

S Y BANCORP INC  
Form 10-K  
March 12, 2010  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**Form 10-K**

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

**For the Fiscal Year Ended  
December 31, 2009**

**Commission File Number  
1-13661**

**S.Y. BANCORP, INC.**

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

**Incorporated in Kentucky**

**I.R.S. No. 61-1137529**

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

<b>Title of each class:</b>	<b>Name of each exchange on which registered:</b>
Common Stock, no par value	NASDAQ NASDAQ
Preferred Share Purchase Rights 10.00% Cumulative Trust Preferred Securities and the guarantee with respect thereto	NASDAQ

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

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

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

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

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

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

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

**Large accelerated filer**

**Accelerated filer**

**Non-accelerated filer**

**Smaller reporting company**

(Do not check if a smaller reporting company)

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

The aggregate market value of registrant's voting stock (Common Stock, no par value) held by non-affiliates of the registrant as of June 30, 2009 (the last business day of the registrant's most recently completed second fiscal quarter) was \$287,675,000.

The number of shares of the registrant's Common Stock, no par value, outstanding as of March 5, 2010, was 13,674,676.

**Documents Incorporated By Reference**

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Portions of Registrant's definitive proxy statement related to Registrant's Annual Meeting of Shareholders to be held on April 21, 2010 (the Proxy Statement), are incorporated by reference into Part III of this Form 10-K.

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**Part I**

**Item 1. Business**

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

**Stock Yards Bank & Trust Company**

Stock Yards Bank & Trust Company is the only banking subsidiary of Bancorp and was chartered in 1904. The Bank is headquartered in Louisville, Kentucky and provides commercial and personal banking services in the Louisville Metropolitan Statistical Area (MSA), Indianapolis and Cincinnati through 28 full service banking offices (See ITEM 2. PROPERTIES ). The Bank is chartered under the laws of the Commonwealth of Kentucky. In addition to traditional commercial and personal banking activities, the Bank has an investment management and trust department offering a wide range of trust administration, investment management, retirement planning, estate administration and financial planning services. This department operates under the name of Stock Yards Trust Company. The Bank also originates and sells single-family residential mortgages through Stock Yards Mortgage Company. Additionally, the Bank offers securities brokerage services through an arrangement with a third party provider. See Note 23 to Bancorp's consolidated financial statements for the year ended December 31, 2009 for information relating to the Bank's business segments.

At December 31, 2009, the Bank had 470 full-time equivalent employees. Management of Bancorp strives to be an employer of choice and considers the relationship with employees to be good.

**Supervision and Regulation**

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

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

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

The Bank is subject to the supervision of the Federal Deposit Insurance Corporation and the Kentucky Department of Financial Institutions. The Federal Deposit Insurance Corporation (FDIC) insures the deposits of the Bank to the current maximums of \$250,000 per depositor for time and demand deposit accounts and self-directed retirement accounts. In addition, the FDIC insures all balances in non-interest bearing demand

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deposit accounts of the Bank through June 30, 2010 as part of the Transaction Account Guarantee portion of the Temporary Liquidity Guarantee Program enacted in 2008.

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the 1994 Act) removed state law barriers to interstate bank acquisitions and permits the consolidation of interstate banking operations. Under the 1994 Act, adequately capitalized and managed bank holding companies may acquire banks in any state, subject to Community Reinvestment Act compliance, compliance with federal and state antitrust laws and deposit concentration limits and subject to any state laws restricting the transaction. Kentucky banks are also permitted to acquire a branch in another state if permitted by law of the other state. Kentucky currently allows out-of-state banks to enter Kentucky to provide banking services on the same terms that a Kentucky bank could enter that bank's state.

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

In 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (The USA Patriot Act) was signed into law. The USA Patriot Act substantially broadened the scope of U.S. anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The U.S. Treasury Department issued a number of regulations implementing the USA Patriot Act that apply certain of its requirements to financial institutions such as the Company's broker-dealer subsidiary. The regulations impose new obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing.

In May 2009, as part of its efforts to rebuild the Deposit Insurance Fund DIF, the FDIC levied a special assessment applicable to all insured depository institutions totaling 5 basis points of each institution's total assets less Tier 1 capital as of June 30, 2009, not to exceed 10 basis points of domestic deposits. In lieu of further special assessments, in November 2009, the FDIC required all insured depository institutions, with limited exceptions, to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC also adopted a uniform three-basis point increase in assessment rates effective on January 1, 2011.

On October 3, 2008, in response to the stresses experienced in the financial markets, the Emergency Economic Stabilization Act (EESA) was enacted. EESA authorizes the Secretary of the Treasury to purchase up to \$700 billion in troubled assets from financial institutions under the Troubled Asset Relief Program (TARP). In December 2009, Treasury extended TARP, scheduled to expire on December 31, 2009, to October 3, 2010. Pursuant to its authority under EESA, Treasury created the TARP Capital Purchase Program (CPP) under which the Treasury Department would invest up to \$250 billion in senior preferred stock of U.S. banks and savings associations or their holding companies. Qualifying financial institutions could issue senior preferred stock with a value equal to not less than 1% of risk-weighted assets and not more than the lesser of \$25 billion or 3% of risk-weighted assets. Although it was approved for participation, the Company declined to participate in federal TARP funding because its capital levels were and remain significantly in excess of what is required to be considered well-capitalized under regulatory standards.





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**Available Information**

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

**Item 1A. Risk Factors**

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

**Our financial condition and profitability depend significantly on local and national economic conditions.**

Our success depends on general economic conditions both locally and nationally. Most of our customers are in the Louisville Metropolitan Statistical Area with a growing number of customers in the Indianapolis and Cincinnati areas. Some of our customers are directly impacted by the local economy while others have more national or global business dealings. Some of the factors influencing general economic conditions include inflation, recession and unemployment. Economic conditions can have an impact on the demand of our customers for loans, the ability of some borrowers to repay these loans, availability of deposits and the value of the collateral securing these loans.

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

Declines in the housing market over the past few years, falling home prices and increasing foreclosures, unemployment and under employment have negatively impacted the credit performance of real estate related loans and resulted in significant write downs of asset values by many financial institutions. These write downs have caused many financial institutions to seek additional capital, to reduce or eliminate dividends, to merge with larger and stronger institutions and, in some cases, to fail. Reflecting concern about the stability of the financial markets, many lenders and institutional investors have reduced or ceased providing funding to borrowers, including to other financial institutions. This market turmoil and tightening of credit have led to an increased level of commercial and consumer delinquencies, lack of consumer confidence, increased market volatility and widespread reduction of business activity generally. To date, the impact of these adverse conditions has not been severe in the primary market we serve. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we

will not experience an adverse effect, which may be material, on our ability to access capital and on our business, financial condition and results of operations.

**Significant stock market volatility could negatively affect our financial results.**

Capital and credit markets experience volatility and disruption from time to time. These conditions place downward pressure on credit availability, credit worthiness and our customers' inclinations to borrow.

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Prolonged volatility or a significant disruption could negatively impact our customers' ability to seek new loans or to repay existing loans. The personal wealth of many of our borrowers and guarantors has historically added a source of financial strength to certain loans and could be negatively impacted by severe market declines. Sustained reliance on their personal assets to make loan payments would result in deterioration of their liquidity, and could result in loan defaults.

Trust assets under management are expressed in terms of market value, and a significant portion of fee income is based upon those values. Fees earned are directly affected by the performance of the equity and bond markets. Declines in asset values result in a decrease in income from investment management and trust services.

**If our actual loan losses are greater than our allowance assumption for loan losses, our earnings could decrease.**

Our loan customers may not repay their loans according to the terms of these loans, the collateral securing the payment of these loans may be insufficient to ensure repayment and the wealth of guarantors providing guarantees to support these loans may be insufficient to aid in the repayment of these loans. Accordingly, we may experience significant credit losses which could have a material adverse effect on operating results. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of real estate and other assets serving as collateral for repayment of many of our loans. In determining the adequacy of the allowance for loan losses, we consider, among other factors, our loan loss experience and an evaluation of economic conditions. There has been continued economic softness, particularly slumping housing and commercial real estate market conditions and widespread signs of deteriorating credit quality. If our assumptions prove to be incorrect or economic problems are worse than projected, our current allowance may not be sufficient to cover loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Such additions to our allowance could have a material adverse impact on our financial results.

In addition, federal and state regulators periodically review our allowance for loan losses and may require an increase in our provision for loan losses or further loan charge-offs. If the regulatory agencies take a more aggressive stance in a focus on credit quality, and require any increase in our provision for loan losses or loan charge-offs for which we had not allocated, it would have a negative effect on net income.

**Fluctuations in interest rates could reduce our profitability.**

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

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

- inflation;

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

Prevailing interest rates are at historically low levels, and indications are that the Federal Reserve will likely maintain the low rates for much of the upcoming year. An increase in interest rates of up to 2% will decrease our net interest income, primarily because the majority of our variable rate loans have floors of 4% or higher. Our asset-liability management strategy, which is designed to mitigate our risk from changes in market

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interest rates, may not be able to prevent changes in interest rates from having a material adverse effect on our results of operations and financial condition. Our most recent earnings simulation model estimating the impact of changing interest rates on earnings indicates net interest income will increase by approximately 4% if interest rates immediately decrease 100 basis points for the next 12 months and decrease approximately 1% if rates increase 200 basis points. The scenario of rates decreasing 200 basis points is not reasonably possible given current low rates for short-term instruments and most deposits. Additionally, we have observed that competitor banks may be willing to pay rates on deposits well in excess of normal market rates, depending on their liquidity needs.

**Competition with other financial institutions could adversely affect our profitability.**

We operate in a highly competitive industry that could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. We face vigorous competition from banks and other financial institutions. A number of these banks and other financial institutions have substantially greater resources and lending limits, larger branch systems and a wider array of banking services. Additionally, we encounter competition from smaller community banks in our markets, as well as regional banks expanding into Jefferson County, the largest county in Kentucky and our primary market. We also compete with other non-traditional providers of financial services, such as brokerage firms, insurance companies and credit unions. This competition may reduce or limit our margins on banking services, reduce our market share and adversely affect our results of operations and financial condition.

**Our accounting policies and methods are critical to how we report our financial condition and results of operations. They require management to make estimates about matters that are uncertain.**

Accounting policies and methods are fundamental to how we record and report the financial condition and results of operations. We must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with Generally Accepted Accounting Principles in the United States (US GAAP).

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

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

Our operations depend upon, among other things, our infrastructure, including equipment and facilities. Extended disruption of vital infrastructure by fire, power loss, natural disaster, telecommunications failure, information systems breaches, terrorist activity or the domestic and foreign response to such activity, or other events outside of our control could have a material adverse impact on the financial services

industry as a whole and on our business, results of operations and financial condition. Our business recovery plan may not work as intended or may not prevent significant interruption of our operations. The occurrence of any failures, interruptions, or security breaches of our information systems could damage our reputation, result in the loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, any of which could have an adverse effect on our financial condition and results of operation.

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**We operate in a highly regulated environment and may be adversely affected by changes in federal, state and local laws and regulations.**

We are subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal or state legislation could have a substantial impact on our bank and its operations. Additional legislation and regulations may be enacted or adopted in the future that could significantly affect our powers, authority and operations, which could have a material adverse effect on our financial condition and results of operations. Further, regulators have significant discretion and power to prevent or remedy unsafe or unsound practices or violations of laws by banks and bank holding companies in the performance of their supervisory and enforcement duties. The exercise of regulatory power may have negative impact on our results of operations and financial condition.

**Item 1B. Unresolved Staff Comments**

**Bancorp has no unresolved SEC staff comments.**

**Item 2. Properties**

The principal offices of Bancorp and the Bank are located at 1040 East Main Street, Louisville, Kentucky. The Bank's operations center is a part of the main office complex. In addition to the main office complex, the Bank owned thirteen branch properties at December 31, 2009 (two of which are located on leased land). At that date, the Bank also leased fourteen branch facilities. Of the twenty-eight banking locations, twenty-five are located in the Louisville MSA, two are located in Indianapolis, Indiana MSA and one is located in Cincinnati, Ohio. In 2009, the Company acquired property for one additional location in the Cincinnati market, and agreed to lease another, with both offices projected to open in 2010. See Notes 5 and 17 to Bancorp's consolidated financial statements for the year ended December 31, 2009, for additional information relating to amounts invested in premises, equipment and lease commitments.

**Item 3. Legal Proceedings**

See Note 17 to Bancorp's consolidated financial statements for the year ended December 31, 2009, for information relating to legal proceedings.

