

Stock Yards Bancorp, Inc.  
Form 10-Q  
August 04, 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 June 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**  
(State or other jurisdiction of

**61-1137529**  
(I.R.S. Employer

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

incorporation or organization)

Identification No.)

**1040 East Main Street, Louisville, Kentucky 40206**

(Address of principal executive offices including zip code)

**(502) 582-2571**

(Registrant's telephone number, including area code)

**Not Applicable**

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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 July 27, 2015, was 14,851,374.

Table of Contents

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

Index

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

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

Table of Contents

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

Consolidated Balance Sheets

June 30, 2015 and December 31, 2014

(In thousands, except share data)

	June 30, 2015 (Unaudited)	December 31, 2014
<b>Assets</b>		
Cash and due from banks	\$ 37,775	\$ 42,216
Federal funds sold	20,901	32,025
Cash and cash equivalents	58,676	74,241
Mortgage loans held for sale	8,237	3,747
Securities available-for-sale (amortized cost of \$410,242 and \$509,276 in 2015 and 2014, respectively)	412,866	513,056
Federal Home Loan Bank stock and other securities	6,347	6,347
Loans	1,899,302	1,868,550
Less allowance for loan losses	23,308	24,920
Net loans	1,875,994	1,843,630
Premises and equipment, net	40,199	39,088
Bank owned life insurance	30,554	30,107
Accrued interest receivable	5,950	5,980
Other assets	43,864	47,672
Total assets	\$ 2,482,687	\$ 2,563,868
<b>Liabilities and Stockholders Equity</b>		
Deposits:		
Non-interest bearing	\$ 551,723	\$ 523,947
Interest bearing	1,520,042	1,599,680
Total deposits	2,071,765	2,123,627
Securities sold under agreements to repurchase	64,418	69,559
Federal funds purchased	13,290	47,390
Accrued interest payable	125	131
Other liabilities	21,852	26,434
Federal Home Loan Bank advances	38,855	36,832
Total liabilities	2,210,305	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 14,851,554 and 14,744,684 shares in 2015 and 2014, respectively	10,390	10,035
Additional paid-in capital	41,213	38,191
Retained earnings	219,466	209,584
Accumulated other comprehensive income	1,313	2,085
Total stockholders equity	272,382	259,895
Total liabilities and stockholders equity	\$ 2,482,687	\$ 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 six months ended June 30, 2015 and 2014

(In thousands, except per share data)

	For three months ended		For six months ended	
	2015	2014	2015	2014
<b>Interest income:</b>				
Loans	\$ 20,612	\$ 19,787	\$ 41,027	\$ 39,146
Federal funds sold	51	63	119	142
Mortgage loans held for sale	74	43	113	74
Securities taxable	1,969	1,824	4,003	3,661
Securities tax-exempt	294	296	585	594
Total interest income	23,000	22,013	45,847	43,617
<b>Interest expense:</b>				
Deposits	938	1,114	1,911	2,254
Federal funds purchased	5	9	12	15
Securities sold under agreements to repurchase	32	29	69	63
Federal Home Loan Bank advances	224	206	440	402
Total interest expense	1,199	1,358	2,432	2,734
Net interest income	21,801	20,655	43,415	40,883
Provision for loan losses		1,350		1,700
Net interest income after provision for loan losses	21,801	19,305	43,415	39,183
<b>Non-interest income:</b>				
Investment management and trust services	4,651	4,755	9,203	9,323
Service charges on deposit accounts	2,199	2,223	4,279	4,326
Bankcard transaction revenue	1,246	1,209	2,368	2,284
Mortgage banking revenue	913	722	1,741	1,310
Loss on sales of securities available for sale		(9)		(9)
Brokerage commissions and fees	499	462	960	967
Bank owned life insurance income	226	234	448	470
Other	485	461	893	861
Total non-interest income	10,219	10,057	19,892	19,532
<b>Non-interest expenses:</b>				
Salaries and employee benefits	11,383	10,724	22,483	21,842
Net occupancy expense	1,450	1,453	2,919	3,009
Data processing expense	1,756	1,718	3,210	3,278
Furniture and equipment expense	260	259	507	527
FDIC insurance expense	317	350	614	692
Loss (gain) on other real estate owned	145	(6)	165	(349)
Other	3,556	3,203	6,748	6,246
Total non-interest expenses	18,867	17,701	36,646	35,245
Income before income taxes	13,153	11,661	26,661	23,470
Income tax expense	4,151	3,627	8,404	7,259
Net income	9,002	8,034	18,257	16,211
<b>Net income per share:</b>				
Basic	\$ 0.61	\$ 0.55	\$ 1.24	\$ 1.12

