolidated financial statements.

Table Of Contents**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

## Consolidated Statements of Income (Unaudited)

For the three and nine months ended September 30, 2015 and 2014

(In thousands, except per share data)

	<b>For three months ended September 30, 2015</b>		<b>For nine months ended September 30, 2014</b>	
Interest income:				
Loans	\$20,924	\$20,429	\$61,951	\$59,575
Federal funds sold	65	73	184	215
Mortgage loans held for sale	67	54	180	128
Securities – taxable	1,936	1,845	5,939	5,506
Securities – tax-exempt	292	291	877	885
Total interest income	23,284	22,692	69,131	66,309
Interest expense:				
Deposits	900	1,065	2,811	3,319
Federal funds purchased	7	8	19	23
Securities sold under agreements to repurchase	42	37	111	100
Federal Home Loan Bank advances	254	219	694	621
Total interest expense	1,203	1,329	3,635	4,063
Net interest income	22,081	21,363	65,496	62,246
Provision (credit) for loan losses	—	(2,100 )	—	(400 )
Net interest income after provision for loan losses	22,081	23,463	65,496	62,646
Non-interest income:				
Investment management and trust services	4,373	4,502	13,576	13,825
Service charges on deposit accounts	2,342	2,294	6,621	6,620
Bankcard transaction revenue	1,223	1,182	3,591	3,466
Mortgage banking revenue	772	641	2,513	1,951
Gain (loss) on sales of securities available for sale	—	—	—	(9 )
Brokerage commissions and fees	585	539	1,545	1,506
Bank owned life insurance income	222	229	670	699
Other	468	463	1,361	1,324
Total non-interest income	9,985	9,850	29,877	29,382
Non-interest expenses:				
Salaries and employee benefits	11,333	11,855	33,816	33,697
Net occupancy expense	1,518	1,422	4,437	4,431
Data processing expense	1,572	1,591	4,782	4,869
Furniture and equipment expense	282	269	789	796
FDIC insurance expense	318	340	932	1,032
Loss (gain) on other real estate owned	(12 )	7	153	(342 )



Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Other	3,419	3,225	10,167	9,471
Total non-interest expenses	18,430	18,709	55,076	53,954
Income before income taxes	13,636	14,604	40,297	38,074
Income tax expense	4,352	4,715	12,756	11,974
Net income	\$9,284	\$9,889	\$27,541	\$26,100
Net income per share:				
Basic	\$0.63	\$0.68	\$1.87	\$1.79
Diluted	\$0.62	\$0.67	\$1.84	\$1.77
Average common shares:				
Basic	14,754	14,574	14,704	14,542
Diluted	14,986	14,748	14,940	14,732

See accompanying notes to unaudited consolidated financial statements.

Table Of Contents**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

Consolidated Statements of Comprehensive Income (Unaudited)

For the three and nine months ended September 30, 2015 and 2014

(In thousands)

	<b>Three months ended September 30, 2015</b>		<b>Nine months ended September 30, 2014</b>	
Net income	\$9,284	\$9,889	\$27,541	\$26,100
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities available for sale:				
Unrealized gains (losses) arising during the period (net of tax of \$1,089, (\$234), \$683 and \$1,521, respectively)	2,023	(435 )	1,270	2,823
Reclassification adjustment for securities losses realized in income (net of tax of \$0, \$0, \$0, and \$3, respectively)	—	—	—	6
Unrealized (losses) gains on hedging instruments:				
Unrealized (losses) gains arising during the period (net of tax of (\$124), \$12, (\$135) and \$6, respectively)	(231 )	23	(250 )	10
Other comprehensive income (loss), net of tax	1,792	(412 )	1,020	2,839
Comprehensive income	\$11,076	\$9,477	\$28,561	\$28,939

See accompanying notes to unaudited consolidated financial statements.

Table Of Contents**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

For the nine months ended September 30, 2015 and 2014

(In thousands, except per share data)

	<b>Common stock Number of shares</b>	<b>Amount</b>	<b>Additional paid-in capital</b>	<b>Retained earnings</b>	<b>Accumulated other comprehensive income (loss)</b>	<b>Total</b>
Balance December 31, 2013	14,609	\$9,581	\$ 33,255	\$188,825	\$ (2,217 )	\$229,444
Net income	—	—	—	26,100	—	26,100
Other comprehensive income, net of tax	—	—	—	—	2,839	2,839
Stock compensation expense	—	—	1,459	—	—	1,459
Stock issued for exercise of stock options, net of withholdings to satisfy employee tax obligations upon vesting of stock awards	81	269	1,870	(95 )	—	2,044
Stock issued for non-vested restricted stock	40	132	1,022	(1,154 )	—	—
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	5	18	(111 )	—	—	(93 )
Cash dividends declared, \$0.65 per share	—	—	—	(9,534 )	—	(9,534 )
Shares repurchased or cancelled	(31 )	(102 )	(784 )	73	—	(813 )
Balance September 30, 2014	14,704	\$9,898	\$ 36,711	\$204,215	\$ 622	\$251,446
Balance December 31, 2014	14,745	\$10,035	\$ 38,191	\$209,584	\$ 2,085	\$259,895
Net income	—	—	—	27,541	—	27,541
Other comprehensive income, net of tax	—	—	—	—	1,020	1,020

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Stock compensation expense	—	—	1,561	—	—	1,561
Stock issued for exercise of stock options, net of withholdings to satisfy employee tax obligations upon vesting of stock awards	92	307	2,383	(201 )	—	2,489
Stock issued for non-vested restricted stock	35	116	1,088	(1,204 )	—	—
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	18	60	(397 )	(128 )	—	(465 )
Cash dividends declared, \$0.71 per share	—	—	—	(10,519 )	—	(10,519 )
Shares repurchased or cancelled	(21 )	(70 )	(609 )	105	—	(574 )
Balance September 30, 2015	14,869	\$10,448	\$ 42,217	\$225,178	\$ 3,105	\$280,948

See accompanying notes to unaudited consolidated financial statements.

Table Of Contents**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

## Consolidated Statements of Cash Flows (Unaudited)

For the nine months ended September 30, 2015 and 2014

(In thousands)

	<b>2015</b>	<b>2014</b>
Operating activities:		
Net income	\$27,541	\$26,100
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan losses	—	(400 )
Depreciation, amortization and accretion, net	5,088	3,226
Deferred income tax expense (benefit)	1,326	(252 )
Loss on sale of securities available for sale	—	9
Gain on sales of mortgage loans held for sale	(1,611 )	(769 )
Origination of mortgage loans held for sale	(90,997 )	(64,332 )
Proceeds from sale of mortgage loans held for sale	90,816	63,159
Bank owned life insurance income	(670 )	(699 )
Loss (gain) on the disposal of premises and equipment	3	(30 )
Loss (gain) on the sale of other real estate	153	(342 )
Stock compensation expense	1,561	1,459
Excess tax benefits from share-based compensation arrangements	(366 )	(257 )
(Increase) decrease in accrued interest receivable and other assets	(1,049 )	1,107
Increase in accrued interest payable and other liabilities	2,509	2,049
Net cash provided by operating activities	34,304	30,028
Investing activities:		
Purchases of securities available for sale	(203,465)	(220,296)
Proceeds from sale of securities available for sale	5,934	7,732
Proceeds from maturities of securities available for sale	206,734	256,948
Net increase in loans	(90,224 )	(66,748 )
Purchases of premises and equipment	(3,136 )	(1,517 )
Proceeds from disposal of premises and equipment	—	344
Proceeds from sale of foreclosed assets	2,332	4,768
Net cash used in investing activities	(81,825 )	(18,769 )
Financing activities:		
Net increase in deposits	17,951	26,884
Net increase (decrease) in securities sold under agreements to repurchase and federal funds purchased	12,709	(34,659 )
Proceeds from Federal Home Loan Bank advances	78,200	32,740
Repayments of Federal Home Loan Bank advances	(71,333 )	(30,150 )
Issuance of common stock for options and performance stock units	1,994	1,445
Excess tax benefits from share-based compensation arrangements	366	257
Common stock repurchases	(910 )	(564 )

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Cash dividends paid	(10,503 )	(9,534 )
Net cash provided by (used in) financing activities	28,474	(13,581 )
Net decrease in cash and cash equivalents	(19,047 )	(2,322 )
Cash and cash equivalents at beginning of period	74,241	70,770
Cash and cash equivalents at end of period	\$55,194	\$68,448
Supplemental cash flow information:		
Income tax payments	\$10,177	\$8,764
Cash paid for interest	3,640	4,063
Supplemental non-cash activity:		
Transfers from loans to other real estate owned	\$1,043	\$1,780

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, 2014 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 and nine month periods ended September 30, 2015 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. 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 September 30, 2015 for qualitative factors including, among other factors, local economic and business conditions, the quality and experience of lending staff and management, changes in lending policies and procedures, levels of and trends in past due loans and loan classifications, concentrations of credit such as collateral type, trends in portfolio growth, changes in the value of underlying collateral for collateral-dependent loans considering Bancorp's disposition bias, effect of other external factors such as the national economic and business trends, and the quality and depth of the loan review function. Bancorp may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, changes in Bancorp's loan review process. 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)	<b>Amortized</b>	<b>Unrealized</b>		<b>Fair</b>
<b>September 30, 2015</b>	<b>cost</b>	<b>Gains</b>	<b>Losses</b>	<b>value</b>
U.S. Treasury and other U.S. Government obligations	\$ 100,000	\$-	\$-	\$ 100,000
Government sponsored enterprise obligations	184,258	2,746	194	186,810
Mortgage-backed securities - government agencies	152,552	2,564	769	154,347
Obligations of states and political subdivisions	61,067	1,482	41	62,508
Corporate equity securities	756	-	55	701
<b>Total securities available for sale</b>	<b>\$ 498,633</b>	<b>\$ 6,792</b>	<b>\$ 1,059</b>	<b>\$ 504,366</b>
<b>December 31, 2014</b>				
U.S. Treasury and other U.S. Government obligations	\$ 70,000	\$-	\$-	\$ 70,000
Government sponsored enterprise obligations	203,531	2,017	562	204,986
Mortgage-backed securities - government agencies	173,573	2,042	1,345	174,270
Obligations of states and political subdivisions	61,416	1,560	142	62,834
Corporate equity securities	756	210	-	966
<b>Total securities available for sale</b>	<b>\$ 509,276</b>	<b>\$ 5,829</b>	<b>\$ 2,049</b>	<b>\$ 513,056</b>

Corporate equity securities consist of common stock in a publicly-traded business development company.