**Item 4. [Reserved]**

None

**Executive Officers of the Registrant**



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The following table lists the names and ages (as of December 31, 2009) of all current executive officers of Bancorp. Each executive officer is appointed by Bancorp's Board of Directors to serve at the discretion of the Board. There is no arrangement or understanding between any executive officer of Bancorp and any other person(s) pursuant to which he/she was or is to be selected as an officer.

<b>Name and Age of Executive Officer</b>	<b>Position and Offices with Bancorp</b>
David P. Heintzman Age 50	Chairman and Chief Executive Officer
James A. Hillebrand Age 41	President and Director
Kathy C. Thompson Age 48	Senior Executive Vice President and Director
Nancy B. Davis Age 54	Executive Vice President, Secretary, Treasurer and Chief Financial Officer

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Mr. Heintzman was appointed Chairman and Chief Executive Officer effective January 1, 2006. Prior thereto, he served as President of Bancorp and the Bank since 1992. Mr. Heintzman joined the Bank in 1985.

Mr. Hillebrand was appointed President effective July 15, 2008. Prior thereto, he served as Executive Vice President and Director of Private Banking of the Bank since 2005. From 2000 to 2004, he served as Senior Vice President of Private Banking. Mr. Hillebrand joined the Bank in 1996.

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

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

**Part II**

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

Bancorp's common stock is traded on the NASDAQ Global Select Market under the ticker symbol SYBT. Prior to July 2006, the stock traded on the American Stock Exchange under the symbol SYI. The table below sets forth the quarterly high and low market closing prices of Bancorp's common stock and dividends declared per share. The payment of dividends by the Bank to Bancorp is subject to the restriction described in Note 16 to the consolidated financial statements. Management believes that Bancorp will continue to generate adequate earnings to continue to pay dividends on a quarterly basis. On December 31, 2009, Bancorp had 1,317 shareholders of record, and approximately 3,600 non-objecting beneficial owners holding shares in nominee or street name.

Quarter	2009			2008		
	High	Low	Cash dividends declared	High	Low	Cash dividends declared
First	\$ 27.50	\$ 18.65	\$ 0.17	\$ 25.96	\$ 20.85	\$ 0.17
Second	27.39	23.65	0.17	25.82	20.82	0.17
Third	25.07	21.56	0.17	34.00	19.94	0.17
Fourth	23.88	21.17	0.17	31.63	20.78	0.17

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The following table shows information relating to the repurchase of shares of common stock by Bancorp during the three months ended December 31, 2009.

	<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>
October 1-October 31		\$		
November 1-November 30	2,424	22.52		
December 1-December 31	1,782	21.50		
<b>Total</b>	4,206	\$ 22.09		

(1) Fourth quarter 2009 activity represents shares surrendered by officers, the fair value of which equaled the exercise price of stock options. This activity has no impact on the number of shares that may be purchased under a Board-approved plan.

(2) The Board of Directors of S.Y. Bancorp Inc. first approved a share buyback plan in 1999, and in February 2005, July 2007, and November 2007 expanded the plan to allow for the repurchase of additional shares. The stock repurchase program expired in November 2008, and has not been renewed.

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

The graph compares the performance of Bancorp Common Stock to the Russell 2000 index, the SNL NASDAQ Bank index and the SNL Midwest Bank index for Bancorp's last five fiscal years. The graph assumes the value of the investment in Bancorp Common Stock and in each index was \$100 at December 31, 2004 and that all dividends were reinvested.

Index	Period Ending					
	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
S.Y. Bancorp, Inc.	100.00	105.90	127.15	111.52	131.65	105.34
Russell 2000 Index	100.00	104.55	123.76	121.82	80.66	102.58
SNL Midwest Bank Index	100.00	96.36	111.38	86.81	57.11	48.40
SNL NASDAQ Bank Index	100.00	96.95	108.85	85.45	62.06	50.34

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(Dollars in thousands except per share data)	Years ended December 31				
	2009	2008	2007	2006	2005
Net interest income	\$ 58,675	\$ 56,858	\$ 53,691	\$ 53,875	\$ 49,235
Provision for loan losses	12,775	4,050	3,525	2,100	225
Net income	16,308	21,676	24,052	22,896	21,644
<b>Per share data</b>					
Net income, basic	\$ 1.20	\$ 1.61	\$ 1.70	\$ 1.58	\$ 1.48
Net income, diluted	1.19	1.59	1.67	1.55	1.46
Cash dividends declared	0.68	0.68	0.63	0.57	0.45
Book value	11.29	10.72	9.78	9.54	8.67
Market value	21.35	27.50	23.94	28.00	23.83
<b>Average balances</b>					
Stockholders' equity	\$ 150,721	\$ 136,112	\$ 139,357	\$ 131,971	\$ 121,614
Assets	1,717,474	1,567,967	1,413,614	1,353,651	1,270,178
Federal Home Loan Bank advances	80,904	86,011	65,699	34,466	25,809
Long-term debt	40,930	3,361	93	10,458	20,769
<b>Selected ratios</b>					
Return on average assets	0.95%	1.38%	1.70%	1.69%	1.70%
Return on average stockholders' equity	10.82	15.93	17.26	17.35	17.80
Average stockholders' equity to average assets	8.78	8.68	9.86	9.75	9.57
Net interest rate spread	3.35	3.51	3.48	3.77	3.79
Net interest rate margin, fully tax-equivalent	3.68	3.93	4.16	4.37	4.25
Efficiency Ratio	58.81	57.35	54.68	55.76	57.51
Non-performing loans to total loans	0.84	0.35	0.28	0.59	0.44
Non-performing assets to total assets	0.77	0.39	0.49	0.65	0.59
Net charge offs to average loans	0.59	0.16	0.20	0.18	0.07
Allowance for loan losses to total loans	1.39	1.14	1.12	1.06	1.14

Per share information has been adjusted to reflect 5% stock dividend effective May 2006.

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

The purpose of this discussion is to provide information as to the analysis of the consolidated financial condition and results of operations of S.Y. Bancorp, Inc. (Bancorp) and its wholly owned subsidiary, Stock Yards Bank & Trust Company (the Bank). Bancorp, incorporated in 1988, has no active business operations. Thus, Bancorp's business is substantially the same as that of the Bank. The Bank has operated continuously since it opened in 1904. The Bank conducted business at one location for 85 years and then began branching. At December 31, 2009, the Bank had twenty-five full service banking locations in the Louisville Metropolitan Statistical Area (MSA), two full service banking locations in Indianapolis, Indiana, and one full service banking location in Cincinnati, Ohio. In 2009, the Company acquired property for one additional location in the Cincinnati market, and agreed to lease another, with both offices projected to open in 2010. The Bank's focus on flexible, attentive customer service has been key to its growth and profitability. The wide range of services added by the investment management and trust department, the brokerage department, and the mortgage department helps support the corporate philosophy of capitalizing on full service customer relationships.

**Forward-Looking Statements**

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

**Critical Accounting Policies**

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

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

Additionally, management has identified the accounting policy related to accounting for income taxes as critical to the understanding of Bancorp's results of operations and discussed this conclusion with the Audit Committee of the Board of Directors. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in

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Bancorp's financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences, including the effects of IRS examinations and examinations by other state agencies, could materially impact Bancorp's financial position and its results from operations. Additional information regarding income taxes is discussed in the "Income Taxes" section below.

**Overview of 2009**

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

In 2009, Bancorp completed a solid year of asset and deposit growth, which helped to offset the impact that a declining interest rate environment had on net interest margin. Net income declined 25% from 2008 due to lower net interest margin, a higher provision for loan losses, and increasing non-interest expenses, particularly FDIC insurance.

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 the interest rates earned on those loans are critical to overall profitability. Similarly deposit volume is crucial to funding loans and rates paid on deposits directly impact profitability. Business volumes are influenced by overall economic factors including market interest rates, business spending, consumer confidence and competitive conditions within the marketplace.

Bancorp's loan portfolio increased 6% during 2009 to \$1.4 billion, and this was the driving force for growth in interest income. Loan growth, funded by increased deposits, resulted in an increase in net interest income on a year to year basis. Increased loan volume helped to partially offset the negative effect of the declining margin the Bank has experienced. Historic low interest rates caused margin erosion as loans and other assets repriced lower, while deposit rates hovered near zero, due to the absolute level of prevailing rates. The average rate earned on assets decreased in 2009 as the rates earned on loans and investments declined. Rates paid on liabilities decreased slightly less than rates earned on assets, contributing to a decreased net interest spread and net interest margin on a year to year basis.

Distinguishing Bancorp from other similarly sized community banks is its diverse revenue stream, and non-interest income continued to be a key contributor to earnings in 2009. Total non-interest income increased 7% from 2008 to 2009 and non-interest income as a percentage of total revenues increased to 34% in 2009 from 33% in 2008. The increase is due largely to gains on sales of mortgage loans, higher mortgage banking fees, as well as realized and unrealized gains on an investment in a domestic private investment fund. Income from investment management and trust services, which constitutes the single largest component of non-interest income declined 8% for the year due to lower asset values and a reduction in non-recurring estate fees. Revenue is earned as a percentage of the market value of the assets under management and therefore is tied directly to the broader market's overall performance. In addition, Bancorp experienced declines in service charges on deposit accounts, brokerage income and bank owned life insurance income. Partially offsetting the declines were increases in revenues from bankcard transactions and reduced losses on sales of securities during the year.

Also impacting 2009 results, Bancorp increased the 2009 loan loss provision by \$8,725,000 to \$12,775,000. While our relative amounts of non-performing loans and non-performing assets are above the historic ranges for their metrics during the last five years, they remain



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substantially below industry averages. Management's actions to increase the allowance for loan losses in 2009 reflect a methodology that is driven by risk ratings. Certain loans were downgraded during 2009, resulting in higher required allocations in the allowance for loans losses. In addition, in late February 2010, new information came to light regarding what had been a performing commercial and industrial loan relationship. Loans to this single borrower totaled approximately \$4,125,000 and were secured by business assets and life insurance. Subsequent to year end management discovered that the guarantor had multiple borrowing relationships with other lenders, has been named as a defendant in two lawsuits, one of which alleged fraud, and has personally filed for bankruptcy protection. While the borrower has yet to file for bankruptcy protection, information gathered from the personal bankruptcy and

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disclosed by the guarantor's counsel leads management to believe that the financial records of the borrower have been falsified, the collateral pledged to secure the loans has little or no value, and the borrower and guarantor have no ability to perform. While Bancorp discovered the suspected frauds in first quarter 2010, they appear to be of longstanding nature. Accordingly, management charged off the loans in their entirety and recorded an additional provision for loan losses of \$4,125,000 as of December 31, 2009.

Tangible common equity (TCE), a non-GAAP measure, is a measure of a company's capital which is useful in evaluating the quality and adequacy of capital. It is calculated by subtracting the value of intangible assets and any preferred equity from the book value of the Company. A summary of our TCE ratios at December 31, 2009 and 2008 is shown in the following table.

(in thousands, except per share data)	December 31, 2009		December 31, 2008	
Total equity	\$	153,614	\$	144,500
Less goodwill		(682)		(682)
Tangible common equity		152,932		143,818
Total assets		1,791,479		1,628,763
Less goodwill		(682)		(682)
Total tangible assets		1,790,797		1,628,081
Tangible common equity ratio		8.54%		8.83%
Number of outstanding shares		13,607		13,474
Tangible common equity per share	\$	11.24	\$	10.67

See [Non-GAAP Financial Measures](#) for reconciliation of TCE to US GAAP measures.

Challenges for 2010 will include managing credit quality and achieving continued loan growth.

- A continued economic downturn would cause us to have a higher level of non-performing loans, which would negatively impact net income.
- Although thus far we have avoided many of the consequences of lending practices that have troubled other banks, we are not likely to completely escape the impact of declining real estate values and their effect on credit quality, even though our markets have fared reasonably well in the downturn so far. We recognize that only a recovery in the general economy will ultimately bring this challenging credit cycle to an end.
- To achieve our profitability goals for 2010, net loan growth must continue at a pace in excess of 2009. This will be impacted by competition and prevailing economic conditions. While we believe there is significant opportunity for growth in the Louisville MSA, we know that our ability to deliver attractive growth over the long-term is linked to our success in new markets, including Indianapolis and Cincinnati.