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

Diluted	\$	0.60	\$	0.55	\$	1.23	\$	1.10
Average common shares:								
Basic		14,710		14,545		14,679		14,526
Diluted		14,936		14,704		14,902		14,714

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 six months ended June 30, 2015 and 2014

(In thousands)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Net income	\$ 9,002	\$ 8,034	\$ 18,257	\$ 16,211
Other comprehensive income, net of tax:				
Unrealized (losses) gains on securities available for sale:				
Unrealized (losses) gains arising during the period (net of tax of (\$1,417), \$663, (\$405) and \$1,754, respectively)	(2,631)	1,232	(751)	3,258
Reclassification adjustment for securities losses realized in income (net of tax of \$0, \$3, \$0, and \$3, respectively)		6		6
Unrealized losses on hedging instruments:				
Unrealized losses arising during the period (net of tax of (\$1), (\$18), (\$11) and (\$7), respectively)	(2)	(34)	(21)	(13)
Other comprehensive (loss) income, net of tax	(2,633)	1,204	(772)	3,251
Comprehensive income	\$ 6,369	\$ 9,238	\$ 17,485	\$ 19,462

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 six months ended June 30, 2015 and 2014

(In thousands, except per share data)

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
	Number of shares	Amount				
Balance December 31, 2013	14,609	\$ 9,581	\$ 33,255	\$ 188,825	\$ (2,217)	\$ 229,444
Net income				16,211		16,211
Other comprehensive income, net of tax					3,251	3,251
Stock compensation expense			768			768
Stock issued for exercise of stock options, net of withholdings to satisfy employee tax obligations upon vesting of stock awards	31	104	807	(73)		838
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, \$0.43 per share				(6,300)		(6,300)
Shares repurchased or cancelled	(20)	(66)	(499)	60		(505)
Balance June 30, 2014	14,665	\$ 9,769	\$ 35,242	\$ 197,569	\$ 1,034	\$ 243,614
Balance December 31, 2014	14,745	\$ 10,035	\$ 38,191	\$ 209,584	\$ 2,085	\$ 259,895
Net income				18,257		18,257
Other comprehensive loss, net of tax					(772)	(772)
Stock compensation expense			995			995
Stock issued for exercise of stock options, net of withholdings to satisfy employee tax obligations upon vesting of stock awards	74	245	1,917	(175)		1,987
	35	116	1,088	(1,204)		

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

Stock issued for non-vested restricted stock											
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	18		61		(397)		(128)		(464)		
Cash dividends declared, \$0.47 per share							(6,952)		(6,952)		
Shares repurchased or cancelled	(20)		(67)		(581)		84		(564)		
Balance June 30, 2015	14,852	\$	10,390	\$	41,213	\$	219,466	\$	1,313	\$	272,382

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 six months ended June 30, 2015 and 2014

(In thousands)

	2015	2014
Operating activities:		
Net income	\$ 18,257	\$ 16,211
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses		1,700
Depreciation, amortization and accretion, net	3,374	3,226
Deferred income tax expense (benefit)	1,170	(252)
Loss on sale of securities available for sale		9
Gain on sales of mortgage loans held for sale	(1,133)	(769)
Origination of mortgage loans held for sale	(63,461)	(41,363)
Proceeds from sale of mortgage loans held for sale	60,104	39,727
Bank owned life insurance income	(448)	(470)
Gain on the disposal of premises and equipment	(5)	(30)
Loss (gain) on the sale of other real estate	165	(349)
Stock compensation expense	995	768
Excess tax benefits from share-based compensation arrangements	(293)	(169)
Decrease in accrued interest receivable and other assets	387	584
(Decrease) increase in accrued interest payable and other liabilities	(4,303)	2,337
Net cash provided by operating activities	14,809	21,160
Investing activities:		
Purchases of securities available for sale	(92,730)	(124,550)
Proceeds from sale of securities available for sale	5,934	7,732
Proceeds from maturities of securities available for sale	184,878	197,397
Net increase in loans	(32,596)	(80,407)
Purchases of premises and equipment	(2,615)	(1,203)
Proceeds from disposal of premises and equipment		344
Proceeds from sale of foreclosed assets	1,820	4,303
Net cash provided by investing activities	64,691	3,616
Financing activities:		
Net (decrease) increase in deposits	(51,862)	6,458
Net decrease in securities sold under agreements to repurchase and federal funds purchased	(39,241)	(2,421)
Proceeds from Federal Home Loan Bank advances	63,200	21,820
Repayments of Federal Home Loan Bank advances	(61,177)	(20,082)
Issuance of common stock for options and performance stock units	1,566	626
Excess tax benefits from share-based compensation arrangements	293	169
Common stock repurchases	(900)	(555)
Cash dividends paid	(6,944)	(6,300)
Net cash used in financing activities	(95,065)	(285)
Net (decrease) increase in cash and cash equivalents	(15,565)	24,491
Cash and cash equivalents at beginning of period	74,241	70,770
Cash and cash equivalents at end of period	\$ 58,676	\$ 95,261
Supplemental cash flow information:		
Income tax payments	\$ 6,774	\$ 5,094
Cash paid for interest	2,438	2,729