There were no securities classified as held to maturity as of September 30, 2015 or December 31, 2014.

In the first quarter of 2015, Bancorp sold securities with total fair market value of \$5.9 million, generating no gain or loss. These securities consisted of agency and mortgage-backed securities with small remaining balances and agency securities. In 2014, Bancorp sold securities with total fair market value of \$7.7 million, generating a net loss of \$9 thousand. These securities consisted of mortgage-backed securities with small remaining balances, obligations of state and political subdivisions, 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 contractual maturity groupings as of September 30, 2015 is shown below.

(in thousands)		
<b>Securities available-for-sale</b>	<b>Amortized cost</b>	<b>Fair value</b>
Due within 1 year	\$ 125,176	\$ 125,348
Due after 1 but within 5 years	114,928	117,100
Due after 5 but within 10 years	15,694	15,992
Due after 10 years	89,527	90,878
Mortgage-backed securities	152,552	154,347
Corporate equity securities	756	701
Total securities available-for-sale	\$ 498,633	\$ 504,366

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 \$278.1 million at September 30, 2015 and \$263.1 million at December 31, 2014 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 at September 30, 2015 and December 31, 2014, not recognized in the statements of income are as follows:

(in thousands)	<b>Less than 12 months</b>		<b>12 months or more</b>		<b>Total</b>	
	<b>Fair value</b>	<b>Unrealized losses</b>	<b>Fair value</b>	<b>Unrealized losses</b>	<b>Fair value</b>	<b>Unrealized losses</b>
<b>September 30, 2015</b>						
Government sponsored enterprise obligations	\$6,353	\$ 8	\$8,740	\$ 186	\$15,093	\$ 194
Mortgage-backed securities - government agencies	12,929	129	31,734	640	44,663	769
Obligations of states and political subdivisions	7,817	25	2,232	16	10,049	41
Corporate equity securities	701	55	-	-	701	55
Total temporarily impaired securities	\$27,800	\$ 217	\$42,706	\$ 842	\$70,506	\$ 1,059
<b>December 31, 2014</b>						
Government sponsored enterprise obligations	\$36,979	\$ 30	\$26,848	\$ 532	\$63,827	\$ 562
Mortgage-backed securities - government agencies	4,038	77	49,325	1,268	53,363	1,345
Obligations of states and political subdivisions	12,655	67	6,297	75	18,952	142
Total temporarily impaired securities	\$53,672	\$ 174	\$82,470	\$ 1,875	\$136,142	\$ 2,049

Applicable dates for determining when securities are in an unrealized loss position are September 30, 2015 and December 31, 2014. 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 45 and 80 separate investment positions as of September 30, 2015 and December 31, 2014, 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 September 30, 2015.

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)	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Commercial and industrial	\$610,877	\$571,754
Construction and development, excluding undeveloped land	109,870	95,733
Undeveloped land	18,950	21,268
Real estate mortgage:		
Commercial investment	491,171	487,822
Owner occupied commercial	357,628	340,982
1-4 family residential	222,643	211,548
Home equity - first lien	49,937	43,779
Home equity - junior lien	62,223	66,268
Subtotal: Real estate mortgage	1,183,602	1,150,399
Consumer	31,126	29,396
Total loans	\$1,954,425	\$1,868,550



Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Allowance for loans individually evaluated for impairment	\$ 1,217	\$ -	\$ -	\$ 316	\$ 70	\$ -	\$1,603
Allowance for loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

12

---



Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

(in thousands)	<b>Type of loan</b>						<b>Total</b>
	<b>Commercial and industrial</b>	<b>Construction and development including undeveloped land</b>	<b>Undeveloped land</b>	<b>Real estate mortgage</b>	<b>Consumer</b>	<b>Unallocated</b>	
<b>December 31, 2014</b>							
<b>Loans</b>	\$571,754	\$ 95,733	\$ 21,268	\$1,150,399	\$ 29,396	\$ -	\$1,868,550
Loans collectively evaluated for impairment	\$564,443	\$ 94,603	\$ 21,268	\$1,146,212	\$ 29,311	\$ -	\$1,855,837
Loans individually evaluated for impairment	\$7,239	\$ 516	\$ -	\$3,720	\$ 76	\$ -	\$11,551
Loans acquired with deteriorated credit quality	\$72	\$ 614	\$ -	\$467	\$ 9	\$ -	\$1,162
<b>Allowance for loan losses</b>							
At December 31, 2013	\$ 7,644	\$ 2,555	\$ 5,376	\$12,604	\$ 343	\$ -	\$28,522
Provision (credit)	4,593	(1,584 )	(2,244 )	(1,190 )	25	-	(400 )
Charge-offs	(661 )	(250 )	(1,753 )	(993 )	(587 )	-	(4,244 )
Recoveries	243	-	166	120	513	-	1,042
At December 31, 2014	\$ 11,819	\$ 721	\$ 1,545	\$10,541	\$ 294	\$ -	\$24,920
Allowance for loans collectively evaluated for impairment	\$ 10,790	\$ 706	\$ 1,545	\$10,285	\$ 218	\$ -	\$23,544
Allowance for loans individually evaluated for impairment	\$ 1,029	\$ 15	\$ -	\$256	\$ 76	\$ -	\$1,376
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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 weakened economy and resultant decreased consumer and/or business spending will 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. Repayment is dependent on credit quality of the individual 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, sale 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 that all contractually required payments would not be collected. The carrying amount of those loans is included in the balance sheet amounts of loans at September 30, 2015 and December 31, 2014. Changes in the fair value adjustment for acquired impaired loans are shown in the following table:

(in thousands)	<b>Accretable discount</b>	<b>Non-accretable discount</b>
Balance at December 31, 2013	\$ 137	\$ 369
Accretion	(75 )	(103 )
Reclassifications from (to) non-accretable discount	-	-
Disposals	-	-
Balance at December 31, 2014	62	266
Accretion	(53 )	(74 )

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Reclassifications from (to) non-accretable discount	-	-
Disposals	-	-
Balance at September 30, 2015	\$ 9	\$ 192

14

---

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

The following table presents loans individually evaluated for impairment as of September 30, 2015 and December 31, 2014.

(in thousands)	<b>Recorded investment</b>	<b>Unpaid principal balance</b>	<b>Related allowance</b>	<b>Average recorded investment</b>
<b>September 30, 2015</b>				
Loans with no related allowance recorded				
Commercial and industrial	\$ 1,545	\$ 4,245	\$ -	\$ 988
Construction and development, excluding undeveloped land	26	151	-	26
Undeveloped land	-	-	-	-
Real estate mortgage				
Commercial investment	285	542	-	154
Owner occupied commercial	1,603	2,040	-	1,591
1-4 family residential	316	316	-	600
Home equity - first lien	91	91	-	43
Home equity - junior lien	37	37	-	64
Subtotal: Real estate mortgage	2,332	3,026	-	2,452
Consumer	15	15	-	4
Subtotal	\$ 3,918	\$ 7,437	\$ -	\$ 3,470
Loans with an allowance recorded				
Commercial and industrial	\$ 5,233	\$ 6,804	\$ 1,217	\$ 5,387
Construction and development, excluding undeveloped land	-	-	-	368
Undeveloped land	-	-	-	-
Real estate mortgage				
Commercial investment	-	-	-	92
Owner occupied commercial	1,432	1,432	316	1,328
1-4 family residential	-	-	-	188
Home equity - first lien	-	-	-	-
Home equity - junior lien	-	-	-	-
Subtotal: Real estate mortgage	1,432	1,432	316	1,608
Consumer	70	70	70	73
Subtotal	\$ 6,735	\$ 8,306	\$ 1,603	\$ 7,436

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Total				
Commercial and industrial	\$ 6,778	\$ 11,049	\$ 1,217	\$ 6,375
Construction and development, excluding undeveloped land	26	151	-	394
Undeveloped land	-	-	-	-
Real estate mortgage	-	-	-	-
Commercial investment	285	542	-	246
Owner occupied commercial	3,035	3,472	316	2,919
1-4 family residential	316	316	-	788
Home equity - first lien	91	91	-	43
Home equity - junior lien	37	37	-	64
Subtotal: Real estate mortgage	3,764	4,458	316	4,060
Consumer	85	85	70	77
Total	\$ 10,653	\$ 15,743	\$ 1,603	\$ 10,906

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

(in thousands)				
<b>December 31, 2014</b>	<b>Recorded investment</b>	<b>Unpaid principal balance</b>	<b>Related allowance</b>	<b>Average recorded investment</b>
Loans with no related allowance recorded				
Commercial and industrial	\$ 896	\$ 3,596	\$ -	\$ 996
Construction and development, excluding undeveloped land	26	151	-	26
Undeveloped land	-	-	-	5,608
Real estate mortgage				
Commercial investment	113	113	-	198
Owner occupied commercial	1,784	2,221	-	1,939
1-4 family residential	870	870	-	782
Home equity - first lien	-	-	-	11
Home equity - junior lien	36	36	-	69
Subtotal: Real estate mortgage	2,803	3,240	-	2,999
Consumer	-	-	-	-
Subtotal	\$ 3,725	\$ 6,987	\$ -	\$ 9,629
Loans with an allowance recorded				
Commercial and industrial	\$ 6,343	\$ 7,914	\$ 1,029	\$ 6,797
Construction and development, excluding undeveloped land	490	490	15	196
Undeveloped land	-	-	-	-
Real estate mortgage				
Commercial investment	122	122	-	640
Owner occupied commercial	716	716	112	704
1-4 family residential	79	79	144	651
Home equity - first lien	-	-	-	-
Home equity - junior lien	-	-	-	-
Subtotal: Real estate mortgage	917	917	256	1,995
Consumer	76	76	76	80
Subtotal	\$ 7,826	\$ 9,397	\$ 1,376	\$ 9,068
Total				
Commercial and industrial	\$ 7,239	\$ 11,510	\$ 1,029	\$ 7,793
Construction and development, excluding undeveloped land	516	641	15	222
Undeveloped land	-	-	-	5,608

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Real estate mortgage	-	-	-	-
Commercial investment	235	235	-	838
Owner occupied commercial	2,500	2,937	112	2,643
1-4 family residential	949	949	144	1,433
Home equity - first lien	-	-	-	11
Home equity - junior lien	36	36	-	69
Subtotal: Real estate mortgage	3,720	4,157	256	4,994
Consumer	76	76	76	80
Total	\$ 11,551	\$ 16,384	\$ 1,376	\$ 18,697

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.