- The Federal Reserve Board lowered its key short term rate in 2008 to unprecedentedly low levels, and rates have remained low throughout 2009 and into 2010. Indications are that the Federal Reserve will keep short term rates low throughout most of 2010. Approximately 40% of the Bank's loans are indexed to the prime interest rate and reprice immediately with Federal Reserve rate changes. However, approximately 68% of variable rate loans have reached their contractual floor of 4% or higher, meaning they will not reprice immediately when the prime rate increases. Deposit rates do not reprice as quickly as loans.

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- We expect net interest margin to be fairly consistent in 2010 with the level seen in the fourth quarter of 2009 as rates are expected to be largely unchanged until the fourth quarter of 2010. This would result in an increase in net interest margin over the level seen in 2009. Increased deposit and loan rate competition could negatively impact this expectation.
- We expect a decrease in non-interest income for 2010 relating to service charges on deposits, and we expect increases in non-interest expense including personnel and occupancy expenses as we open two new locations.

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

**Results of Operations**

Net income was \$16,308,000 or \$1.19 per share on a diluted basis for 2009 compared to \$21,676,000 or \$1.59 per share for 2008 and \$24,052,000 or \$1.67 per share for 2007. Net income for 2009 was positively impacted by:

- A 3% or \$1.8 million increase in net interest income.
- A 7% or \$1.9 million, increase in non-interest income.
- A 31% or \$3.1 million decrease in income taxes.

Net income for 2009 was negatively impacted by:

- A 215% or \$8.7 million increase in provision for loan losses.
- A 7% or \$3.5 million increase in non-interest expenses.

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

**Net Interest Income**

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

Comparative information regarding net interest income follows:

(Dollars in thousands)	2009	2008	2007	2009/2008 Change	2008/2007 Change
Net interest income, tax-equivalent basis	\$ 59,729	\$ 57,872	\$ 54,768	3.21%	5.7%
Net interest spread	3.35%	3.51%	3.48%	(16)bp	3bp
Net interest margin	3.68%	3.93%	4.16%	(25)bp	(23)bp
Average earning assets	\$ 1,621,757	\$ 1,472,098	\$ 1,315,925	10.2%	11.9%
Five year Treasury bond at year end	2.69%	1.55%	3.45%	114bp	(190)bp
Average five year Treasury bond	2.19%	2.79%	4.42%	(60)bp	(163)bp
Prime rate at year end	3.25%	3.25%	7.25%	0bp	(400)bp
Average prime rate	3.25%	5.09%	8.05%	(184)bp	(296)bp

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

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Prime rate and the five year Treasury bond are included above to provide a general indication of the interest rate environment in which the Bank operated. Approximately 40% of the Bank's loans are variable rate and most of these loans are indexed to the Bank's prime rate and may reprice as the prime rate changes. However, approximately \$405 million, or 68% of variable rate loans, have reached their contractual floor of 4% or higher. Approximately \$155 million or 26% of variable rate loans have no contractual floor; however, the Bank intends to establish floors whenever possible upon renewal of the loans. The remaining \$39 million of variable rate loans, or 6% of variable rate loans, have contractual floors below 4%. The Bank's variable rate loans are primarily comprised of commercial lines of credit and real estate loans. At inception, most of the Bank's fixed rate loans are priced in relation to the five year Treasury bond and the persistence of low short term rates has held those rates low. In addition to pressure on earning assets from the lower rate environment, many deposit rates are at or near a floor and are not able to be reduced to the same degree as loans. Margin erosion also reflected higher interest expense in the current year related to the Company's December 2008 issuance of trust preferred securities, and the impact of maintaining a significantly higher liquidity position in 2009, which management considered prudent given the operating environment.

Average loan balances increased \$96 million or 7.4% in 2009; however, the declining interest rate environment drove average loan yields lower by 66 basis points. Bancorp grew average interest bearing deposits \$93 million or 9.0% to fund loan growth. Average FHLB advances decreased by \$5.1 million or 5.9%, with average rates decreasing by 44 basis points. Average long-term debt increased \$37.5 million from \$3.4 million in 2008 to \$40.9 million in 2009, reflecting the subordinated debt issued in 2008. Average interest costs on interest bearing deposits decreased 77 basis points, again reflecting the declining interest rate market. The rate changes, combined with the volume increases, resulted in an increase in net interest income, but a decrease in net interest margin for 2009 compared to 2008.

For 2010, management anticipates a stable prime rate for the first three quarters, with a slight increase in the fourth quarter. The Company believes the net interest margin is stabilizing and that CD maturities of approximately \$181 million, or 36% of total CDs, in the next two quarters could spark slight improvement in the net interest margin. This expectation is based on current loan and deposit pricing in the markets in which the Company operates. However, the margin could be impacted negatively if competition causes increases in deposit rates or a decline in loan pricing in those markets.

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

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

Table of Contents**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. The December 31, 2009 simulation analysis, which shows very little interest rate sensitivity, indicates that an increase in interest rates of 100 to 200 basis points would have a slightly negative effect on net interest income, and a decrease of 100 to 200 basis points in interest rates would have a positive effect on net interest income. These estimates are summarized below.

	<b>Net Interest Income % Change</b>
Increase 200 bp	(0.56)
Increase 100 bp	(1.80)
Decrease 100 bp	3.87
Decrease 200 bp	2.64

Approximately 28% of total loans are indexed to the prime rate, and have floors of 4% or higher. Since the prime rate is currently 3.25%, rates would have to increase more than 75 bp before the rates on such loans will rise. This effect, captured in our simulation analysis above, negatively impacts the effect of rising rates. Analysis of rates increasing 300 bp or higher indicates a positive effect on net interest income.

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

Undesignated derivative instruments described in Note 20 are recognized on the consolidated balance sheet at fair value, with changes in fair value, due to changes in prevailing interest rates, recorded in other noninterest income. Because of matching terms of offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in fair value subsequent to initial recognition have a minimal effect on earnings, and are therefore not included in the simulation analysis results above.

The following table presents the increases in net interest income due to changes in rate and volume computed on a tax-equivalent basis and indicates how net interest income in 2009 and 2008 was impacted by volume increases and the lower average interest rate environment. The tax-equivalent adjustments are based on a 35% federal tax rate. The change in interest due to both rate and volume has been allocated to the change due to rate and the change due to volume in proportion to the relationship of the absolute dollar amounts of the change in each.

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

(In thousands)	Net Change	2009/2008 Increase (Decrease) Due to		Net Change	2008/2007 Increase (Decrease) Due to		
		Rate	Volume		Rate	Volume	
<b>Interest income</b>							
Loans	\$ (3,291)	\$ (9,009)	\$ 5,718	\$ (4,012)	\$ (13,347)	\$ 9,335	
Federal funds sold	(399)	(616)	217	(466)	(703)	237	
Mortgage loans held for sale	171	(16)	187	(7)	(37)	30	
Securities							
Taxable	131	(999)	1,130	410	(271)	681	
Tax-exempt	163	50	113	(97)	42	(139)	
<b>Total interest income</b>	<b>(3,225)</b>	<b>(10,590)</b>	<b>7,365</b>	<b>(4,172)</b>	<b>(14,316)</b>	<b>10,144</b>	
<b>Interest expense</b>							
Deposits							
Interest bearing demand							
deposits	(464)	(530)	66	(2,062)	(2,067)	5	
Savings deposits	68	53	15	(128)	(135)	7	
Money market deposits	(3,337)	(3,877)	540	(2,310)	(4,973)	2,663	
Time deposits	(2,798)	(4,031)	1,233	(2,361)	(3,872)	1,511	
Securities sold under							
agreements to repurchase and							
federal funds purchased	(821)	(748)	(73)	(1,714)	(1,507)	(207)	
Other short-term borrowings	(436)	(229)	(207)	312	(73)	385	
Federal Home Loan Bank							
advances	(587)	(362)	(225)	782	(151)	933	
Long-term debt	3,293	102	3,191	205	(1)	206	
<b>Total interest expense</b>	<b>(5,082)</b>	<b>(9,622)</b>	<b>4,540</b>	<b>(7,276)</b>	<b>(12,779)</b>	<b>5,503</b>	
<b>Net interest income</b>	<b>\$ 1,857</b>	<b>\$ (968)</b>	<b>\$ 2,825</b>	<b>\$ 3,104</b>	<b>\$ (1,537)</b>	<b>\$ 4,641</b>	

Bancorp's net interest income increased \$1,857,000 for the year ended December 31, 2009 compared to the same period of 2008 while 2008 compared to 2007 saw a \$3,104,000 increase. Net interest income for the year 2009 compared to 2008 was positively impacted by an increase in loan and securities volume and a decrease in deposit and other borrowing rates. Net interest income was negatively impacted by a decline in the average rate earned on assets and an increase in the volume of liabilities. Loan volume increases boosted net interest income by \$5,718,000 and declining rates on deposits contributed \$8,385,000 to the increase of net interest income. Partially offsetting the increases, declining rates on loans negatively impacted net interest income by \$9,009,000, and growth in deposit balances negatively impacted the margin by \$1,854,000. Increasing volume on long-term debt negatively impacted the margin by \$3,191,000.

For the year 2008 compared to 2007, loan growth accounted for \$9,335,000 of the increase in interest income, offset by lower rates which accounted for a decrease of \$13,347,000. Lower rates on deposit accounts resulted in a decreased interest expense of \$11,047,000, which was somewhat offset by increased interest expense of \$4,186,000 due to higher rates on money market and time deposits.





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

(Dollars in thousands)	2009	2008	2007
Provision for loan losses	\$ 12,775	\$ 4,050	\$ 3,525
Allowance to loans at year end	1.39%	1.14%	1.12%
Allowance to average loans for year	1.44%	1.19%	1.16%

The provision for loan losses increased \$8,725,000 during 2009 compared to 2008 in response to Bancorp's assessment of inherent risk in the loan portfolio. The provision for loan losses is calculated after considering credit quality factors, and ultimately relies on an overall internal analysis of the risk in the loan portfolio. The increased provision for 2009 reflects an allowance methodology that is driven by risk ratings. Certain loans were downgraded during 2009, resulting in higher required allocations in the allowance for loan losses. Ultimately, this required a higher provision. Bancorp intends to continue with its historically conservative stance toward credit quality, remaining cautious in assessing the potential risk in the loan portfolio. In addition, in late February 2010, new information came to light regarding what had been a performing commercial and industrial loan relationship. Loans to this single borrower totaled approximately \$4,125,000 and were secured by business assets and life insurance. Subsequent to year end, management discovered that the guarantor had multiple borrowing relationships with other lenders, has been named as a defendant in two lawsuits, one of which alleged fraud, and has personally filed for bankruptcy protection. While the borrower has yet to file for bankruptcy protection, information gathered from the personal bankruptcy and disclosed by the guarantor's counsel leads management to believe that the financial records of the borrower have been falsified, the collateral pledged to secure the loans has little or no value, and the borrower and guarantor have no ability to perform. While Bancorp discovered the suspected frauds in first quarter 2010, they appear to be of longstanding nature. Accordingly, management charged off the loans in their entirety and recorded an additional provision for loan losses of \$4,125,000 as of December 31, 2009.

Non-performing loans increased from \$4,710,000 at year-end 2008 to \$12,101,000 at December 31, 2009. The ratio of non-performing loans to total loans was 0.84% at December 31, 2009, up from 0.35% at December 31, 2008. Net charge-offs totaled 0.59% of average loans at year-end 2009, up from 0.16% at year-end 2008. Contributing 30 bp to the increase in charge-offs was the subsequent event discussed above. While the Company's metrics for net charge-offs and non-performing loans remain at relatively low levels compared to the banking industry, management continues to feel that a prolonged recession could place additional pressure on credit quality in determining the provision and allowance for loan losses. See [Financial Condition-Non-performing Loans and Assets](#) for further discussion of non-performing loans. See [Financial Condition-Summary of Loan Loss Experience](#) for further discussion of loans charged off during the year.

The Bank's loan portfolio is diversified with no significant concentrations of credit. Geographically, most loans are extended to borrowers in the metropolitan areas of Louisville, Kentucky, Indianapolis, Indiana and Cincinnati, Ohio. The adequacy of the allowance is monitored on an ongoing basis and it is the opinion of management that the balance of the allowance for loan losses at December 31, 2009 is adequate to absorb probable losses inherent in the loan portfolio as of the financial statement date. See [Financial Condition-Allowance for Loan Losses](#) for more information on the allowance for loan losses.



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

The following table provides a comparison of the components of non-interest income for 2009, 2008 and 2007. The table shows the dollar and percentage change from 2008 to 2009 and from 2007 to 2008. Below the table is a discussion of significant changes and trends.