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

Supplemental non-cash activity:

Transfers from loans to other real estate owned	\$	232	\$	1,505
---	----	-----	----	-------

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 six month periods ended June 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

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

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.

Bancorp's allowance calculation includes specific allowance allocations to loan portfolio segments at June 30, 2015 for qualitative factors including, among other factors, national and local economic and business conditions, the quality and experience of lending staff and management, changes in lending policies and procedures, changes in volume and severity of past due loans, classified loans and non-performing loans, potential impact of any concentrations of credit, changes in the nature and terms of loans such as growth

Table of Contents

rates and utilization rates, changes in the value of underlying collateral for collateral-dependent loans, considering Bancorp's disposition bias, and the effect of other external factors such as the legal and regulatory environment. Bancorp may also consider other qualitative factors in future periods for additional allowance allocations, including, among other factors, changes in Bancorp's loan review process. 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) June 30, 2015	Amortized cost	Gains	Unrealized Losses	Fair value
U.S. Treasury and other U.S. Government obligations	\$ 10,000	\$	\$	\$ 10,000
Government sponsored enterprise obligations	175,985	1,942	559	177,368
Mortgage-backed securities - government agencies	160,359	1,477	1,510	160,326
Obligations of states and political subdivisions	63,142	1,344	157	64,329
Corporate equity securities	756	87		843
<b>Total securities available for sale</b>	<b>\$ 410,242</b>	<b>\$ 4,850</b>	<b>\$ 2,226</b>	<b>\$ 412,866</b>

**December 31, 2014**

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 June 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 the second quarter of 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

A summary of the available-for-sale investment securities by contractual maturity groupings as of June 30, 2015 is shown below.

(in thousands)			
Securities available-for-sale		Amortized cost	Fair value
Due within 1 year	\$	26,168	\$ 26,253
Due after 1 but within 5 years		123,077	124,852
Due after 5 but within 10 years		18,907	19,263
Due after 10 years		80,975	81,329
Mortgage-backed securities		160,359	160,326
Corporate equity securities		756	843
Total securities available-for-sale	\$	410,242	\$ 412,866

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 \$258.4 million at June 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.

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

### Table of Contents

Securities with unrealized losses at June 30, 2015 and December 31, 2014, not recognized in the statements of income are as follows:

(in thousands) June 30, 2015	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Government sponsored enterprise obligations	\$ 25,363	\$ 208	\$ 8,793	\$ 351	\$ 34,156	\$ 559
Mortgage-backed securities - government agencies	36,666	394	33,165	1,116	69,831	1,510
Obligations of states and political subdivisions	18,249	124	2,221	33	20,470	157
<b>Total temporarily impaired securities</b>	<b>\$ 80,278</b>	<b>\$ 726</b>	<b>\$ 44,179</b>	<b>\$ 1,500</b>	<b>\$ 124,457</b>	<b>\$ 2,226</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
<b>Total temporarily impaired securities</b>	<b>\$ 53,672</b>	<b>\$ 174</b>	<b>\$ 82,470</b>	<b>\$ 1,875</b>	<b>\$ 136,142</b>	<b>\$ 2,049</b>

Applicable dates for determining when securities are in an unrealized loss position are June 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 71 and 80 separate investment positions as of June 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 June 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**(3) Loans**