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. Loans past due more than 90 days and still accruing interest amounted to \$544 thousand and \$329 thousand at September 30, 2015 and December 31, 2014, respectively.

The following table presents the recorded investment in non-accrual loans as of September 30, 2015 and December 31, 2014.

(in thousands)	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Commercial and industrial	\$ 5,769	\$ 1,381
Construction and development, excluding undeveloped land	26	516
Undeveloped land	-	-
Real estate mortgage		
Commercial investment	285	235
Owner occupied commercial	3,035	2,081
1-4 family residential	316	950
Home equity - first lien	91	-
Home equity - junior lien	37	36
Subtotal: Real estate mortgage	3,764	3,302
Consumer	15	-
Total	\$ 9,574	\$ 5,199

At September 30, 2015 and December 31, 2014, Bancorp had accruing loans classified as TDR of \$1.1 million and \$6.4 million, respectively. Bancorp did not modify and classify any additional loans as TDR during the nine months ended September 30, 2015 or 2014.

Bancorp had no loans accounted for as TDR that were restructured and subsequently experienced a payment default within the previous 12 months as of September 30, 2015 or 2014.

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 September 30, 2015, had a total allowance allocation of \$188 thousand, compared to \$703 thousand at December 31, 2014.

At September 30, 2015, Bancorp did not have any outstanding commitments to lend additional funds to borrowers whose loans have been modified as TDR, compared to \$458 thousand at December 31, 2014.

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

The following table presents the aging of the recorded investment in loans as of September 30, 2015 and December 31, 2014.

(in thousands)	<b>30-59 days past due</b>	<b>60-89 days past due</b>	<b>90 or more days past due (includes) non-accrual)</b>	<b>Total past due</b>	<b>Current</b>	<b>Total loans</b>	<b>Recorded investment &gt; 90 days and accruing</b>
<b>September 30, 2015</b>							
Commercial and industrial	\$26	\$25	\$ 5,769	\$5,820	\$605,057	\$610,877	\$ -
Construction and development, excluding undeveloped land	-	-	26	26	109,844	109,870	-
Undeveloped land	-	-	-	-	18,950	18,950	-
Real estate mortgage							
Commercial investment	427	-	285	712	490,459	491,171	-
Owner occupied commercial	268	114	3,035	3,417	354,211	357,628	-
1-4 family residential	814	734	860	2,408	220,235	222,643	544
Home equity - first lien	17	72	91	180	49,757	49,937	-
Home equity - junior lien	62	126	37	225	61,998	62,223	-
Subtotal: Real estate mortgage	1,588	1,046	4,308	6,942	1,176,660	1,183,602	544
Consumer	36	-	15	51	31,075	31,126	-
Total	\$1,650	\$1,071	\$ 10,118	\$12,839	\$1,941,586	\$1,954,425	\$ 544
<b>December 31, 2014</b>							
Commercial and industrial	\$3,860	\$3	\$ 1,382	\$5,245	\$566,509	\$571,754	\$ 1
Construction and development, excluding undeveloped land	69	-	757	826	94,907	95,733	241
Undeveloped land	-	-	-	-	21,268	21,268	-
Real estate mortgage							
Commercial investment	993	249	235	1,477	486,345	487,822	-
Owner occupied commercial	1,272	920	2,081	4,273	336,709	340,982	-
1-4 family residential	1,801	285	1,023	3,109	208,439	211,548	73
Home equity - first lien	-	-	14	14	43,765	43,779	14

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Home equity - junior lien	470	78	36	584	65,684	66,268	
Subtotal: Real estate mortgage	4,536	1,532	3,389	9,457	1,140,942	1,150,399	87
Consumer	43	18	-	61	29,335	29,396	-
Total	\$8,508	\$1,553	\$ 5,528	\$15,589	\$1,852,961	\$1,868,550	\$ 329

18

---

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 include all risk-rated loans other than those classified as special mention, substandard, substandard non-performing and doubtful, which are defined below:

**Special Mention:** Loans classified as special mention have a potential weakness that deserves management's close attention. These potential weaknesses may result in deterioration of repayment prospects for the loan or of 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. They are characterized by the distinct possibility that Bancorp will sustain some loss if the deficiencies are not corrected.

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

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

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

As of September 30, 2015 and December 31, 2014, the internally assigned risk grades of loans by category were as follows:

(in thousands) <b>September 30, 2015</b>	<b>Pass</b>	<b>Special mention</b>	<b>Substandard</b>	<b>non-performing</b>	<b>Doubtful</b>	<b>Total loans</b>
Commercial and industrial	\$591,923	\$9,946	\$ 2,230	\$ 6,778	\$ -	\$610,877
Construction and development, excluding undeveloped land	106,558	2,945	341	26	-	109,870
Undeveloped land	18,273	520	157	-	-	18,950
Real estate mortgage						
Commercial investment	484,638	5,755	493	285	-	491,171
Owner occupied commercial	340,032	12,038	2,523	3,035	-	357,628
1-4 family residential	220,287	1,496	-	860	-	222,643
Home equity - first lien	49,846	-	-	91	-	49,937
Home equity - junior lien	61,968	97	121	37	-	62,223
Subtotal: Real estate mortgage	1,156,771	19,386	3,137	4,308	-	1,183,602
Consumer	31,041	-	-	85	-	31,126
Total	\$1,904,566	\$32,797	\$ 5,865	\$ 11,197	\$ -	\$1,954,425

**December 31, 2014**

Commercial and industrial	\$546,582	\$6,215	\$ 11,717	\$ 7,240	\$ -	\$571,754
Construction and development, excluding undeveloped land	88,389	4,867	1,720	757	-	95,733
Undeveloped land	20,578	530	160	-	-	21,268
Real estate mortgage						
Commercial investment	482,415	4,991	181	235	-	487,822
Owner occupied commercial	328,385	6,942	3,156	2,499	-	340,982
1-4 family residential	209,396	1,129	-	1,023	-	211,548
Home equity - first lien	43,765	-	-	14	-	43,779
Home equity - junior lien	66,182	50	-	36	-	66,268
Subtotal: Real estate mortgage	1,130,143	13,112	3,337	3,807	-	1,150,399
Consumer	29,244	76	-	76	-	29,396

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Total	\$1,814,936	\$24,800	\$ 16,934	\$ 11,880	\$ -	\$1,868,550
-------	-------------	----------	-----------	-----------	------	-------------

20

---

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 \$67.6 million and \$69.6 million at September 30, 2015 and December 31, 2014, respectively. Bancorp enters into sales of securities under agreement to repurchase at a specified future date. At September 30, 2015, 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 \$43.7 million and \$36.8 million at September 30, 2015 and December 31, 2014, respectively, via twelve 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 \$13.7 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)	<b>September 30,</b>		<b>December 31,</b>	
	<b>2015</b>		<b>2014</b>	
	<b>Advance</b>	<b>Rate</b>	<b>Advance</b>	<b>Rate</b>
2015	\$30,000	2.33 %	\$30,000	2.30 %
2020	1,850	2.23 %	1,885	2.23 %
2021	446	2.12 %	497	2.12 %
2024	2,916	2.36 %	3,064	2.36 %
2025	7,132	2.44 %	-	-
2028	1,355	1.47 %	1,386	1.47 %
	<b>\$43,699</b>	<b>2.32 %</b>	<b>\$36,832</b>	<b>2.27 %</b>

Advances from the FHLB are collateralized by certain commercial and residential real estate mortgage loans totaling \$568.9 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 September 30, 2015, the amount of available credit from the FHLB totaled \$408.1 million.

**(6) 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 undesignated interest rate swap agreements for the first nine months of 2015 were offsetting and therefore had no net effect on Bancorp's earnings or cash flows.

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

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.

At September 30, 2015 and December 31, 2014, Bancorp had outstanding undesignated interest rate swap contracts as follows:

(dollar amounts in thousands)	<b>Receiving</b>		<b>Paying</b>	
	<b>September 30, 2015</b>	<b>December 31, 2014</b>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Notional amount	\$8,192	\$ 7,217	\$8,192	\$ 7,217
Weighted average maturity (years)	6.8	6.8	6.8	6.8
Fair value	\$(487 )	\$( 401 )	\$487	\$ 401

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 the third quarter of 2015, Bancorp entered into a forward starting interest rate swap to hedge cash flows of a \$20 million rolling fixed-rate three-month FHLB borrowing. The start of this borrowing strategy coincides with the maturity and refinance of a current \$20 million advance included in Note 5. The swap begins 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 September 30, 2015 and December 31, 2014.

(dollars in thousands)

Notional amount	Maturity date	Receive (variable) index	Pay fixed swap rate	Fair value September 30, 2015	Fair value December 31, 2014
\$ 10,000	12/6/2016	US 3 Month LIBOR	0.715%	\$ (21 )	\$ 24
20,000	12/6/2020	US 3 Month LIBOR	1.790%	(340 )	NA
\$ 30,000			1.432%	\$ (361 )	\$ 24

### (7) 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 September 30, 2015, the unamortized core deposit intangible was \$1.7 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 September 30, 2015 and December 31, 2014 were \$2.5 million and \$3.4 million, respectively. Total outstanding principal balances of loans serviced for others were \$413.5 million and \$421.1 million at September 30, 2015, and December 31, 2014, respectively.

Changes in the net carrying amount of MSRs for the nine months ended September 30, 2015 and 2014 are shown in the following table:

(in thousands)	<b>For nine months ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
Balance at beginning of period	\$1,131	\$1,832
Additions for mortgage loans sold	306	197
Amortization	(569 )	(713 )
Balance at September 30	\$868	\$1,316

**(8) 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 \$36 thousand and \$32 thousand, for the three months ended September 30, 2015 and 2014, respectively. For the nine months ended September 30, 2015 and 2014, the net periodic benefit costs totaled \$107 thousand and \$95 thousand, respectively.