(Dollars in thousands)	2009	2008	2007	2009/2008		2008/2007	
				Change	%	Change	%
<b>Non-interest income</b>							
Investment management and trust services	\$ 11,180	\$ 12,203	\$ 12,886	\$ (1,023)	(8.4)%	\$ (683)	(5.3)%
Service charges on deposit accounts	8,098	8,350	8,758	(252)	(3.0)	(408)	(4.7)
Bankcard transaction revenue	2,909	2,645	2,359	264	10.0	286	0.1
Gain on sales of mortgage loans held for sale	2,163	1,253	1,164	910	72.6	89	7.6
Loss on sales of securities available for sale	(339)	(607)		268	(44.2)	(607)	
Brokerage commissions and fees	1,749	1,797	1,929	(48)	(2.7)	(132)	(6.8)
Bank owned life insurance income	988	1,020	985	(32)	(3.1)	35	3.6
Other	3,525	1,738	2,172	1,787	102.8	(434)	(20.0)
	\$ 30,273	\$ 28,399	\$ 30,253	\$ 1,874	6.6%	\$ (1,854)	(6.1)%

Total non-interest income increased 6.6% for the year ended December 31, 2009 compared to 2008. The largest component of non-interest income is investment management and trust services. Along with the effects of improving market conditions in 2009, this area of the Bank continues to grow through attraction of new business and retention of existing business. Trust assets under management rose to \$1.55 billion at December 31, 2009, compared to \$1.35 billion at December 31, 2008, but the average of month-end market values in 2009 was lower than 2008. However, most fees earned for managing accounts are based on a percentage of market value on a monthly basis and these lower values resulted in corresponding fluctuations in investment management fees. Some revenues of the investment management and trust department, most notably executor fees, are non-recurring in nature and the timing of these revenues corresponds with the administration of estates. For 2009, 2008 and 2007 executor fees totaled approximately \$225,000, \$545,000 and \$1,024,000, respectively. These declines were partially offset by the attraction of net new accounts, consisting primarily of personal accounts.

Service charges on deposit accounts decreased \$252,000 or 3.0%, for the year ended December 31, 2009 compared to the same period a year ago. The main factor contributing to the decrease was lower non-sufficient fund fee activity in 2009.

Bankcard transaction revenue increased \$264,000 or 10.0% in 2009 compared to 2008 and primarily represents income the Bank derives from customers' use of debit cards. Results in 2009 compared favorably to 2008 as bankcard transaction volume continues to increase. To earn higher interchange fees, the Company encourages its customers to process their debit card transactions as signature-based transactions and has a rewards program to help with this effort.

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The Bank's mortgage banking division originates residential mortgage loans to be sold in the secondary market. Interest rates on the loans sold are locked with the buyer and investor prior to closing the loans, thus Bancorp bears no interest rate risk related to these loans. The division offers conventional, VA and FHA

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financing, for purchases and refinances, as well as programs for low-income first time home buyers. The mortgage banking division also offers home equity conversion mortgages or reverse mortgages insured by the U.S. Department of Housing and Urban Development (HUD). These HUD loans give older homeowners a vehicle for converting equity in their homes to cash. Interest rates on mortgage loans directly impact the volume of business transacted by the mortgage banking division. Prevailing mortgage interest rates fell substantially in late 2008 and remained at attractive levels during 2009 helping contribute to a significant increase in loan volume mostly refinance activity. Also, the well-publicized availability of first-time homebuyer tax credits contributed to an increase in purchase activity in late 2009.

Losses on securities available for sale totaled 339,000 for 2009, compared to \$607,000 in 2008. In the fourth quarter of 2009, the Bancorp sold trust preferred securities of a large financial company with a par value of \$2,425,000, generating a loss of \$359,000, as Management was concerned about the long term prospects of performance of the security. In addition, the Bancorp sold mortgage-backed securities in the normal course of portfolio management, generating gains of \$20,000. Management has the intent and ability to hold all remaining investment securities available for sale for the foreseeable future.

Brokerage commissions and fees earned primarily from stock, bond and mutual fund sales decreased 2.7% during 2009 as overall transaction volume was down compared to the prior year. Bancorp deploys its brokers primarily through its branch network for retail consumers, while larger managed accounts are included in the investment management and trust department.

Income related to bank-owned life insurance ( BOLI ) decreased 3.1% during 2009 due to a lower crediting rate. BOLI generated income of \$988,000 and \$1,020,000 during 2009 and 2008, respectively. BOLI represents the cash surrender value for life insurance policies on certain key employees who have provided consent for the Bank to be the beneficiary of a portion of such policies. The related change in cash surrender value and proceeds received under the policies are recorded as non-interest income. This income helps offset the cost of employee benefits.

Other non-interest income increased \$1,787,000 during 2009 compared to 2008 primarily due to a \$711,000 in realized and unrealized gains of the domestic private investment fund, recorded using the equity method of accounting, an increase of \$739,000 in fees related to mortgage banking, such as title and application income, and a variety of other factors, none of which is individually significant. Other non-interest income decreased in 2008 compared to 2007 partly as a result of realized and unrealized losses of the domestic private investment fund, combined with a variety of factors none of which are individually significant.

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The following table provides a comparison of the components of non-interest expenses for 2009, 2008 and 2007. The table shows the dollar and percentage change from 2008 to 2009 and from 2007 to 2008. Below the table is a discussion of significant changes and trends.

(Dollars in thousands)	2009	2008	2007	2009/2008		2008/2007	
				Change	%	Change	%
<b>Non-interest expenses</b>							
Salaries and employee benefits	\$ 30,147	\$ 28,209	\$ 27,169	\$ 1,938	6.9%	\$ 1,040	3.8%
Net occupancy expense	4,185	4,247	3,722	(62)	(1.5)	525	14.1
Data processing expense	4,479	4,108	4,760	371	9.0	(652)	(13.7)
Furniture and equipment expense	1,234	1,117	1,148	117	10.5	(31)	(2.7)
State bank taxes	1,765	1,334	1,155	431	32.3	179	15.5
FDIC insurance	2,687	621	127	2,066	332.7	494	389.0
Other	8,435	9,839	8,371	(1,404)	(14.3)	1,468	17.5
	\$ 52,932	\$ 49,475	\$ 46,452	\$ 3,457	7.0%	\$ 3,023	6.5%

Salaries and benefits are the largest component of non-interest expenses and increased \$1,938,000 or 6.9% for 2009 compared to 2008. This was primarily due to a rise in salaries expense related to the addition of senior staff, as well as increases in healthcare benefits costs and pension expense. At December 31, 2009, the Bank had 470 full-time equivalent employees compared to 464 at the same date in 2008 and 446 for 2007. There are no obligations for post-retirement or post-employment benefits.

Net occupancy expense decreased 62,000 or 1.5% from 2008 to 2009. The Bank opened no new locations in 2009 or 2008, and three locations in 2007. At December 31, 2009 the Bank had twenty-eight banking center locations including the main office.

Data processing expense increased \$371,000 or 9.0% largely due to increased trust data processing expenses related to tax document preparation in 2009, combined with a one-time reduction of data processing fees in 2008. The decrease in 2008 as compared to 2007 was largely due to renegotiated terms with the Bank's provider of ATM network and debit card processing.

Furniture and equipment expense increased \$117,000 or 10.5% in 2009, as compared to 2008, due to a variety of factors, none of which is individually significant. Costs of capital asset additions flow through the statement of income over the lives of the assets in the form of depreciation expense.

State bank taxes in Kentucky are based primarily on average capital and deposit levels. Bancorp purchased Commonwealth of Kentucky historic tax preservation credits, as well as state investment tax credits, at a discount to help reduce state bank tax in 2009, 2008 and 2007. Bancorp used state historic tax credits of approximately \$57,000, \$36,000 and \$195,000 to help reduce state bank tax during 2009, 2008 and 2007, respectively.

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FDIC insurance expense rose \$2,066,000, or 332.7% for the year ended December 31, 2009, as compared to the same period in 2008. The increases are directly related to an increase in regular deposit assessment rates by the FDIC and a special assessment in the second quarter of 2009. This special assessment of five basis points of total assets less Tier 1 capital at June 30, 2009, amounted to \$786,000, which was recorded as an expense in the second quarter.

Other non-interest expenses decreased \$1,404,000 for the year ended December 31, 2009 compared to the same period of 2008, primarily due to transactions recorded in 2008 which did not recur in 2009. These were



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valuation losses on other real estate owned of \$289,000, combined with impairment and equity-method charges of \$866,000 for an investment in a bank located in one of the Company's expansion markets. Also affecting the 2009 expenses was a \$227,000 decrease in delivery and communications related expenses, and a variety of factors none of which are individually significant.

**Income Taxes**

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

(Dollars in thousands)	2009	2008	2007
Income tax expense	\$ 6,933	\$ 10,056	\$ 9,915
Effective tax rate	29.8%	31.7%	29.2%

For more information regarding income taxes and the effective tax rate see Note 7 to Bancorp's consolidated financial statements.

**Financial Condition**

**Earning Assets and Interest Bearing Liabilities**

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

(Dollars in thousands)	2009	2008	2007	2009/2008 Change	%	2008/2007 Change	%
Average earning assets	\$ 1,621,757	\$ 1,472,098	\$ 1,315,925	\$ 149,659	10.2%	\$ 156,173	11.9%
Average interest bearing liabilities	1,330,228	1,220,776	1,064,754	109,452	9.0	156,022	14.7
Average total assets	1,717,474	1,567,967	1,413,614	149,507	9.5	154,353	10.9
Total year end assets	1,791,479	1,628,763	1,482,219	162,716	10.0	146,544	9.9

The Bank has experienced steady growth in earning assets over the last several years primarily in the area of loans. From 2008 to 2009, average loans increased 7.4%, or \$95.9 million, while average securities increased \$31.4 million, or 21.2%. Much of the loan growth is attributed to industrial and multi-family properties and large healthcare facility loans originated with substantial cash equity and strong guarantor support. Our focus has not been on housing and retail construction lending, sources of increased credit risk in the current environment. The Bank has also targeted private banking clientele as having attractive growth potential. Not only do these relationships afford loan growth, but they also bring opportunities to provide full-service financial relationships to business customers as well as provide personal financial services to business

owners. During 2008, average loans increased 11.8% with growth being primarily from commercial and industrial loans and construction loans.

Average total interest bearing accounts increased 9.0% and non-interest bearing accounts increased 12.3% in 2009. The increase in average interest bearing liabilities from 2008 to 2009 occurred primarily in money market and time deposits spurred by promotions to support loan growth. Bancorp continued to utilize fixed rate advances from the FHLB during 2009 as they compared favorably to similar term time deposits. Bancorp had an average of \$80,904,000 in outstanding FHLB advances in 2009 compared to \$86,011,000 and \$65,699,000 in 2008 and 2007, respectively. Average long-term debt increased from \$3,361,000 in 2008 to \$40,930,000 in 2009, representing the issuance of subordinated debt and trust preferred securities in late 2008.

The Company began a correspondent banking division in February 2009, to offer loan and deposit services, asset management, international services, trust operations, and other services to community banks across the Kentucky and southern Indiana region. At December 31, 2009, federal funds purchased from correspondent banks totaled \$18.0 million.