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

(in thousands)	June 30, 2015	December 31, 2014
Commercial and industrial	\$ 595,584	\$ 571,754
Construction and development, excluding undeveloped land	102,274	95,733
Undeveloped land	19,965	21,268
Real estate mortgage:		
Commercial investment	484,130	487,822
Owner occupied commercial	342,908	340,982
1-4 family residential	216,864	211,548
Home equity - first lien	42,612	43,779
Home equity - junior lien	65,354	66,268
Subtotal: Real estate mortgage	1,151,868	1,150,399
Consumer	29,611	29,396
Total loans	\$ 1,899,302	\$ 1,868,550

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

Table of Contents

The following table presents the balance in the recorded investment in loans and allowance for loan losses by portfolio segment and based on impairment evaluation method as of June 30, 2015 and December 31, 2014.

(in thousands) June 30, 2015	Type of loan						Total
	Commercial and industrial	Construction and development excluding undeveloped land	Undeveloped land	Real estate mortgage	Consumer		
<b>Loans</b>	\$ 595,584	\$ 102,274	\$ 19,965	\$ 1,151,868	\$ 29,611		\$ 1,899,302
Loans collectively evaluated for impairment	\$ 591,064	\$ 101,333	\$ 19,965	\$ 1,146,530	\$ 29,537		\$ 1,888,429
Loans individually evaluated for impairment	\$ 4,440	\$ 516	\$	\$ 4,844	\$ 73		\$ 9,873
Loans acquired with deteriorated credit quality	\$ 80	\$ 425	\$	\$ 494	\$ 1		\$ 1,000

	Commercial and industrial	Construction and development excluding undeveloped land	Undeveloped land	Real estate mortgage	Consumer	Unallocated	Total
<b>Allowance for loan losses</b>							
At December 31, 2014	\$ 11,819	\$ 721	\$ 1,545	\$ 10,541	\$ 294	\$	\$ 24,920
Provision (credit)	(1,250)	655	(471)	1,022	44		
Charge-offs	(1,330)			(358)	(274)		(1,962)
Recoveries	14			81	255		350
At June 30, 2015	\$ 9,253	\$ 1,376	\$ 1,074	\$ 11,286	\$ 319	\$	\$ 23,308
Allowance for loans collectively evaluated for impairment	\$ 6,807	\$ 1,286	\$ 1,074	\$ 10,860	\$ 247	\$	\$ 20,274
Allowance for loans individually evaluated for impairment	\$ 2,446	\$ 90	\$	\$ 426	\$ 72	\$	\$ 3,034
Allowance for loans acquired with deteriorated credit quality	\$	\$	\$	\$	\$	\$	\$

Table of Contents

(in thousands) December 31, 2014	Type of loan					Total
	Commercial and industrial	Construction and development excluding undeveloped land	Undeveloped land	Real estate mortgage	Consumer	
<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

	Type of loan						Total
	Commercial and industrial	Construction and development excluding undeveloped land	Undeveloped land	Real estate mortgage	Consumer	Unallocated	
<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, and then 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

- **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 housing 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 housing 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 June 30, 2015 and December 31, 2014. Changes in the fair value adjustment for acquired impaired loans are shown in the following table:

(in thousands)	Accretable discount	Non- accretable discount
Balance at December 31, 2013	\$ 137	\$ 369
Accretion	(75)	(103)
Reclassifications from (to) non-accretable difference		
Disposals		
Balance at December 31, 2014	62	266
Accretion	(27)	
Reclassifications from (to) non-accretable difference		
Disposals		
Balance at June 30, 2015	\$ 35	\$ 266



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

Table of Contents

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

(in thousands) June 30, 2015	Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment
<b>Loans with no related allowance recorded</b>				
Commercial and industrial	\$ 762	\$ 3,461	\$	\$ 802
Construction and development, excluding undeveloped land	26	151		26
Undeveloped land				
<b>Real estate mortgage</b>				
Commercial investment	104	361		110
Owner occupied commercial	1,649	2,087		1,587
1-4 family residential	492	492		695
Home equity - first lien	80	80		27
Home equity - junior lien	72	72		72
Subtotal: Real estate mortgage	2,397	3,092		2,491
Consumer	1	1		
Subtotal	\$ 3,186	\$ 6,705	\$	\$ 3,319
<b>Loans with an allowance recorded</b>				
Commercial and industrial	\$ 3,678	\$ 6,566	\$ 2,446	\$ 5,438
Construction and development, excluding undeveloped land	490	490	90	490
Undeveloped land				