**(9) Commitments and Contingent Liabilities**

As of September 30, 2015, 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 \$574.6 million including standby letters of credit of \$11.0 million represent normal banking transactions. Commitments to extend credit were \$463.0 million, including letters of credit of \$11.0 million, as of December 31, 2014. 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 September 30, 2015, Bancorp has accrued \$372 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 September 30, 2015, 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.

**(10) 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.

**(11) 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 2005 plan for future awards under the 2015 plan. No additional shares were made available. As of September 30, 2015, there were 362,985 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, 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, fair value of these PSUs is estimated based upon fair value of underlying shares on the date of grant, adjusted for non-payment of dividends.

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

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.

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)	<b>For three months ended</b>		<b>For nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Stock-based compensation expense before income taxes	\$566	\$691	\$1,561	\$1,459
Less: deferred tax benefit	(198)	(242)	(546)	(510)
Reduction of net income	\$368	\$449	\$1,015	\$949

Bancorp expects to record an additional \$514 thousand of stock-based compensation expense in 2015 for equity grants outstanding as of September 30, 2015. As of September 30, 2015, Bancorp has \$4.1 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 \$2.0 million and \$1.4 million from the exercise of options during the first nine months of 2015 and 2014, 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:

**2015      2014**



Dividend yield	2.97 %	2.94 %
Expected volatility	22.81 %	23.66 %
Risk free interest rate	1.91 %	2.22 %
Expected life of SARs (in years)	7.5	7.0

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 and options. 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 SARs activity and related information for the nine months ended September 30, 2015 follows:

	<b>Options and SARs (in thousands)</b>	<b>Exercise price</b>	<b>Weighted average exercise price</b>	<b>Aggregate intrinsic value (in thousands)</b>	<b>Weighted average fair value</b>	<b>Weighted average remaining contractual life (in years)</b>
At December 31, 2014						
Vested and exercisable	524	\$21.03-26.83	\$ 23.84	\$ 4,981	\$ 5.35	3.5
Unvested	194	21.03-29.16	24.83	1,650	4.57	7.7
Total outstanding	718	21.03-29.16	24.11	6,631	5.14	4.6
Granted	50	34.43-36.83	34.48	76	5.95	
Exercised	(102	) 21.03-26.83	24.22	1,186	5.72	
Forfeited	-	-	-	-	-	
At September 30, 2015						
Vested and exercisable	489	21.03-29.16	24.38	5,974	5.17	3.6
Unvested	177	22.86-36.83	27.99	1,411	4.93	7.9
Total outstanding	666	21.03-36.83	26.19	\$ 7,385	5.11	4.7
Vested year-to-date	67	21.03-29.16	23.77	\$ 817	4.65	

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.

For the periods ending December 31, 2014 and September 30, 2015, Bancorp granted shares of restricted common stock as outlined in the following table:

	<b>Number</b>	<b>Grant date weighted- average cost</b>
Unvested at December 31, 2013	124,556	\$ 22.77
Shares awarded	39,730	29.12
Restrictions lapsed and shares released to employees/directors	(44,724 )	22.69
Shares forfeited	(5,469 )	23.77
Unvested at December 31, 2014	114,093	\$ 24.95
Shares awarded	34,990	34.43
Restrictions lapsed and shares released to employees/directors	(40,510 )	23.84
Shares forfeited	(3,766 )	28.11
Unvested at September 30, 2015	104,807	\$ 28.44

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.

<b>Grant year</b>	<b>Vesting period in years</b>	<b>Fair value</b>	<b>Expected shares to be awarded</b>
2013	3	\$20.38	36,792
2014	3	26.42	29,181
2015	3	31.54	19,774

In the first quarter of 2015, Bancorp awarded 6,080 RSUs to directors of Bancorp with a grant date fair value of \$200 thousand. In the second quarter of 2015, 760 RSUs were cancelled, leaving 5,320 RSUs outstanding with a grant date fair value of \$175 thousand.

**(12) Net Income Per Share**

The following table reflects, for the three and nine months ended September 30, 2015 and 2014, net income (numerator) and average shares outstanding (denominator) for basic and diluted net income per share computations:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30 2015</b>	<b>2014</b>	<b>September 30 2015</b>	<b>2014</b>
(In thousands, except per share data)				
Net income	\$9,284	\$9,889	\$27,541	\$26,100
Average shares outstanding	14,754	14,574	14,704	14,542

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Dilutive securities	232	174	236	190
Average shares outstanding including dilutive securities including dilutive securities	14,986	14,748	14,940	14,732
Net income per share, basic	\$0.63	\$0.68	\$1.87	\$1.79
Net income per share, diluted	\$0.62	\$0.67	\$1.84	\$1.77

**(13) 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.

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

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.

Selected financial information by business segment for the three and nine month periods ended September 30, 2015 and 2014 follows:

(in thousands)	<b>Commercial banking</b>	<b>Investment management and trust</b>	<b>Total</b>
<b>Three months ended September 30, 2015</b>			
Net interest income	\$ 22,034	\$ 47	\$22,081
Provision for loan losses	-	-	-
Investment management and trust services	-	4,373	4,373
All other non-interest income	5,612	-	5,612
Non-interest expense	15,785	2,645	18,430
Income before income taxes	11,861	1,775	13,636
Tax expense	3,720	632	4,352
Net income	\$ 8,141	\$ 1,143	\$9,284
<b>Three months ended September 30, 2014</b>			
Net interest income	\$ 21,317	\$ 46	\$21,363
Provision (credit) for loan losses	(2,100 )	-	(2,100 )
Investment management and trust services	-	4,502	4,502
All other non-interest income	5,348	-	5,348
Non-interest expense	15,971	2,738	18,709
Income before income taxes	12,794	1,810	14,604
Tax expense	4,071	644	4,715
Net income	\$ 8,723	\$ 1,166	\$9,889

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

(in thousands)	<b>Commercial banking</b>	<b>Investment management and trust</b>	<b>Total</b>
<b>Nine months ended September 30, 2015</b>			
Net interest income	\$ 65,350	\$ 146	\$65,496
Provision for loan losses	-	-	-
Investment management and trust services	-	13,576	13,576
All other non-interest income	16,301	-	16,301
Non-interest expense	46,991	8,085	55,076
Income before income taxes	34,660	5,637	40,297
Tax expense	10,749	2,007	12,756
Net income	\$ 23,911	\$ 3,630	\$27,541
<b>Nine months ended September 30, 2014</b>			
Net interest income	\$ 62,110	\$ 136	\$62,246
Provision (credit) for loan losses	(400 )	-	(400 )
Investment management and trust services	-	13,825	13,825
All other non-interest income	15,527	30	15,557
Non-interest expense	46,036	7,918	53,954
Income before income taxes	32,001	6,073	38,074
Tax expense	9,814	2,160	11,974
Net income	\$ 22,187	\$ 3,913	\$26,100

**(14) Income Taxes**

An analysis of the difference between statutory and effective tax rates for the nine months ended September 30, 2015 and 2014 follows:

	<b>Nine months ended September 30</b>	
	<b>2015</b>	<b>2014</b>
U.S. federal statutory tax rate	35.0%	35.0%
Tax exempt interest income	(1.4 )	(1.5 )

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Tax credits	(2.4 )	(1.5 )
Cash surrender value of life insurance	(0.6 )	(1.3 )
State income taxes, net of federal benefit	0.8	0.9
Other, net	0.3	(0.2 )
Effective tax rate	31.7%	31.4%

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 September 30, 2015 and December 31, 2014, the gross amount of unrecognized tax benefits, including penalties and interest, was \$51 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.



Table Of Contents

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

**(15) 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.

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.

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

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 2015.

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

(in thousands)	<b>Fair value at September 30, 2015</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>				
<b>Investment securities available for sale</b>				
U.S. Treasury and other U.S. government obligations	\$100,000	\$100,000	\$-	\$ -
Government sponsored enterprise obligations	186,810	-	186,810	-
Mortgage-backed securities - government agencies	154,347	-	154,347	-
Obligations of states and political subdivisions	62,508	-	62,508	-
Corporate equity securities	701	701	-	-
<b>Total investment securities available for sale</b>	<b>504,366</b>	<b>100,701</b>	<b>403,665</b>	<b>-</b>
<b>Interest rate swaps</b>	<b>487</b>	<b>-</b>	<b>487</b>	<b>-</b>
<b>Total assets</b>	<b>\$504,853</b>	<b>\$100,701</b>	<b>\$404,152</b>	<b>\$ -</b>
<b>Liabilities</b>				
<b>Interest rate swaps</b>	<b>\$848</b>	<b>\$-</b>	<b>\$848</b>	<b>\$ -</b>

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

(in thousands)	<b>Fair value at December 31, 2014</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>				
<b>Investment securities available for sale</b>				
U.S. Treasury and other U.S. government obligations	\$70,000	\$70,000	\$-	\$ -
Government sponsored enterprise obligations	204,986	-	204,986	-
Mortgage-backed securities - government agencies	174,270	-	174,270	-
Obligations of states and political subdivisions	62,834	-	62,834	-
Corporate equity securities	966	966	-	-
<b>Total investment securities available for sale</b>	<b>513,056</b>	<b>70,966</b>	<b>442,090</b>	<b>-</b>
<b>Interest rate swaps</b>	<b>425</b>	<b>-</b>	<b>425</b>	<b>-</b>
<b>Total assets</b>	<b>\$513,481</b>	<b>\$70,966</b>	<b>\$442,515</b>	<b>\$ -</b>
<b>Liabilities</b>				
<b>Interest rate swaps</b>	<b>\$401</b>	<b>\$-</b>	<b>\$401</b>	<b>\$ -</b>

Bancorp did not have any financial instruments classified within Level 3 of the valuation hierarchy for assets and liabilities measured at fair value on a recurring basis at September 30, 2015 or December 31, 2014.