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

(Dollars in thousands)	Year 2009			Year 2008			Year 2007		
	Average balances	Interest	Average rate	Average balances	Interest	Average rate	Average balances	Interest	Average rate
<b>Earning assets</b>									
Federal funds sold	\$ 42,759	\$ 79	0.18%	\$ 23,992	\$ 478	1.99%	\$ 18,212	\$ 944	5.18%
Mortgage loans held for sale	7,385	389	5.27%	3,856	218	5.65%	3,372	225	6.67%
<b>Securities</b>									
Taxable	147,601	5,164	3.50%	119,590	5,031	4.21%	103,747	4,589	4.42%
Tax-exempt	27,230	1,604	5.89%	24,774	1,441	5.82%	27,756	1,538	5.54%
FHLB stock	5,138	214	4.17%	4,175	216	5.17%	3,737	248	6.64%
Loans, net of unearned income	1,391,644	77,460	5.57%	1,295,711	80,751	6.23%	1,159,101	84,763	7.31%
<b>Total earning assets</b>	<b>1,621,757</b>	<b>84,910</b>	<b>5.24%</b>	<b>1,472,098</b>	<b>88,135</b>	<b>5.99%</b>	<b>1,315,925</b>	<b>92,307</b>	<b>7.01%</b>
<b>Less allowance for loan losses</b>									
	17,688			14,600			12,560		
	1,604,069			1,457,498			1,303,365		
<b>Non-earning assets</b>									
Cash and due from banks	25,690			27,196			33,305		
Premises and equipment	28,034			28,101			25,056		
Accrued interest receivable and other assets	59,681			55,172			51,888		
<b>Total assets</b>	<b>\$ 1,717,474</b>			<b>\$ 1,567,967</b>			<b>\$ 1,413,614</b>		

(Dollars in thousands)	Year 2009			Year 2008			Year 2007		
	Average balances	Interest	Average rate	Average balances	Interest	Average rate	Average balances	Interest	Average rate
<b>Interest bearing liabilities</b>									
<b>Deposits</b>									
<b>Interest bearing</b>									
demand deposits	\$ 224,805	\$ 464	0.21%	\$ 208,902	\$ 928	0.44%	\$ 208,575	\$ 2,990	1.43%
Savings deposits	54,039	117	0.22%	42,973	49	0.11%	41,388	177	0.43%
Money market deposits	341,535	2,565	0.75%	310,466	5,902	1.90%	218,736	8,212	3.75%
Time deposits	512,669	14,855	2.90%	477,382	17,653	3.70%	442,036	20,014	4.53%
Securities sold under agreements to repurchase and federal funds purchased	74,207	334	0.45%	79,582	1,155	1.45%	86,248	2,869	3.33%

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Other short-term borrowings	1,139		0.00%	12,099	436	3.60%	1,979	124	6.27%
FHLB advances	80,904	3,341	4.13%	86,011	3,928	4.57%	65,699	3,146	4.79%
Long-term debt	40,930	3,505	8.56%	3,361	212	6.31%	93	7	7.53%
<b>Total interest bearing liabilities</b>	<b>1,330,228</b>	<b>25,181</b>	<b>1.89%</b>	<b>1,220,776</b>	<b>30,263</b>	<b>2.48%</b>	<b>1,064,754</b>	<b>37,539</b>	<b>3.53%</b>
<b>Non-interest bearing liabilities</b>									
Non-interest bearing demand deposits	198,888			177,110			170,748		
Accrued interest payable and other liabilities	37,637			33,969			38,755		
<b>Total liabilities</b>	<b>1,566,753</b>			<b>1,431,855</b>			<b>1,274,257</b>		
Stockholders equity	150,721			136,112			139,357		
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,717,474</b>			<b>\$ 1,567,967</b>			<b>\$ 1,413,614</b>		
Net interest income		\$ 59,729			\$ 57,872			\$ 54,768	
Net interest spread			3.35%			3.51%			3.48%
Net interest margin			3.68%			3.93%			4.16%

Notes:

- Yields on municipal securities have been computed on a fully tax-equivalent basis using the federal income tax rate of 35%.
- The approximate tax-equivalent adjustments to interest income were \$1,054,000, \$1,014,000 and \$1,077,000 for the years ended December 31, 2009, 2008 and 2007, respectively.
- Average balances for loans include the principal balance of non-accrual loans.
- Loan interest income includes loan fees and is computed on a fully tax-equivalent basis using the federal income tax rate of 35%. Loan fees, net of deferred costs, included in interest income amounted to \$570,000, \$591,000 and \$453,000 in 2009, 2008 and 2007, respectively.

Table of Contents**Securities**

The primary purpose of the securities portfolio is to provide another source of interest income, as well as liquidity management. In managing the composition of the balance sheet, Bancorp seeks a balance between earnings sources and credit and liquidity considerations.

Securities intended to be held until maturity are carried at amortized cost. Securities available for sale include securities that may be sold in response to changes in interest rates, resultant prepayment risk and other factors related to interest rate and prepayment risk changes. Securities available for sale are carried at fair value with unrealized gains or losses, net of tax effect, included in stockholders' equity.

The carrying value of securities is summarized as follows:

(In thousands)	2009	December 31 2008	2007
<b>Securities available for sale</b>			
U.S. Treasury and other U.S. government obligations	\$ 3,019	\$ 6,955	\$ 9,805
Government sponsored enterprise obligations	124,688	107,617	110,014
Mortgage-backed securities - government agencies	66,681	29,263	11,313
Obligations of states and political subdivisions	32,812	27,084	24,249
Trust preferred securities of financial institutions	1,025	2,452	3,217
Other (1)			3,951
	\$ 228,225	\$ 173,371	\$ 162,549
<b>Securities held to maturity</b>			
Mortgage-backed securities - government	\$ 35	\$ 43	\$ 59
Obligations of states and political subdivisions			1,070
	\$ 35	\$ 43	\$ 1,129

(1) Other consisted of preferred stock of other bank holding companies.

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The maturity distribution and weighted average interest rates of securities at December 31, 2009, are as follows:

(Dollars in thousands)	Within one year		After one but within five years		After five but within ten years		After ten years	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
<b>Securities available for sale</b>								
U.S. Treasury and other U.S. government obligations	\$ 3,019	4.88%	\$		\$		\$	
Government sponsored enterprise obligations	68,809	0.18%	26,898	2.90%	26,897	4.53%	2,084	4.83%
Mortgage-backed securities GNMA			1,032	3.59%			50,279	4.46%
Mortgage-backed securities government agencies	1,299	4.02%	9,817	3.86%	1,158	4.29%	3,096	3.31%
Obligations of states and political subdivisions	1,640	4.96%	16,729	4.93%	7,391	5.72%	7,052	5.80%
Trust preferred securities of financial institutions							1,025	8.06%
	\$ 74,767	0.54%	\$ 54,476	3.71%	\$ 35,446	4.78%	\$ 63,536	4.64%
<b>Securities held to maturity</b>								
Mortgage-backed securities	\$		\$		\$ 28	6.22%	\$ 7	6.58%
	\$		\$		\$ 28	6.22%	\$ 7	6.58%

Table of Contents**Loan Portfolio**

Bancorp's primary source of income is interest on loans. The composition of loans as of the end of the last five years follows:

(In thousands)	December 31				
	2009	2008	2007	2006	2005
Commercial and industrial	\$ 336,889	\$ 348,174	\$ 309,506	\$ 274,599	\$ 225,369
Construction and development	204,653	167,402	144,668	133,361	126,961
Real estate mortgage:					
Commercial investment	326,421	248,308	240,610	242,742	219,852
Owner occupied commercial	230,001	249,164	200,122	178,439	151,651
1-4 family residential	147,342	160,322	145,362	150,285	153,252
Home equity	(a)	(a)	136,962	136,893	140,287
Home equity - first lien	41,644	22,973	(a)	(a)	(a)
Home equity - junior lien	108,398	122,535	(a)	(a)	(a)
Consumer	40,114	30,759	24,708	32,635	36,499
	\$ 1,435,462	\$ 1,349,637	\$ 1,201,938	\$ 1,148,954	\$ 1,053,871

(a) In 2008, the Company changed its presentation for disclosing the types of loans in its portfolio to provide more detailed information. Home equity lines of credit were divided into two categories - first lien and junior lien; however, it was not feasible to obtain comparable amounts for these categories for prior periods.

The increase in the construction and development and commercial real estate categories is the result of a consistent strategy to serve existing clients in the Company's local markets. Much of the growth is attributed to large industrial and multi-family properties and two large healthcare facility loans originated with substantial cash equity and strong guarantor support. In some cases, lending relationships include significant pre-leasing from quality tenants. Our focus has not been on housing and retail construction lending, sources of increased credit risk in the current environment.

Increases in other categories reflect an overall increase in the size and composition of the loan portfolio, as well as the effect of internal reclassifications of loan types. It was not feasible to obtain comparable amounts for reclassification of prior period presentation.

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The following tables detail the amounts of commercial and industrial loans, and construction and development loans at December 31, 2009, which based on remaining scheduled repayments of principal, are due in the periods indicated. Also shown are the commercial and industrial loans due after one year classified according to sensitivity to changes in interest rates.

(In thousands)	Maturing			Total
	Within one year	After one but within five years	After five years	
Commercial and industrial	\$ 155,392	\$ 125,024	\$ 56,473	\$ 336,889
Construction and development	90,479	85,167	29,007	204,653

Commercial and industrial loans (In thousands)	Interest Sensitivity	
	Fixed rate	Variable rate
Due after one but within five years	\$ 72,194	\$ 52,830
Due after five years	46,531	9,942
	\$ 118,725	\$ 62,772

The establishment of interest reserves for construction and development loans is an established banking practice, but the handling of such interest reserves varies widely within the industry. Many of the Company's construction and development loans provide for the use of interest reserves, and based upon its knowledge of general industry practices, the Company believes that its practices related to such interest reserves are appropriate and conservative. When the Company underwrites construction and development loans, it considers the expected total project costs, including hard costs such as land, site work and construction costs and soft costs such as architectural and engineering fees, closing costs, leasing commissions and construction period interest. Based on the total project costs and other factors, the Company determines the required borrower cash equity contribution and the maximum amount the Company is willing to loan. In the vast majority of cases, the Company requires that all of the borrower's cash equity contribution be contributed prior to any material loan advances. This ensures that the borrower's cash equity required to complete the project will in fact be available for such purposes. As a result of this practice, the borrower's cash equity typically goes toward the purchase of the land and early stage hard and soft costs. This results in the Company funding the loan later as the project progresses, and accordingly the Company typically funds the majority of the budgeted construction period interest through loan advances. The Company monitors budgeted interest reserves and does not allow funds allocated to other items to be directed to interest without realized cost savings. The Company also looks to liquid guarantors who are able to make up a liquidity shortfall if required. The maximum committed balance of all construction and development loans which provide for the use of interest reserves at December 31, 2009 was approximately \$95.1 million, of which \$58.5 million was outstanding at December 31, 2009 and \$36.6 million remained to be advanced. The weighted average final loan to value ratio on such loans, based on the most recent appraisals and assuming such loans are ultimately fully advanced, is expected to be approximately 80%.



Table of Contents**Non-performing Loans and Assets**

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

(Dollars in thousands)	2009	2008	December 31 2007	2006	2005
Non-accrual loans	\$ 10,455	\$ 4,455	\$ 2,964	\$ 5,900	\$ 3,709
Troubled debt restructuring	753				
Loans past due 90 days or more and still accruing	893	255	406	853	891
Non-performing loans	12,101	4,710	3,370	6,753	4,600
Foreclosed real estate	1,556	1,560	3,831	2,466	3,226
Other foreclosed property	60	96			40
Non-performing assets	\$ 13,717	\$ 6,366	\$ 7,201	\$ 9,219	\$ 7,866
Non-performing loans as a percentage of total loans	0.84%	0.35%	0.28%	0.59%	0.44%
Non-performing assets as a percentage of total assets	0.77%	0.39%	0.49%	0.65%	0.59%
Allowance for loan losses as a percentage of non-performing loans	165%	327%	399%	181%	262%

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

(in thousands) Non-accrual loans by type	December 31, 2009	December 31, 2008
Commercial and industrial	\$ 321	\$ 129
Construction and development	4,246	357
Real estate mortgage - commercial investment	2,024	1,884
Real estate mortgage - owner occupied commercial	2,122	429
Real estate mortgage - 1-4 family residential	1,256	895
Home equity	453	599
Consumer	33	162
Total	\$ 10,455	\$ 4,455

The increase in non-accrual loans reflects worsening economic pressures over the past year. However, thus far, the increase in these non-accrual loans has been confined to a relatively small number of borrowers within the portfolio.

The Company has five borrowers, all in our primary market, who account for \$7,689,000 or 74% of total non-accrual loans. Each of these loans is secured by commercial real estate, and at December 31, 2009 there was a total specific allocation in the allowance for loan losses totaling \$1,050,000, representing management's estimate of credit loss exposure.

The threshold at which loans are generally transferred to non-accrual of interest status is 90 days past due unless they are well secured and in the process of collection. Interest income recorded on non-accrual loans was \$216,000, \$174,000, and \$55,000 for 2009, 2008, and 2007, respectively. Interest income that would have been recorded if non-accrual loans were on a current basis in accordance with their original terms was \$627,000, \$393,000, and \$241,000 for 2009, 2008, and 2007, respectively.

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In addition to the non-performing loans discussed above, there were loans, which are accruing interest, for which payments were current or less than 90 days past due where borrowers are experiencing significant financial difficulties. These potential problem loans totaled approximately \$20,564,000, \$7,175,000, and \$4,028,000 at December 31, 2009, 2008, and 2007, respectively. The increase in potential problem loans is attributable primarily to four lending relationships totaling \$16.6 million. These relationships will be monitored closely for possible future inclusion in non-performing loans. Management has adequately reflected the exposure in these loans in its determination of the allowance for loan losses.