MSRs are recorded at fair value upon capitalization, are amortized to correspond with estimated servicing income, and are periodically assessed for impairment based on fair value at the reporting date. Fair value is based on a valuation model that calculates the present value of estimated net servicing income. The model incorporates assumptions that market participants would use in estimating future net servicing income. These measurements are classified as Level 3. At September 30, 2015 and December 31, 2014 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 September 30, 2015 or December 31, 2014. See Note 7 for more information regarding MSRs.

For impaired loans in the table below, 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 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 September 30, 2015, total impaired loans with a valuation allowance were \$6.7 million, and the specific allowance totaled \$1.6 million, resulting in a fair value of \$5.1 million, compared to total impaired loans with a valuation allowance of \$7.8 million, and the specific allowance allocation totaling \$1.4 million, resulting in a fair value of \$6.4 million at December 31, 2014. Losses represent the change in the specific allowances for the period indicated.

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

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, the 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 September 30, 2015 and December 31, 2014, the carrying value of all other real estate owned was \$4.6 million and \$6.0 million, respectively.

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

(in thousands)	<b>Fair value at September 30, 2015</b>				<b>Losses for 9 month period ended September 30, 2015</b>
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Impaired loans	\$5,132	\$ -	\$ -	\$5,132	\$ (1,147 )
Other real estate owned	3,569	-	-	3,569	-
Total	\$8,701	\$ -	\$ -	\$8,701	\$ (1,147 )

(in thousands)	<b>Fair value at December 31, 2014</b>				<b>Losses for 9 month period ended September 30, 2014</b>
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Impaired loans	\$6,449	\$ -	\$ -	\$6,449	\$ (1,148 )
Other real estate owned	5,032	-	-	5,032	(25 )
Total	\$11,481	\$ -	\$ -	\$11,481	\$ (1,173 )

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

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 September 30, 2015, there were no transfers between Levels 1, 2, or 3. For Level 3 assets measured at fair value on a non-recurring basis as of September 30, 2015, the significant unobservable inputs used in the fair value measurements are presented below.

(Dollars in thousands)	<b>Fair Value</b>	<b>Valuation technique</b>	<b>Significant unobservable input</b>	<b>Weighted average of input</b>	
Impaired loans - collateral dependent	\$5,132	Appraisal	Appraisal discounts (%)	6.4	%
Other real estate owned	3,569	Appraisal	Appraisal discounts	14.6	

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary****(16) 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) <b>September 30, 2015</b>	<b>Carrying amount</b>	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>					
Cash and short-term investments	\$55,194	\$55,194	\$55,194	\$-	\$-
Mortgage loans held for sale	5,539	5,678	-	5,678	-
Federal Home Loan Bank stock and other securities	6,347	6,347	-	6,347	-
Loans, net	1,932,811	1,935,651	-	-	1,935,651
Accrued interest receivable	6,058	6,058	6,058	-	-
<b>Financial liabilities</b>					
Deposits	2,141,578	2,141,926	-	2,141,926	-
Short-term borrowings	129,658	129,658	-	129,658	-
FHLB advances	43,699	43,961	-	43,961	-
Accrued interest payable	126	126	126	-	-
(in thousands) <b>December 31, 2014</b>	<b>Carrying amount</b>	<b>Fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>					
Cash and short-term investments	\$74,241	\$74,241	\$74,241	\$-	\$-
Mortgage loans held for sale	3,747	3,876	-	3,876	-
Federal Home Loan Bank stock and other securities	6,347	6,347	-	6,347	-
Loans, net	1,843,630	1,863,568	-	-	1,863,568
Accrued interest receivable	5,980	5,980	5,980	-	-
<b>Financial liabilities</b>					
Deposits	2,123,627	2,124,904	-	2,124,904	-
Short-term borrowings	116,949	116,949	-	116,949	-
FHLB advances	36,832	37,714	-	37,714	-



Accrued interest payable	131	131	131	-	-
--------------------------	-----	-----	-----	---	---

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**

**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.

**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.

**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**

**(17)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. Capital ratios for December 31, 2014 were calculated using the former rules and for September 30, 2015 ratios were calculated using the new Basel III rules. For Bancorp, key differences under Basel III include risk weighting for loan commitments under one year and higher risk weighting for certain commercial real estate and construction loans. These differences resulted in higher risk-weighted assets, and therefore, somewhat lower risk-based capital ratios.

Bancorp and the Bank met all capital requirements to which they were subject as of September 30, 2015.

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

The following table sets forth consolidated Bancorp's and the Bank's risk based capital amounts and ratios as of September 30, 2015 and December 31, 2014.

(Dollars in thousands)	<b>Actual</b>		<b>Minimum for adequately capitalized</b>		<b>Minimum for well capitalized</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
<b>September 30, 2015</b>						
Total risk-based capital (1)						
Consolidated	\$298,667	13.68%	\$174,659	8.00%	NA	NA
Bank	290,863	13.35	174,300	8.00	\$217,875	10.00%
Common Equity Tier 1 risk-based capital (2)						
Consolidated	276,681	12.68	98,191	4.50	NA	NA
Bank	268,877	12.34	98,051	4.50	130,734	6.00
Tier 1 risk-based capital (1)						
Consolidated	276,681	12.68	130,922	6.00	NA	NA
Bank	268,877	12.34	130,734	6.00	130,734	6.00
Leverage (3)						
Consolidated	276,681	10.82	102,285	4.00	NA	NA
Bank	268,877	10.52	102,235	4.00	127,793	5.00

	<b>Actual</b>		<b>Minimum for adequately capitalized</b>		<b>Minimum for well capitalized</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
<b>December 31, 2014</b>						
Total risk-based capital (1)						
Consolidated	\$280,228	13.86%	\$161,748	8.00%	NA	NA
Bank	274,345	13.59	161,498	8.00	\$201,873	10.00%
Tier 1 risk-based capital (1)						
Consolidated	255,308	12.63	80,858	4.00	NA	NA
Bank	249,425	12.36	80,720	4.00	121,080	6.00
Leverage (3)						

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Consolidated	255,308	10.26	74,651	3.00	NA	NA
Bank	249,425	10.04	74,529	3.00	124,216	5.00

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

(2) Ratio became effective January 2015.

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

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

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 and nine months ended September 30, 2015 and compares these periods with the same periods of the previous year. Unless otherwise indicated, all references in this discussion to the Bank include Bancorp. In addition, the discussion describes the significant changes in the financial condition of Bancorp and the Bank that have occurred during the first nine months of 2015 compared to same periods in the year ended December 31, 2014. 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 2015 through September 30**

Bancorp completed the first nine months of 2015 with net income of \$27.5 million or 5.5% more than the comparable period of 2014. The increase is due to higher net interest income and non-interest income. These increases were partially offset by higher non-interest expenses and higher income tax expense. Diluted earnings per share for the first nine months of 2015 were \$1.84, compared to the first nine months of 2014 at \$1.77.

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 \$3.3 million, or 5.2%, for the first nine months of 2015, compared to the same period in 2014. The positive effects of increased volumes on 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 3.71% for the first nine months of 2015, compared to 3.78% for the same period of 2014.

In response to assessment of risk in the loan portfolio, Bancorp did not record a provision for loan losses in the first nine months of 2015, compared to a \$400 thousand release of reserves in the first nine months of 2014. 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.

Total non-interest income in the first nine months of 2015 increased \$495 thousand, or 1.7%, compared to the same period in 2014, and remained consistent at 31% of total revenues. Increases in mortgage banking income and bankcard transaction revenue contributed to the growth, partially offset by decreases in investment management and trust revenue.



Table Of Contents

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

Total non-interest expense in the first nine months of 2015 increased \$1.1 million, or 2.1%, compared to the same period in 2014, due to increases in salaries and benefits, write-downs on foreclosed assets and other non-interest expenses. These were partially offset by decreases in FDIC insurance and data processing expenses. Bancorp's efficiency ratio in the first nine months of 2015 was 57.3% compared with 58.4% in the same period in 2014.

Bancorp's effective tax rate increased to 31.7% for the first nine months of 2015 from 31.4% for the same period in 2014. The increase in the effective tax rate from 2014 to 2015 is the result of proportionally lower nontaxable income from the increase in cash value of life insurance and municipal securities. This was partially offset by the effect of reclassifying amortization of tax credit investments to other non-interest expense in 2015.

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 10.62% as of September 30, 2015, compared to 10.05% at December 31, 2014. See the Non-GAAP Financial Measures section for details on reconciliation to US GAAP measures.

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

***a) Results Of Operations***

Net income of \$9.3 million for the three months ended September 30, 2015 decreased \$605 thousand, or 6.1%, from \$9.9 million for the comparable 2014 period. Basic net income per share was \$0.63 for the third quarter of 2015, a decrease of 7.4% from the \$0.68 for the third quarter of 2014. Net income per share on a diluted basis was \$0.62 for the third quarter of 2015, a decrease of 7.5% from the \$0.67 for the same period in 2014. Bancorp did not record a provision for loan losses in the third quarter of 2015, compared to a \$2.1 million release of reserves in the same period of 2014.

Reflecting lower net income, annualized return on average assets and annualized return on average stockholders' equity were 1.44% and 13.32%, respectively, for the third quarter of 2015, compared to 1.64% and 15.79%, respectively, for the same period in 2014.

Net income of \$27.5 million for the nine months ended September 30, 2015 increased \$1.4 million, or 5.5%, from \$26.1 million for the comparable 2014 period. Basic net income per share was \$1.87 for the first nine months of 2015, an increase of 4.5% from the \$1.79 for the first nine months of 2014. Net income per share on a diluted basis was \$1.84 for the first nine months of 2015, an increase of 4.0% from the \$1.77 for the first nine months of 2014. Bancorp did not record a provision for loan losses in the first nine months of 2015, compared to a \$400 thousand release of reserves in the same period of 2014.

Annualized return on average assets and annualized return on average stockholders' equity were 1.46% and 13.59%, respectively, for the first nine months of 2015, compared to 1.47% and 14.45%, respectively, for the same period in 2014.

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary****Net Interest Income**

The following tables present the average balance sheets for the three and nine month periods ended September 30, 2015 and 2014 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.

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

(Dollars in thousands)	Three months ended September 30			2014		
	2015 Average balances	Interest	Average rate	Average balances	Interest	Average rate
<b>Earning assets:</b>						
Federal funds sold	\$ 86,008	\$ 65	0.30 %	\$ 86,252	\$ 73	0.34 %
Mortgage loans held for sale	5,045	67	5.27	4,934	54	4.34
Securities:						
Taxable	343,302	1,872	2.16	322,306	1,781	2.19
Tax-exempt	59,185	418	2.80	57,896	415	2.84
FHLB stock and other securities	6,347	64	4.00	6,347	64	4.00
Loans, net of unearned income	1,916,477	21,029	4.35	1,779,944	20,546	4.58
<b>Total earning assets</b>	<b>2,416,364</b>	<b>23,515</b>	<b>3.86</b>	<b>2,257,679</b>	<b>22,933</b>	<b>4.03</b>
Less allowance for loan losses	23,428			30,115		
	2,392,936			2,227,564		
Non-earning assets:						
Cash and due from banks	39,840			38,854		
	40,274			39,124		

Premises and equipment								
Accrued interest receivable and other assets	87,630				89,732			
<b>Total assets</b>	<b>\$ 2,560,680</b>				<b>\$ 2,395,274</b>			
<b>Interest bearing liabilities:</b>								
Deposits:								
Interest bearing demand deposits	\$ 516,090	\$ 130	0.10	%	\$ 460,803	\$ 113	0.10	%
Savings deposits	121,031	10	0.03		109,023	10	0.04	
Money market deposits	644,107	330	0.20		633,179	326	0.20	
Time deposits	275,949	430	0.62		322,959	616	0.76	
Securities sold under agreements to repurchase	71,144	42	0.23		64,985	37	0.23	
Federal funds purchased and other short term borrowings	16,156	7	0.17		17,789	8	0.18	
FHLB advances	42,732	254	2.36		36,747	219	2.36	
<b>Total interest bearing liabilities</b>	<b>1,687,209</b>	<b>1,203</b>	<b>0.28</b>		<b>1,645,485</b>	<b>1,329</b>	<b>0.32</b>	
<b>Non-interest bearing liabilities:</b>								
Non-interest bearing demand deposits	572,406				474,513			
Accrued interest payable and other liabilities	24,502				26,864			
<b>Total liabilities</b>	<b>2,284,117</b>				<b>2,146,862</b>			
<b>Stockholders' equity</b>	<b>276,563</b>				<b>248,412</b>			
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,560,680</b>				<b>\$ 2,395,274</b>			
<b>Net interest income</b>		<b>\$ 22,312</b>				<b>\$ 21,604</b>		
<b>Net interest spread</b>			<b>3.58</b>	<b>%</b>			<b>3.71</b>	<b>%</b>
<b>Net interest margin</b>			<b>3.66</b>	<b>%</b>			<b>3.80</b>	<b>%</b>

Table Of Contents**Stock Yards Bancorp, inc. and subsidiary**

(Dollars in thousands)	<b>Nine months ended September 30</b>						
	<b>2015</b>			<b>2014</b>			
	<b>Average</b>	<b>Interest</b>	<b>Average</b>	<b>Average</b>	<b>Interest</b>	<b>Average</b>	
	<b>balances</b>		<b>rate</b>	<b>balances</b>		<b>rate</b>	
<b>Earning assets:</b>							
Federal funds sold	\$76,508	\$184	0.32	% \$86,764	\$215	0.33	%
Mortgage loans held for sale	5,464	180	4.40	4,059	128	4.22	
Securities:							
Taxable	349,494	5,749	2.20	322,797	5,312	2.20	
Tax-exempt	59,516	1,255	2.82	59,030	1,266	2.87	
FHLB stock and other securities	6,347	190	4.00	6,893	194	3.76	
Loans, net of unearned income	1,888,839	62,273	4.41	1,749,432	59,929	4.58	
<b>Total earning assets</b>	<b>2,386,168</b>	<b>69,831</b>	<b>3.91</b>	<b>2,228,975</b>	<b>67,044</b>	<b>4.02</b>	
Less allowance for loan losses	24,437			29,432			
	2,361,731			2,199,543			
Non-earning assets:							
Cash and due from banks	38,196			36,739			
Premises and equipment	39,981			39,338			
Accrued interest receivable and other assets	88,590			90,988			
<b>Total assets</b>	<b>\$2,528,498</b>			<b>\$2,366,608</b>			
<b>Interest bearing liabilities:</b>							
Deposits:							
Interest bearing demand deposits	\$511,325	\$393	0.10	% \$471,839	\$368	0.10	%
Savings deposits	118,126	31	0.04	107,026	30	0.04	
Money market deposits	651,185	985	0.20	626,974	957	0.20	
Time deposits	289,788	1,402	0.65	336,943	1,964	0.78	
Securities sold under agreements to repurchase	64,541	111	0.23	59,441	100	0.22	
Federal funds purchased and other short term borrowings	15,484	19	0.16	18,855	23	0.16	
FHLB advances	40,196	694	2.31	35,321	621	2.35	
<b>Total interest bearing liabilities</b>	<b>1,690,645</b>	<b>3,635</b>	<b>0.29</b>	<b>1,656,399</b>	<b>4,063</b>	<b>0.33</b>	
<b>Non-interest bearing liabilities:</b>							
Non-interest bearing demand deposits	541,919			442,810			
Accrued interest payable and other liabilities	24,979			25,890			
<b>Total liabilities</b>	<b>2,257,543</b>			<b>2,125,099</b>			

<b>Stockholders' equity</b>	270,955			241,509		
<b>Total liabilities and stockholders' equity</b>	\$2,528,498			\$2,366,608		
<b>Net interest income</b>		\$66,196			\$62,981	
<b>Net interest spread</b>			3.62 %			3.69 %
<b>Net interest margin</b>			3.71 %			3.78 %

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 \$231 thousand and \$241 thousand, respectively, for the three month periods ended September 30, 2015 and 2014 and \$700 thousand and \$735 thousand, respectively, for the nine month periods ended September 30, 2015 and 2014.

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 \$7.3 million and \$8.8 million, respectively, for the three month periods ended September 30, 2015 and 2014 and \$7.8 million and \$9.2 million, respectively, for the nine month periods ended September 30, 2015 and 2014.

Fully taxable equivalent net interest income of \$22.3 million for the three months ended September 30, 2015 increased \$708 thousand, or 3.3%, from \$21.6 million when compared to the same period last year. The positive effects of increased volumes on 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 3.58% and 3.66%, respectively, for the third quarter of 2015 and 3.71% and 3.80%, respectively, for the third quarter of 2014.

Fully taxable equivalent net interest income of \$66.2 million for the nine months ended September 30, 2015 increased \$3.2 million, or 5.1%, from \$63.0 million when compared to the same period last year. The positive effects of increased volumes on earning assets 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 3.62% and 3.71%, respectively, for the first nine months of 2015 and 3.69% and 3.78%, respectively, for the first nine months of 2014.

Average earning assets increased \$157.2 million or 7.1%, to \$2.39 billion for the first nine months of 2015 compared to 2014, reflecting growth in the loan portfolio and investment securities. Average interest bearing liabilities increased \$34.2 million, or 2.1%, to \$1.69 billion for the first nine months of 2015 compared to 2014 primarily due to increases in interest bearing demand, savings and money market deposits, FHLB advances and securities sold under agreements to repurchase, partially offset by decreases in time deposits and federal funds purchased.



Table Of Contents

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

**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.

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 high 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 September 30, 2015 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	(2.60 )%
Increase 100bp	(2.38 )
Decrease 100bp	(2.78 )
Decrease 200bp	N/A

Management expects that net interest margin will remain under pressure over the balance of the year, and any near-term increases in prevailing interest rates will not immediately benefit the Company. Because approximately 65% of its loan portfolio has fixed rates and 15% of its loan portfolio is priced at variable rates with floors of 4% or higher, a rise in rates would have a short-term negative impact on net interest income since rates would have to increase more than 75 bps before the rates on such loans will rise to compensate for higher interest costs. The extent of margin compression also will be affected by the need to respond to competitive pressures on funding sources. Approximately \$693 million, or 35%, of Bancorp's loans are variable rate; most of these loans are indexed to the prime rate and may reprice as that rate changes. However, approximately \$297 million, or 15% of total loans have reached their contractual floor of 4% or higher. Approximately \$133 million of variable rate loans have contractual floors below 4%. The remaining \$263 million of variable rate loans have no contractual floor. Bancorp attempts to establish floors whenever possible upon acquisition of new customers. Bancorp's variable rate loans are primarily comprised of commercial lines of credit and real estate loans. At inception, most of Bancorp's fixed rate loans are priced in relation to the five year Treasury bond.

Table Of Contents

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

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 6 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 6 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.

**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. Levels of non-performing loans have trended downward in 2015 and many key indicators of loan quality continue to show improvement. Bancorp did not record a provision for loan losses in the first nine months of 2015, compared to a \$400 thousand release of reserves for the same period of 2014.

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 September 30, 2015.



Table Of Contents**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

An analysis of the changes in the allowance for loan losses and selected ratios for the three and nine month periods ended September 30, 2015 and 2014 follows:

(Dollars in thousands)	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>	<b>September 30,</b>
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Balance at the beginning of the period	\$23,308	\$29,761	\$24,920	\$28,522
Provision for loan losses	-	(2,100 )	-	(400 )
Loan charge-offs, net of recoveries	(1,694 )	(537 )	(3,306 )	(998 )
Balance at the end of the period	\$21,614	\$27,124	\$21,614	\$27,124
Average loans, net of unearned income	\$1,923,762	\$1,788,786	\$1,896,592	\$1,758,592
Provision for loan losses to average loans (1)	0.00	% -0.12	% 0.00	% -0.02
Net loan charge-offs to average loans (1)	0.09	% 0.03	% 0.17	% 0.06
Allowance for loan losses to average loans	1.12	% 1.52	% 1.14	% 1.54
Allowance for loan losses to period-end loans	1.11	% 1.52	% 1.11	% 1.52

(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.