Non-performing assets as a percentage of total assets increased 38 basis points from 2008 to 2009. The increase in non-performing assets as a percentage of total assets was due to the increase in non-accrual loans. Remaining foreclosed real estate primarily consists of a residential subdivision development that has required several years for full disposition as the Bank has chosen to sell individual lots rather than dispose of the property in total. This asset, with a carrying value of \$1,291,000, is periodically evaluated for impairment. In December 2008, the Company recorded an impairment charge of \$289,000 based on the most recent appraisal of the property. No impairment charges were recorded in 2009 for this property.

### **Effects of Declines in Real Estate Collateral Values**

Declines in collateral values may indirectly impact the Company's ability to collect on certain real estate loans, when borrowers are dependent on the values of the real estate as a source of cash flow. As borrowers experience difficulty, the Company evaluates their cash flow as well as the collateral value to determine prospects for collection. On an individual basis, loans are evaluated for changes in risk ratings, thereby affecting the provision and allowance for loan losses. Home equity loans are typically underwritten with consideration of the borrower's overall financial strength, without reliance on the value of the collateral as a primary repayment source. The Company requires updated appraisals on real estate at application. Additionally, the Company typically evaluates the collateral condition and value upon classification as an impaired loan and upon foreclosure. Due to the above factors, the effects of declines in real estate collateral value have been reflected in the allowance for loan losses.

### **Allowance for Loan Losses**

An allowance for loan losses has been established to provide for probable losses on loans that may not be fully repaid. The allowance for loan losses is increased by provisions charged to expense and decreased by charge-offs, net of recoveries. Loans are charged off by management when deemed uncollectible and typically after underlying collateral has been liquidated; however, collection efforts continue and future recoveries may occur. Management partially charges loans down to net realizable value if liquidation is inevitable but may take time.

Bancorp's lending policies and procedures center on controlling credit risk and include procedures to identify and measure this risk. These procedures begin with lenders assigning a risk rating to each of their credits, and this rating is confirmed in the loan approval process. Internal loan review, through a year-round process of examining individually significant obligor relationships as well as a sample of each lender's portfolio, tests the reliability of these risk assessments. Additionally, a review of this process is an integral part of regulatory bank examinations.

Adversely rated credits are included on a loan watch list. This list also includes loans requiring closer monitoring due to borrower's circumstances. However, these loans have generally not reached a level of adversity which would cause them to be criticized credits by

regulators. Loans are added to the watch list when circumstances are detected which might affect the borrower's ability to comply with terms of the loan. This could include any of the following:

- Delinquency of a scheduled loan payment,
- Deterioration in the borrower's or guarantor's financial condition identified in a review of periodic financial statements,
- Decrease in the value of collateral securing the loan, or
- Change in the economic environment in which the borrower operates.

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Loans on the watch list require detailed status reports, including recommended corrective actions, prepared by the responsible loan officer every three months. These reports are reviewed by management. The watch list is also discussed in quarterly meetings with the Board Loan Committee.

Downgrades of loan risk ratings are typically initiated by the responsible loan officer, but may also be initiated by internal loan review, or the senior loan committee at any time. Upgrades of risk ratings may only be made with the concurrence of management and internal loan review.

In determining the allowance and related provision for loan losses, these principal elements are considered:

- Specific allocations are based upon probable losses on individually evaluated impaired loans. These estimates are based primarily upon discounted collateral exposure, but other objective factors such as payment history and financial condition of the borrower or guarantor may be used as well.
- Allocations for individually significant loans not defined as impaired based on estimates needed for pools of loans with similar risk.
- Allocations for loans not reviewed are totaled by loan category and are assigned a loss allocation factor based upon the Bank's historic net charge-offs by loan type.
- Additional allowance allocations based on subjective factors not necessarily associated with a specific credit or loan category and represent management's effort to ensure that the overall allowance for loan losses appropriately reflects a margin for the imprecision necessarily inherent in the estimates of expected credit losses. Management considers a number of subjective factors, including local and general economic business factors and trends, portfolio concentrations, and changes in the size, mix and general terms of the loan portfolio.

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

The allocation of the allowance for loan losses by loan category is a result of the analysis above. The same procedures used to determine requirements for the allowance for loan losses establish the distribution of the allowance by loan category. The distribution of the allowance will change from period to period due to changes in the identified risk in each loan in the portfolio, changes in the aggregate loan balances by loan category, and changes in management's view of the subjective factors noted above. Although the allowance for loan losses is comprised of specific and general allocations the entire allowance is available to absorb any credit losses.

The method of calculating the allowance requirements has not changed significantly over time. The reallocations among different categories of loans between periods are the result of the redistribution of the individual loans that comprise the aggregate portfolio as described above. However, the perception of risk with respect to particular loans within the portfolio will change over time as a result of the characteristics and performance of those loans, overall economic and market trends, and the actual and expected trends in non-performing loans.

The adequacy of the allowance for loan losses is monitored by the internal loan review staff and reported quarterly to the Audit and Loan Committees of the Board of Directors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of Bancorp's allowance for loan losses. Such agencies may require Bancorp to make additional provisions to the allowance based upon their judgments about information available to them at the time of their examinations. Management believes that the allowance for loan losses is adequate to absorb probable inherent losses on existing loans that may become uncollectible. See "Provision for Loan Losses" for further discussion of the allowance for loan losses.

**Table of Contents****Summary of Loan Loss Experience**

The following table summarizes average loans outstanding, changes in the allowance for loan losses arising from loans charged off and recoveries on loans previously charged off by loan category and additions to the allowance charged to expense.

(Dollars in thousands)	Year ended December 31				
	2009	2008	2007	2006	2005
Average loans	\$ 1,391,644	\$ 1,295,711	\$ 1,159,101	\$ 1,093,844	\$ 1,015,261
Balance of allowance for loan losses at beginning of year	\$ 15,381	\$ 13,450	\$ 12,203	\$ 12,035	\$ 12,521
Loans charged off					
Commercial and industrial	4,925	341	1,695	920	300
Construction and development	38	109	42	703	
Real estate mortgage	3,099	1,689	547	298	241
Consumer	1,055	824	827	853	822
Total loans charged off	9,117	2,963	3,111	2,774	1,363
Recoveries of loans previously charged off					
Commercial and industrial	59	31	242	59	207
Construction and development	2			23	
Real estate mortgage	393	236	65	237	78
Consumer	507	577	526	523	367
Total recoveries	961	844	833	842	652
Net loans charged off	8,156	2,119	2,278	1,932	711
Additions to allowance charged to expense	12,775	4,050	3,525	2,100	225
Balance at end of year	\$ 20,000	\$ 15,381	\$ 13,450	\$ 12,203	\$ 12,035
Ratio of net charge-offs during year to average loans	0.59%	0.16%	0.20%	0.18%	0.07%

See Provision for Loan Losses for discussion of the provision for loan losses and higher 2009 charge-offs.

The following table sets forth the allocation of the allowance for loan losses for the loan categories shown. Although specific allocations exist, the entire allowance is available to absorb losses in any particular loan category.

(In thousands)	December 31				
	2009	2008	2007	2006	2005

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Commercial and industrial	\$	4,091	\$	2,717	\$	1,991	\$	2,385	\$	3,762
Construction and development		1,518		1,528		876		340		744
Real estate mortgage		6,513		4,065		3,421		2,851		2,712
Consumer		947		1,865		3,444		2,579		2,074
Unallocated		6,931		5,206		3,718		4,048		2,743
	\$	20,000	\$	15,381	\$	13,450	\$	12,203	\$	12,035

The changes in the allocation of the allowance from year to year in various categories are influenced by the level of net charge-offs in the respective categories and other factors including, but not limited to, an evaluation of the impact of current economic conditions and trends, risk allocations tied to specific loans or



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groups of loans and changes in qualitative allocations. Management believes that the allocations for each loan category are reflective of the risk inherent in the portfolio.

The unallocated allowance is based upon management's evaluation of various conditions, the effects of which are not directly measured in the determination of the allocated allowance. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific credits. The conditions evaluated in connection with the unallocated allowance primarily include factors such as economic conditions and forecasts and their potential impact on the loan portfolio, but may also include the adequacy of loan policies and internal controls, the experience of the lending staff, bank regulatory examination results, and changes in the composition of the portfolio.

Selected ratios relating to the allowance for loan losses follow:

	2009	Years ended December 31	
		2008	2007
Provision for loan losses to average loans	0.92%	0.31%	0.30%
Net charge-offs to average loans	0.59%	0.16%	0.20%
Allowance for loan losses to average loans	1.44%	1.19%	1.16%
Allowance for loan losses to year end loans	1.39%	1.14%	1.12%

**Deposits**

Bancorp's core deposits consist of non-interest and interest bearing demand deposits, savings deposits, certificates of deposit under \$100,000, certain certificates of deposit over \$100,000 and IRAs. These deposits, along with other borrowed funds, are used by Bancorp to support its asset base. By adjusting rates offered to depositors, Bancorp is able to influence the amounts of deposits needed to meet its funding requirements. The average amount of deposits in the Bank and average rates paid on such deposits for the years indicated are summarized as follows:

(Dollars in thousands)	2009		Years ended December 31		2007	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
Non-interest bearing demand deposits	\$ 198,888		\$ 177,110		\$ 170,748	
Interest bearing demand deposits	224,805	0.21%	208,902	0.44%	208,575	1.43%
Savings deposits	54,039	0.22%	42,973	0.11%	41,388	0.43%
Money market deposits	341,535	0.75%	310,466	1.90%	218,736	3.75%
Time deposits	512,669	2.90%	477,382	3.70%	442,036	4.53%
	\$ 1,331,936		\$ 1,216,833		\$ 1,081,483	



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Maturities of time deposits of \$100,000 or more outstanding at December 31, 2009, are summarized as follows:

(In thousands)	Amount
3 months or less	\$ 40,580
Over 3 through 6 months	31,450
Over 6 through 12 months	62,001
Over 12 months	58,460
	\$ 192,491

**Short-Term Borrowings**

Securities sold under agreements to repurchase represent short-term borrowings from commercial customers as part of a cash management service. These agreements generally have maturities of one business day from the transaction date. Bancorp considers these core deposits since they represent excess cash balances of full relationship business customers.

Information regarding securities sold under agreements to repurchase follows:

(Dollars in thousands)	2009		Years ended December 31 2008		2007	
	Amount	Rate	Amount	Rate	Amount	Rate
Securities sold under agreements to repurchase						
Year end	\$ 51,321	0.64%	\$ 61,326	0.29%	\$ 81,205	2.79%
Average during year	51,145	0.53%	65,824	1.28%	83,775	3.27%
Maximum month end balance during year	56,125		73,988		95,295	

**Subordinated Debentures**

Subordinated debentures are classified as long term debt. In light of current pressures on the economy and uncertainties in the banking industry, S.Y. Bancorp further strengthened its balance sheet during the fourth quarter of 2008 by raising additional capital with the sale of \$30,000,000 of 10% cumulative trust preferred securities in an over-subscribed public offering. The trust preferred securities, which qualify as Tier 1 capital, will mature on December 31, 2038, but are callable by the Company on or after December 31, 2013.

In September 2008, the Bank issued \$10 million of subordinated debt, with a 10 year maturity, and a call option to the Bank two years after issuance. The debt carries a floating rate, which may be determined by adding a fixed spread to the prime rate or to LIBOR. At December 31, 2009 the Bank had chosen the LIBOR rate related alternative and will reevaluate periodically to ensure the most favorable pricing. The

subordinated debt qualifies as tier 2 capital. The debt may be prepaid at any time with a prepayment penalty if repaid within the first two years of the term. The only financial covenant of the debt agreement requires that the Bank remain well capitalized as defined by its primary regulator.

See Note 11 for further information regarding subordinated debentures.

### **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

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credit available to the Company, 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 the market rate.

Bancorp's Asset/Liability Committee is primarily made up of senior management and has direct oversight responsibility for Bancorp's liquidity position and profile. A combination of daily, weekly and monthly reports provided to management detail the following: internal liquidity metrics, composition and level of the liquid asset portfolio, timing differences in short-term cash flow obligations, and exposure to contingent draws on Bancorp's liquidity.