An analysis of net charge-offs by loan category for the three and nine month periods ended September 30, 2015 and 2014 follows:

(in thousands)	<b>Three</b>	<b>Nine months</b>
	<b>months</b>	

	<b>ended</b>		<b>ended</b>	
	<b>September</b>		<b>September 30,</b>	
	<b>30,</b>			
<b>Net loan charge-offs (recoveries)</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Commercial and industrial	\$1,983	\$356	\$3,299	\$371
Construction and development, excluding undeveloped land	-	-	-	-
Undeveloped land	(650 )	(99 )	(650 )	(136)
Real estate mortgage - commercial investment	122	248	353	397
Real estate mortgage - owner occupied commercial	108	(7 )	97	78
Real estate mortgage - 1-4 family residential	78	5	127	177
Home equity	(15 )	(3 )	(7 )	60
Consumer	68	37	87	51
<b>Total net loan charge-offs</b>	<b>\$1,694</b>	<b>\$537</b>	<b>\$3,306</b>	<b>\$998</b>

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 and nine month periods ended September 30, 2015 and 2014.

(In thousands)	Three months ended September 30,			Nine months ended September 30,			
	2015	2014	% Change	2015	2014	% Change	
Non-interest income:							
Investment management and trust services	\$4,373	\$4,502	-2.9	% \$13,576	\$13,825	-1.8	%
Service charges on deposit accounts	2,342	2,294	2.1	6,621	6,620	0.0	
Bankcard transaction revenue	1,223	1,182	3.5	3,591	3,466	3.6	
Mortgage banking revenue	772	641	20.4	2,513	1,951	28.8	
Gain (loss) on sales of securities available for sale	-	-	-	-	(9 )	-100.0	
Brokerage commissions and fees	585	539	8.5	1,545	1,506	2.6	
Bank owned life insurance income	222	229	-3.1	670	699	-4.1	
Other	468	463	1.1	1,361	1,324	2.8	
Total non-interest income	\$9,985	\$9,850	1.4	% \$29,877	\$29,382	1.7	%
Non-interest expenses:							
Salaries and employee benefits	\$11,333	\$11,855	-4.4	% \$33,816	\$33,697	0.4	%
Net occupancy expense	1,518	1,422	6.8	4,437	4,431	0.1	
Data processing expense	1,572	1,591	-1.2	4,782	4,869	-1.8	
Furniture and equipment expense	282	269	4.8	789	796	-0.9	
FDIC insurance expense	318	340	-6.5	932	1,032	-9.7	
Loss (gain) on other real estate owned	(12 )	7	-271.4	153	(342 )	-144.7	
Other	3,419	3,225	6.0	10,167	9,471	7.3	
Total non-interest expenses	\$18,430	\$18,709	-1.5	% \$55,076	\$53,954	2.1	%

Total non-interest income increased \$135 thousand, or 1.4%, for the third quarter of 2015 and \$495 thousand, or 1.7% for the first nine months of 2015, compared to the same periods in 2014.

The largest component of non-interest income is investment management and trust revenue. The magnitude of investment management and trust revenue distinguishes Bancorp from other banks of similar asset size. Trust assets under management totaled \$2.19 billion at September 30, 2015, compared to \$2.23 billion at September 30, 2014. Assets under management are stated at market value and the decline arose from a departure of some accounts near the end of 2014. Investment management and trust revenue, which constitutes an average of 45% of non-interest income at September 30, 2015, decreased \$129 thousand, or 2.9%, in the third quarter of 2015, and \$249 thousand, or 1.8% for the first nine months, as compared to the same periods in 2014. Recurring fees, which generally comprise over 95% of the investment management and trust revenue, increased \$117 thousand, or 1%, for the first nine months of 2015, compared to the same period of 2014. However, one-time executor and other non-recurring fees decreased \$366 thousand for the first nine months of 2015, compared to the same period in 2014. Most recurring fees earned for managing accounts are based on a percentage of market value on a monthly basis. While fees are based on market values, they typically do not fluctuate directly with the overall stock market, as accounts usually contain fixed income and various equity asset classes. 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. The investment management and trust department revenue was slightly below year-earlier levels. However, so far this year, it has generated net new business well ahead of levels for the same period last year. Management believes the investment management and trust department will resume its growth in 2016, continue to factor significantly in Bancorp's financial results and provide strategic diversity to revenue streams.



Table Of Contents

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

Service charges on deposit accounts increased \$48 thousand, or 2.1%, in the third quarter of 2015, and were virtually flat for the first nine months of 2015, as compared to the same periods in 2014. 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 \$41 thousand, or 3.5%, in the third quarter of 2015, and \$125 thousand, or 3.6% for the first nine months of 2015, compared to the same periods in 2014, and primarily represents income the Bank derives from customers' use of debit cards. The increase in 2015 reflects an increase in the volume of transactions, partially offset by a decrease in interchange rates received. Interchange income is based on rates set by service providers in a competitive market. Beginning in October 2011, this rate was set by the Federal Reserve for banks with over \$10 billion in assets. While this threshold indicates Bancorp will not be directly affected, this change has impacted Bancorp and other similarly sized institutions as merchants gravitate to lower cost interchanges. Volume, which is dependent on consumer behavior, is expected to continue to increase slowly. However, management expects interchange rates to decrease, resulting in income from this source to remain consistent with levels experienced in 2014.

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 increased \$131 thousand, or 20.4%, in the third quarter of 2015, and \$562 thousand or 28.8%, for the first nine months of 2015, as compared to the same periods in 2014. Market rates for mortgage loans decreased in the first nine months of 2015, resulting in increased refinance activity compared to the same period in 2014. This was coupled with an increase in home purchase activity in the three quarters of 2015, an indicator of improving consumer confidence.

In 2015, Bancorp sold securities with total fair market value of \$5.9 million, generating no gain or loss. These securities consisted of agency and mortgage-backed securities with small remaining balances. In 2014, Bancorp sold securities with total fair market value of \$7.7 million, generating a net loss of \$9 thousand. These securities consisted of mortgage-backed securities with small remaining balances, obligations of state and political subdivisions, and agency securities. These sales were made in the ordinary course of portfolio management.

Brokerage commissions and fees increased \$46 thousand, or 8.5%, in the third quarter of 2015, and \$39 thousand or 2.6% for the first nine months of 2015, as compared to the same periods in 2014, corresponding to overall brokerage volume. The increase is due to the timing of an incentive, paid from a third party to Bancorp, which was recorded in the third quarter of 2015 and the fourth quarter of 2014. Excluding the timing of the incentive, brokerage commissions and fees were virtually unchanged compared to the same periods in 2014. 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 investment management and trust department.

Table Of Contents

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

Bank Owned Life Insurance (BOLI) income totaled \$222 thousand and \$229 thousand for the third quarter of 2015 and 2014, respectively, and totaled \$670 thousand and \$699 thousand for the first nine months of 2015 and 2014, respectively. 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. Any proceeds received under the policies and the related change in cash surrender value are recorded as non-interest income. This income helps offset the cost of various employee benefits.

Other non-interest income was virtually flat for the third quarter of 2015, and increased \$37 thousand, or 2.8%, in the first nine months of 2015, as compared to the same periods in 2014, due to a variety of other factors, none of which are individually significant.

Total non-interest expenses decreased \$279 thousand, or 1.5%, for the third quarter of 2015, and increased \$1.1 million, or 2.1%, for the first nine months of 2015, as compared to the same periods in 2014.

Salaries and employee benefits decreased \$522 thousand, or 4.4%, for the third quarter of 2015, and increased \$119 thousand, or 0.4% for the first nine months of 2015, as compared to the same periods of 2014. For the third quarter, the decrease is largely due to higher bonus accruals and stock compensation in the third quarter of 2014. Partially offsetting this was an increase in salaries and health insurance costs in 2015. For the nine month period, the increase is due to an increase in salaries and health insurance costs, mostly offset by lower bonus accruals. Increased salary expenses arose from normal salary increases and staff additions including senior staff with higher per capita salaries in investment management and trust and lending functions. At September 30, 2015, Bancorp had 546 full-time equivalent employees compared to 527 at September 30, 2014.

Net occupancy expense increased \$96 thousand, or 6.8%, in the third quarter of 2015, and was virtually flat for the first nine months of 2015, as compared to the same periods of 2014. The increase for the third quarter was largely due to increased maintenance and utilities expense and, to a lesser extent, increased rent and depreciation for locations added during 2015.

Data processing expense decreased \$19 thousand, or 1.2% in the third quarter of 2015, and \$87 thousand, or 1.8% for the first nine months of 2015, compared to the same periods of 2014. The decrease for the first nine months of 2015 is largely due to decreases in expenses for bank card processing/reissuance. This category 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 \$13 thousand, or 4.8% for the third quarter of 2015, and decreased \$7 thousand, or 0.9% for the first nine months of 2015, as compared to the same periods in 2014. 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 decreased \$22 thousand, or 6.5%, for the third quarter of 2015, and \$100 thousand or 9.7% for the first nine months of 2015, as compared to the same periods in 2014. The assessment is calculated by the FDIC and adjusted quarterly. The decline in expense is due primarily to a reduction in the assessment rate, which was driven by improved credit metrics.

Table Of Contents

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

Net gains on other real estate owned (OREO) totaled \$12 thousand for the third quarter of 2015 compared to losses totaling \$7 thousand for the same period in 2014. Net losses on OREO totaled \$153 thousand for the first nine months of 2015 compared to gains totaling \$342 thousand for the same period in 2014.

Other non-interest expenses increased \$194 thousand or 6.0% in the third quarter of 2015, and \$696 thousand or 7.3% for the first nine months of 2015, as compared to the same periods in 2014. The increases are largely due to tax credit amortization of \$158 thousand for the third quarter and \$475 thousand for the first nine months of 2015 that was formerly recorded as income tax expense in 2014. Also included in 2015 were expenses totaling \$170 thousand for the third quarter and \$372 thousand for the first nine months of 2015 to establish a reserve for estimated losses on unfunded credit commitments. This category also includes MSR amortization, legal and professional fees, advertising, printing, mail and telecommunications, none of which had individually significant variances.

**Income Taxes**

In the third quarter of 2015, Bancorp recorded income tax expense of \$4.4 million, compared to \$4.7 million for the same period in 2014. The effective rate for the three month period was 31.9% in 2015 and 32.3% in 2014. Bancorp recorded income tax expense of \$12.8 million for the first nine months of 2015, compared to \$12.0 million for the same period in 2014. The effective rate for the nine month period was 31.7% in 2015 and 31.4% in 2014. The increase in the effective tax rate from 2014 to 2015 is the result of proportionally lower nontaxable income from the increase in cash value of life insurance and municipal securities, due to higher total pre-tax income. This was partially offset by the effect of amortization of tax credit investments which was recorded in other non-interest expense in 2015 and a component of tax expense in 2014.