The Company's most liquid assets are comprised of federal funds sold and available for sale marketable investment securities. Federal funds sold totaled \$6.7 million at December 31, 2009. 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 \$228.2 million at December 31, 2009, and included an unrealized net gain of \$3.7 million. The portfolio includes maturities of approximately \$74.7 million over the next twelve months, which offer substantial resources to meet either new loan demand or reductions in the Company's deposit funding base. The Company pledges portions of its investment securities portfolio to secure public fund deposits and securities sold under agreements to repurchase. At December 31, 2009, total investment securities pledged for these purposes comprised 38% of the available for sale investment portfolio, leaving \$142.7 million of unpledged securities.

The Company has a large base of core customer deposits, defined as demand, savings, and money market deposit accounts. At December 31, 2009, such deposits totaled \$910 million and represented 64% of the Company's total deposits. Because these core deposits are less volatile and are often tied to other products of the Company through long lasting relationships, they do not put heavy pressure on liquidity.

The Company began a correspondent banking division in February 2009, to offer loan and deposit services, asset management, international services, trust operations, and other services to community banks across the Kentucky and southern Indiana region. At December 31, 2009, federal funds purchased from correspondent banks totaled \$18.0 million.

Other sources of funds available to meet daily needs include the sales of securities under agreements to repurchase and funds made available under a treasury tax and loan note agreement with the federal government. Also, the Bank is a member of the FHLB of Cincinnati. As a member of the FHLB, the Bank has access to credit products of the FHLB. The Bank views these borrowings as a low cost alternative to certificates of deposit and uses the standby letters of credit to back certain investment management and trust deposits retained as deposits in the Bank. At December 31, 2009, the amount of available credit from the FHLB totaled \$118 million. See Note 10 for further information regarding advances from the Federal Home Loan Bank. Also, the Bank has available federal funds purchased lines with correspondent banks totaling \$113.5 million. Bancorp also is eligible to borrow from the Federal Reserve Bank of St. Louis based upon its asset size. Management believes it has the ability to establish additional lines of credit with outside banks.

The principal source of the Bancorp's cash revenue is dividends it receives as the sole shareholder of the Bank. As discussed in Note 16 to Bancorp's consolidated financial statements, as of January 1 of any year the Bank may pay up to the Bank's net income of the prior two years less any dividends paid for the same two years. Regulatory approval is required for dividends exceeding these amounts. Prior to the declaration of dividends, management considers the effect such payments will have on total stockholders' equity and capital ratios.

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Over the normal course of business, Bancorp enters into certain forms of off-balance sheet transactions, including unfunded loan commitments and letters of credit. These transactions are managed through Bancorp's various risk management processes. Management considers both on-balance sheet and off-balance sheet transactions in its evaluation of Bancorp's liquidity.

**Table of Contents****Sources and Uses of Cash**

Bancorp derives most of its cash flow from the activities of the Bank. Cash flow is provided primarily through the financing activities of the Bank which include raising deposits and the borrowing of funds from institutional sources such as advances from FHLB and fed funds purchased. These funds are then primarily used to facilitate the investment activities of the Bank which include making loans and purchasing securities for the investment portfolio. Another important source of cash is from the net income of the Bank from operating activities. A portion of the net income from the Bank may also be used to pay dividends to shareholders. For more specific information, see the consolidated statement of cash flows in Bancorp's consolidated financial statements.

**Commitments**

In the normal course of business, Bancorp is party to activities that contain credit, market and operational risk that are not reflected in whole or in part in Bancorp's consolidated financial statements. Such activities include: traditional off-balance sheet credit-related financial instruments, commitments under operating leases and long-term debt.

The Bank provides customers with off-balance sheet credit support through loan commitments and standby letters of credit. Summarized credit-related financial instruments, including both commitments to extend credit and letters of credit at December 31, 2009 are as follows:

(In thousands)	Total	Amount of Commitment Expiration per Period				Over 5 Years
		Less than 1 year	1-3 Years	3-5 Years		
Unused loan commitments	\$ 352,420	\$ 212,330	\$ 44,339	\$ 48,775	\$ 46,976	
Standby letters of credit	26,655	26,093	484	78		

Since some of the unused commitments are expected to expire or may not be fully used, the total amount of commitments in the preceding table does not necessarily represent future cash requirements.

In addition to owned banking facilities, the Company has entered into long-term leasing arrangements to support the ongoing activities of Bancorp. The Company also has required future payments for a defined benefit retirement plan, long-term debt and the maturity of time deposits. In 2009, the Company executed an agreement to acquire marketing rights for a new sports and entertainment venue. The Company expects to receive revenue from the relationship which will help offset a portion of the expenses over the term of the agreement. See Note 10, Note 11, Note 14 and Note 17 to Bancorp's consolidated financial statements for further information on Federal Home Loan Bank advances, subordinated debentures, the defined benefit retirement plan and operating leases.

The required payments under such commitments at December 31, 2009 are as follows:

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(In thousands)	Total	Payments due by period			
		Less than 1 year	1-3 Years	3-5 Years	Over 5 Years
Operating leases	\$ 11,690	\$ 1,575	\$ 3,237	\$ 2,317	\$ 4,561
Defined benefit retirement plan	4,388	153	246	207	3,782
Federal Home Loan Bank advances	60,453	20,012	30,022	10,023	396
Subordinated debentures	10,030				10,030
Trust preferred securities	30,900				30,900
Other	4,000	400	800	800	2,000



Table of Contents**Capital**

Information pertaining to Bancorp's capital balances and ratios follows:

(Dollars in thousands, except share data)	Years ended December 31		
	2009	2008	2007
Stockholders' equity	\$ 153,614	\$ 144,500	\$ 133,024
Dividends per share	\$ 0.68	\$ 0.68	\$ 0.63
Tier 1 risk-based capital	11.66%	11.90%	9.82%
Total risk-based capital	13.55%	13.67%	10.82%
Leverage ratio	10.16%	10.62%	9.21%

The increase in stockholders' equity from 2008 to 2009 was primarily due to the growth in retained earnings from 2009. The Board of Directors of Bancorp first approved a share buyback plan in 1999 and in February 2006, July 2007 and November 2007, the Directors expanded this plan to provide additional shares for repurchase. The plan expired in November 2008 with 163,000 shares yet to be purchased under the program. From October 2007 to March 2008, the Company repurchased a total of 639,000 common shares under its established stock repurchase plan. Since that time, however, S.Y. Bancorp has made no purchases of its common stock, choosing instead to preserve its capital in the face of uncertain economic times. S.Y. Bancorp maintained its cash payout to stockholders during 2009, keeping the annual dividend at \$0.68 per share, or an annual yield of 3.19% when annualizing the fourth quarter dividend rate and considering the year-end closing stock price.

S.Y. Bancorp strengthened its balance sheet during the fourth quarter of 2008 by raising additional capital with the sale of \$30,000,000 of trust preferred securities. S.Y. Bancorp already was well capitalized before the trust preferred offering, and the additional capital raised in that offering qualifies as additional Tier 1 capital. Separately, the Company also issued \$10 million of subordinated debentures during the third quarter of 2008. These debentures qualify as Tier 2 capital for regulatory capital purposes.

Bank holding companies and their subsidiary banks are required by regulators to meet risk-based capital standards. These standards, or ratios, measure the relationship of capital to a combination of balance sheet and off-balance sheet risks. The value of both balance sheet and off-balance sheet items are adjusted to reflect credit risks. The decrease in capital ratios from 2008 to 2009 resulted largely from the growth of assets at a faster pace than growth in retained earnings. The decrease in the Bank's capital ratios from 2008 to 2009 were also impacted by a \$25 million special dividend paid to Bancorp in December 2009. See Note 11 for more detail regarding subordinated debentures. Note 21 to the consolidated financial statements provides more details of regulatory capital requirements, as well as capital ratios of Bancorp and the Bank. Bancorp and the Bank exceed regulatory capital ratios required to be well capitalized. Management considers the effects of growth on capital ratios as it contemplates plans for expansion.

One component of equity is accumulated other comprehensive income (loss) which, for Bancorp, consists of net unrealized gains or losses on securities available for sale and a minimum pension liability, both net of taxes. Accumulated other comprehensive income was \$2,199,000 and \$2,290,000 at December 31, 2009 and 2008, respectively. The \$91,000 decrease is primarily a reflection of the effect of the changing interest rate environment during fiscal year 2009 on the valuation of the Bank's portfolio of securities available for sale.

The following table presents various key financial ratios:

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	2009	Years ended December 31 2008	2007
Return on average assets	0.95%	1.38%	1.70%
Return on average stockholders' equity	10.82%	15.93%	17.26%
Dividend pay out ratio, based on basic EPS	56.67%	42.24%	37.06%
Average stockholders' equity to average assets	8.78%	8.68%	9.86%

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### **Fair Value Measurements**

Effective January 1, 2008 the Company adopted FASB Statement No. 157, Fair Value Measurements, now codified as FASB ASC 820-10 Fair Value Measurements and Disclosures. This statement is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by US GAAP; it does not create or modify any current US GAAP requirements to apply fair value accounting. FASB ASC 820-10 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.

FASB ASC 820-10 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. FASB ASC 820-10, which requires fair value measurements to be classified as Level 1 (quoted prices), Level 2 (based on observable inputs) or Level 3 (based on unobservable, internally-derived inputs), is discussed in more detail in Note 18 to the consolidated financial statements.

The Company's investment securities available for sale are recorded at fair value on a recurring basis. Other accounts including mortgage loans held for sale, 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 debt securities of the U.S. Treasury and other U.S. government-sponsored corporations, mortgage-backed securities, obligations of state and political subdivisions, and trust preferred securities of other banks. Certain trust preferred securities are priced using quoted prices of identical securities in an active market, and are classified as Level 1 measurements. 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 the instruments. These assumptions are generally observable in the market place and can be derived from or supported by observable data. These securities are classified as Level 2 measurements.

The Company offers interest rate swaps to customers desiring long-term fixed rate lending whereby the Company receives interest at a fixed rate and pays interest at a variable rate. Simultaneously the Company enters into an interest rate swap agreement with a correspondent bank whereby the Company pays interest at a fixed rate and receives interest at a variable rate. The Company's interest rate swaps are recognized as other assets and liabilities in the consolidated statements of financial condition at fair value. The interest rate swaps are valued using primarily Level 2 inputs. Fair value measurements are obtained from an outside pricing service. Prices obtained are generally based on dealer quotes, benchmark forward yield curves, and other relevant observable market data. For purposes of potential valuation adjustments to derivative positions, the Company evaluates the credit risk of its counterparties as well as its own credit risk. To date, the Company 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 2009.

Mortgage servicing rights (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. For the year ended December 31, 2009, the MSR valuation allowance reversals totaled \$176,000. At December 31, 2009 there was no valuation allowance for the mortgage servicing rights, as the fair value exceeded the cost.



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The Company's investment in a domestic private investment fund is comprised of bank and other financial industry stocks, and this investment, included in other assets, is recorded using the equity method of accounting. We evaluated this investment and at December 31, 2009, it is not impaired. In 2008, the Company recorded equity method and impairment charges as the asset was reclassified from securities available for sale. Individual securities contained in the fund are priced using quoted prices of identical securities, quoted prices of similar securities and market-based models. 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.

The Company's investment in a bank in one of the Company's expansion markets, included in other assets, is recorded as an equity-method investment. As of December 31, 2009, the carrying value of the investment is \$520,000. The Company evaluated this investment for impairment based on a quoted price for this security in a market that is generally not active. Therefore, the measurement was classified as Level 2.

Loans are measured for impairment and, if indicated, a specific allocation is established based on the value of underlying collateral. At December 31, 2009, the carrying value of impaired loans with a specific allocation was \$8,688,000 and the corresponding total allocation was \$1,438,000. Impaired loans include non-accrual loans and loans accounted for as troubled debt restructuring.

Other real estate owned, 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 determined from external appraisals using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. At December 31, 2009 and 2008, the carrying value of other real estate owned is \$1,556,000 and \$1,560,000, respectively.

US GAAP requires that goodwill no longer be amortized, but instead be tested for impairment at least annually. Annual evaluations have resulted in no charges for impairment, as the fair value is substantially in excess of the carrying value. Bancorp currently has goodwill from the acquisition of a bank in southern Indiana in the amount of \$682,000. Fair value is based on a valuation analysis that incorporates present value of financial assets of the commercial and retail banking segment of the Bank. The model incorporates assumptions that market participants would use in estimating future cash flows and their present value. These measurements are classified as Level 3.

See Note 18 for details of fair value measurements.