**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 9.

Other commitments discussed in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2014, 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 \$60.7 million, or 2.4%, from \$2.56 billion on December 31, 2014 to \$2.62 billion on September 30, 2015. The most significant contributor to the increase was loans, which rose \$85.9 million in the first nine months of 2015. Loan production for the first nine months of 2015 has outpaced record production in 2014, contributing to solid net loan growth. Securities available-for-sale decreased \$8.7 million largely as a result of maturing securities. 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 and \$95 million at September 30, 2015 and December 31, 2014, respectively, 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 \$19.0 million, while mortgage loans held for sale increased \$1.8 million. Other assets decreased \$4.1 million, driven primarily by a \$1.4 million decline in other real estate owned and a \$1.8 million decrease in deferred tax assets.

Table Of Contents**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

Total liabilities increased \$39.7 million, or 1.7%, from \$2.30 billion December 31, 2014 to \$2.34 billion on September 30, 2015. The most significant component of the increase was deposits, which rose \$18.0 million or 0.8%, while Federal Home Loan Bank (“FHLB”) advances increased \$6.9 million or 18.6%. Bancorp utilizes FHLB advances to manage the interest rate risk exposure of certain long-term fixed rate loans. Federal funds purchased increased \$14.7 million, or 31.0%. Bancorp utilizes short-term lines of credit to manage its overall liquidity position. Securities sold under agreement to repurchase decreased \$2.0 million or 2.9%, and other liabilities increased \$2.2 million or 8.2%.

**Elements of Loan Portfolio**

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

(in thousands)

<b>Loans by Type</b>	<b>September 30, 2015</b>	<b>December 31, 2014</b>
Commercial and industrial	\$610,877	\$571,754
Construction and development, excluding undeveloped land	109,870	95,733
Undeveloped land (1)	18,950	21,268
Real estate mortgage:		
Commercial investment	491,171	487,822
Owner occupied commercial	357,628	340,982
1-4 family residential	222,643	211,548
Home equity - first lien	49,937	43,779
Home equity - junior lien	62,223	66,268
Subtotal: Real estate mortgage	1,183,602	1,150,399
Consumer	31,126	29,396
<b>Total Loans</b>	<b>\$1,954,425</b>	<b>\$1,868,550</b>

(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 September 30, 2015 and December 31, 2014, the total participated portions of loans of this nature were \$7.2 million and \$8.1 million, respectively.



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)	<b>September 30, 2015</b>	<b>December 31, 2014</b>		
Non-accrual loans	\$ 9,574	\$ 5,199		
Troubled debt restructuring	1,079	6,352		
Loans past due 90 days or more and still accruing	544	329		
Non-performing loans	11,197	11,880		
Foreclosed real estate	4,607	5,977		
Non-performing assets	\$ 15,804	\$ 17,857		
Non-performing loans as a percentage of total loans	0.57	%	0.64	%
Non-performing assets as a percentage of total assets	0.60	%	0.70	%

The decrease in loans modified as troubled debt restructuring reflects the migration of one lending relationship to performing status.

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

(In thousands)	<b>September 30, 2015</b>	<b>December 31, 2014</b>
<b>Non-accrual loans by type</b>		
Commercial and industrial	\$ 5,769	\$ 1,381
Construction and development, excluding undeveloped land	26	516
Undeveloped land	-	-
Real estate mortgage - commercial investment	285	235
Real estate mortgage - owner occupied commercial	3,035	2,081

Edgar Filing: Stock Yards Bancorp, Inc. - Form 10-Q

Real estate mortgage - 1-4 family residential	316	950
Home equity and consumer loans	143	36
Total loans	\$ 9,574	\$ 5,199

The increase in non-accrual loans in the commercial and industrial classification primarily reflected the migration of two lending relationships to non-accrual status, on which Bancorp's exposure to loss is now fully allocated within its allowance for loan losses.

*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.

Table Of Contents

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

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 \$17.9 million at September 30, 2015. 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 \$504.4 million at September 30, 2015. The portfolio includes maturities of approximately \$125.3 million over the next twelve months, including \$100 million of short-term securities which matured in October 2015. 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 September 30, 2015, total investment securities pledged for these purposes comprised 55% of the available-for-sale investment portfolio, leaving \$226.3 million of unpledged securities.

Bancorp has a large base of non-maturity customer deposits, defined as demand, savings, and money market deposit accounts. At September 30, 2015, such deposits totaled \$1.87 billion and represented 87% 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 September 30, 2015, Bancorp had only \$498 thousand or 0.02% of total deposits, in brokered deposits.

Other sources of funds available to meet daily needs include the sale of securities under agreements to repurchase. Also, Bancorp is a member of the FHLB of Cincinnati. As a member of the FHLB, Bancorp has access to credit products offered by the FHLB. Bancorp views these borrowings as a low cost alternative to other time deposits. At September 30, 2015, available credit from the FHLB totaled \$408.1 million. Additionally, Bancorp had available federal funds purchased lines with correspondent banks totaling \$24 million at September 30, 2015.

Bancorp's principal source of cash revenues is dividends paid to it as sole shareholder of the Bank. At September 30, 2015, the Bank may pay up to \$52.5 million in dividends to Bancorp without regulatory approval subject to the ongoing capital requirements of the Bank.

*d) Capital Resources*

At September 30, 2015, stockholders' equity totaled \$280.9 million, an increase of \$21.1 million since December 31, 2014. See the Consolidated Statement of Changes in Stockholders' Equity for further detail of the changes in equity since the end of 2014. 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 \$3.1 million at September 30, 2015 compared to a \$2.1 million at December 31, 2014. The \$1.0 million increase is primarily a reflection of the positive effect of the changing interest rate environment during the first nine months of 2015 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 September 30, 2015 and December 31, 2014.

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
Total risk-based capital (1)				
Consolidated	13.68	%	13.86	%
Bank	13.35		13.59	
Common equity tier 1 risk-based capital (1) (2)				
Consolidated	12.68		N/A	
Bank	12.34		N/A	
Tier 1 risk-based capital (1)				
Consolidated	12.68		12.63	
Bank	12.34		12.36	
Leverage (3)				
Consolidated	10.82		10.26	
Bank	10.52		10.04	

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 (1) 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.

The rules described below established common equity tier 1 capital effective January 1, 2015. The ratio was not (2)prescribed in prior years. For Bancorp, this is equal to tier 1 capital, and therefore, the ratio is equal to the tier 1 risk-based capital ratio.

(3) 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:

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

Table Of Contents

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

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:

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

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.

For Bancorp, the key differences under Basel III include risk weighting for commitments under one year and higher risk weighting for certain commercial real estate and construction loans. These differences resulted in higher risk-weighted assets, and therefore, somewhat lower risk-based capital ratios. Bancorp estimates the effect of these key differences decreased the Tier 1 risk-based capital ratio 0.30% and the total risk based-capital ratio 0.34%.

Management believes that as of September 30, 2015, Bancorp meets the requirements to be considered well-capitalized under the new rules.

***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.





Table Of Contents**STOCK YARDS BANCORP, INC. AND SUBSIDIARY**

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

(in thousands, except per share data)	<b>September 30, 2015</b>	<b>December 31, 2014</b>		
Total equity	\$280,948	\$259,895		
Less core deposit intangible	(1,654 )	(1,820 )		
Less goodwill	(682 )	(682 )		
Tangible common equity	\$278,612	\$257,393		
Total assets	\$2,624,607	\$2,563,868		
Less core deposit intangible	(1,654 )	(1,820 )		
Less goodwill	(682 )	(682 )		
Total tangible assets	\$2,622,271	\$2,561,366		
Total shareholders' equity to total assets	10.70	%	10.14	%
Tangible common equity ratio	10.62		10.05	
Number of outstanding shares	14,869		14,745	
Book value per share	\$18.89		\$17.63	
Tangible common equity per share	18.74		17.46	

***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 April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, *Interest – Imputation of Interest*, which changes the presentation of debt issuance costs in financial statements. Under the ASU, an entity presents such costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. Subsequent to the issuance of ASU 2015-03, the SEC staff made an announcement regarding the presentation of debt issuance costs associated with line-of-credit arrangements, which was codified in August 2015 when FASB issued ASU 2015-15. This guidance allows an entity to present debt issuance costs as an asset and amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The SEC guidance is effective upon adoption of ASU 2015-03. ASU 2015-03 is effective for fiscal years and interim periods beginning after December 15, 2016. The adoption of ASU 2015-03 is not expected to have a significant impact on Bancorp’s operations or financial statements.

Table Of Contents

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

In September 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-16, *Business Combinations*, which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after a business combination is consummated. The ASU is effective for fiscal years and interim periods beginning after December 15, 2015. The adoption of ASU 2015-16 is not expected to have a significant impact on Bancorp’s operations or financial statements.

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 September 30, 2015 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 September 30, 2015.

	<b>Total number of shares purchased (1)</b>	<b>Average price paid per share</b>	<b>Total number of shares purchased as part of publicly announced plan (2)</b>	<b>Maximum number of shares that may yet be purchased under the plan</b>
July 1 - July 31	186	\$ 38.30	—	—
August 1 - August 31	81	36.60	—	—
September 1 - September 30	—	—	—	—
Total	267	\$ 37.78	—	—

(1) Activity represents shares of stock withheld to pay taxes due upon exercise of stock appreciation rights. 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.

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:

<b>Exhibit Number</b>	<b>Description of exhibit</b>
---------------------------	-----------------------------------

---

- |      |  |
|------|--|
| 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                                      |

The following financial statements from the Stock Yards Bancorp, Inc. September 30, 2015

- |     |   |
|-----|---|
| 101 | Quarterly Report on Form 10-Q, filed on November 5, 2015, 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.**

By: /s/ David P. Heintzman

Date: November 5, 2015 David P. Heintzman, Chairman  
and Chief Executive Officer

By: /s/ Nancy B. Davis

Date: November 5, 2015 Nancy B. Davis, Executive Vice President,  
Treasurer and Chief Financial Officer