Table of Contents**Non-GAAP Financial Measures**

In addition to capital ratios defined by banking regulators, the Company 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. The Company believes these ratios are important because of their widespread use by investors as means to evaluate capital adequacy, as they reflect the level of capital available to withstand unexpected market conditions. Because US GAAP does not include capital ratio measures, there are no US GAAP financial measures comparable to these ratios. The following table reconciles the Company's calculation of the measures to amounts reported under US GAAP.

(in thousands, except per share data)	December 31, 2009	December 31, 2008
Total equity (a)	\$ 153,614	144,500
Less goodwill	(682)	(682)
Tangible common equity (c)	152,932	143,818
Total assets (b)	\$ 1,791,479	1,628,763
Less goodwill	(682)	(682)
Total tangible assets (d)	1,790,797	1,628,081
Total shareholders' equity to total assets (a/b)	8.57%	8.87%
Tangible common equity ratio (c/d)	8.54%	8.83%
Number of outstanding shares (e)	13,607	13,474
Book value per share (a/e)	\$ 11.29	\$ 10.72
Tangible common equity per share (c/e)	11.24	10.67

**Recently Issued Accounting Pronouncements**

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. On July 1, 2009, the FASB launched its Accounting Standards Codification. Pursuant to Statement 168, the Codification has become the sole source of authoritative U.S. GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative US GAAP for SEC registrants. FASB suggests that all citations begin with FASB ASC, where ASC stands for Accounting Standards Codification. Statement 168 became effective for interim and annual periods ending after September 15, 2009. The adoption of FASB Statement No. 168 (FASB ASC 105-10) did not have an impact on Bancorp's consolidated financial statements but has changed the referencing system for accounting standards. The following pronouncements provide citations to the applicable Codification by Topic, Subtopic and Section in addition to the original standard type and number.

The Company adopted Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, on January 1, 2008, now codified as FASB ASC 820-10 *Fair Value Measurements and Disclosures*. This Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. It emphasizes that fair value is a market-based measurement and should be determined based on assumptions that a market participant would use when pricing an asset or liability. Additionally, it establishes a fair value hierarchy that provides the highest priority to measurements using quoted prices in active markets and the lowest priority to



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measurements based on unobservable data. In February 2008 the FASB issued a statement delaying the effective date of this Statement for nonfinancial assets and nonfinancial liabilities except those that are recognized or disclosed at fair value on a recurring basis. Accordingly, the Company began applying this Statement to other real estate owned and goodwill in 2009. The Statement does not require any new fair value measurements. The adoption did not have a material impact on Bancorp's consolidated financial statements.

In May 2009, the FASB issued Statement No. 165, *Subsequent Events*, now codified as FASB ASC 855-10, to provide guidance on management's assessment of subsequent events. Historically, management had relied on U.S. auditing literature for guidance on assessing and disclosing subsequent events. Statement 165 represents the inclusion of guidance on subsequent events in the accounting literature and is directed specifically to management, since management is responsible for preparing an entity's financial statements. Statement 165 is effective for interim and annual periods ending after June 15, 2009. In February 2010, the FASB issued Accounting Standards Update (ASU) 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements*. This ASU provides amendments which clarify that entities are required to evaluate subsequent events through the date financial statements are issued, but SEC filers are not required to disclose the date through which subsequent events have been evaluated. The ASU was effective upon issuance of the final update. The adoption of this guidance had no impact in Bancorp's consolidated financial statements.

In April 2009, the FASB issued FASB Staff Position (FSP) No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, now codified as FASB ASC 820-10-65. This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements*, when the volume and level of activity for the asset or liability have significantly decreased, and also includes guidance on identifying circumstances that indicate a transaction is not orderly. The FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The adoption of FSP No. 157-4 had no impact on Bancorp's consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, now codified as FASB ASC 320-10-65. This FSP amends the other-than-temporary impairment guidance in US GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. The FSP was effective for interim and annual reporting periods ending after June 15, 2009, and resulted in additional quarterly disclosures.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, now codified as FASB ASC 825-10-65. This FSP amends FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, *Interim Financial Reporting*, to require those disclosures in summarized financial information at interim reporting periods. The FSP, effective for interim and annual reporting periods ending after June 15, 2009, shall be applied prospectively and resulted in additional quarterly disclosures.

In August 2009, the FASB issued ASU 2009-05, *Fair Value Measurements and Disclosures (FASB ASC Topic 820) Measuring Liabilities at Fair Value*. The update addresses practice difficulties caused by the tension between fair-value measurements based on the price that would be paid to transfer a liability to a new obligor and contractual or legal requirements that prevent such transfers from taking place. The new guidance is effective for interim and annual periods beginning after August 27, 2009, and applies to all fair-value measurements of liabilities required by US GAAP. No new fair-value measurements are required by the standard. The adoption of this update is not expected to have an impact on Bancorp's consolidated financial statements.





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In September 2009, the FASB issued ASU 2009-12, Fair Value Measurements and Disclosures (820) Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This standard allows investors to use net asset value (NAV) as a practical expedient to estimate fair value of investments in investment companies that do not have readily determinable fair values, including investees that have attributes of investment companies, report net asset value or its equivalent (e.g., partners' capital) to their investors, and calculate net asset value or its equivalent consistent with the measurement principles of the AICPA Investment Companies Guide (i.e., their assets generally are measured at fair value). The practical expedient cannot be used for investments that have a readily determinable fair value. The amendments in ASU 2009-12 are effective for interim and annual periods ending after December 15, 2009. The adoption of this update is not expected to have an impact on Bancorp's consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (820) Improving Disclosures about Fair Value Measurements. This standard provides additional disclosures for transfers in and out of Levels I and II and for activity in Level III. This ASU also clarifies certain other existing disclosure requirements including level of desegregation and disclosures around inputs and valuation techniques. The amendments in ASU 2010-06 are effective for interim and annual periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activity for purchases, sales, issuances, and settlements on a gross basis. That requirement will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of ASU 2010-06 is expected to result in additional quarterly and annual disclosures.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Information required by this item is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

**Item 8. Financial Statements and Supplementary Data**

The following consolidated financial statements of Bancorp and report of independent auditors are included below:

Consolidated Balance Sheets - December 31, 2009 and 2008

Consolidated Statements of Income - years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Changes in Stockholders' Equity - years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Comprehensive Income - years ended December 31, 2009, 2008 and 2007

Consolidated Statements of Cash Flows - years ended December 31, 2009, 2008 and 2007

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Management's Report on Consolidated Financial Statements

Table of Contents**Consolidated Balance Sheets**

(Dollars in thousands)	December 31,	
	2009	2008
<b>Assets</b>		
Cash and due from banks	\$ 25,773	\$ 24,859
Federal funds sold	6,651	2,254
Mortgage loans held for sale	13,249	2,950
Securities available for sale (amortized cost of \$224,488 in 2009 and \$169,505 in 2008)	228,225	173,371
Securities held to maturity (fair value of \$37 in 2009 and \$44 in 2008)	35	43
Federal Home Loan Bank stock and other securities	5,547	4,324
Loans	1,435,462	1,349,637
Less allowance for loan losses	20,000	15,381
Net loans	1,415,462	1,334,256
Premises and equipment, net	28,016	27,926
Bank owned life insurance	25,130	24,142
Accrued interest receivable	5,745	5,955
Other assets	37,646	28,683
<b>Total assets</b>	<b>\$ 1,791,479</b>	<b>\$ 1,628,763</b>
<b>Liabilities</b>		
<b>Deposits</b>		
Non-interest bearing	\$ 211,352	\$ 182,778
Interest bearing	1,206,832	1,088,147
Total deposits	1,418,184	1,270,925
Securities sold under agreements to repurchase	51,321	61,326
Federal funds purchased	19,518	5,191
Other short-term borrowings	1,809	1,132
Accrued interest payable	427	690
Other liabilities	45,223	34,039
Federal Home Loan Bank advances	60,453	70,000
Subordinated debentures	40,930	40,960
<b>Total liabilities</b>	<b>\$ 1,637,865</b>	<b>\$ 1,484,263</b>
<b>Stockholders equity</b>		
Preferred stock, no par value; 1,000,000 shares authorized; no shares issued or outstanding		
Common stock, no par value; 20,000,000 shares authorized; issued and outstanding 13,606,532 shares in 2009 and 13,473,740 shares in 2008	6,244	5,802
Additional paid-in capital	9,729	7,485
Retained earnings	135,442	128,923
Accumulated other comprehensive income	2,199	2,290
<b>Total stockholders equity</b>	<b>153,614</b>	<b>144,500</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,791,479</b>	<b>\$ 1,628,763</b>

See accompanying notes to consolidated financial statements.



Table of Contents**Consolidated Statements of Income**

(In thousands, except per share data)	Years ended December 31,		
	2009	2008	2007
<b>Interest income</b>			
Loans	\$ 76,889	\$ 80,171	\$ 84,149
Federal funds sold	79	478	944
Mortgage loans held for sale	389	218	225
<b>Securities</b>			
Taxable	5,378	5,247	4,837
Tax-exempt	1,121	1,007	1,075
<b>Total interest income</b>	<b>83,856</b>	<b>87,121</b>	<b>91,230</b>
<b>Interest expense</b>			
Deposits	18,001	24,532	31,393
Securities sold under agreements to repurchase	271	841	2,740
Federal funds purchased	63	314	129
Other short-term borrowings		436	124
Federal Home Loan Bank advances	3,341	3,928	3,146
Subordinated debentures	3,505	212	7
<b>Total interest expense</b>	<b>25,181</b>	<b>30,263</b>	<b>37,539</b>
<b>Net interest income</b>	<b>58,675</b>	<b>56,858</b>	<b>53,691</b>
Provision for loan losses	12,775	4,050	3,525
<b>Net interest income after provision for loan losses</b>	<b>45,900</b>	<b>52,808</b>	<b>50,166</b>
<b>Non-interest income</b>			
Investment management and trust services	11,180	12,203	12,886
Service charges on deposit accounts	8,098	8,350	8,758
Bankcard transaction revenue	2,909	2,645	2,359
Gains on sales of mortgage loans held for sale	2,163	1,253	1,164
Loss on sales of securities available for sale	(339)	(607)	
Brokerage commissions and fees	1,749	1,797	1,929
Bank owned life insurance income	988	1,020	985
Other	3,525	1,738	2,172
<b>Total non-interest income</b>	<b>30,273</b>	<b>28,399</b>	<b>30,253</b>
<b>Non-interest expenses</b>			
Salaries and employee benefits	30,147	28,209	27,169
Net occupancy expense	4,185	4,247	3,722
Data processing expense	4,479	4,108	4,760
Furniture and equipment expense	1,234	1,117	1,148
State bank taxes	1,765	1,334	1,155
FDIC insurance	2,687	621	127
Other	8,435	9,839	8,371
<b>Total non-interest expenses</b>	<b>52,932</b>	<b>49,475</b>	<b>46,452</b>
<b>Income before income taxes</b>	<b>23,241</b>	<b>31,732</b>	<b>33,967</b>
Income tax expense	6,933	10,056	9,915

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<b>Net income</b>	\$	16,308	\$	21,676	\$	24,052
<b>Net income per share, basic</b>	\$	1.20	\$	1.61	\$	1.70
<b>Net income per share, diluted</b>	\$	1.19	\$	1.59	\$	1.67

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Statements of Changes in Stockholders' Equity**

(In thousands, except per share data)	Common stock		Three years ended December 31, 2009			Accumulated other comprehensive income (loss)	Total
	Number of shares	Amount	Additional paid-in capital	Retained earnings			
Balance December 31, 2006	14,400	\$ 8,878	\$ 27,703	\$ 101,876	\$ (1,013)	\$ 137,444	
Net income				24,052		24,052	
Change in other comprehensive income, net of tax					1,096	1,096	
Stock compensation expense			467			467	
Shares issued for stock options exercised and employee benefit plans	82	277	969			1,246	
Shares issued for non-vested restricted stock	4	14	96	(110)			
Cash dividends, \$0.63 per share				(8,912)		(8,912)	
Shares repurchased or cancelled	(886)	(2,955)	(19,414)			(22,369)	
Balance December 31, 2007	13,600	\$ 6,214	\$ 9,821	\$ 116,906	\$ 83	\$ 133,024	
Net income				21,676		21,676	
Change in other comprehensive income, net of tax					2,207	2,207	
Stock compensation expense			657			657	
Shares issued for stock options exercised and employee benefit plans	86	292	1,163			1,455	
Shares issued for non-vested restricted stock	23	76	463	(539)			
Cash dividends, \$0.68 per share				(9,135)		(9,135)	
Shares repurchased or cancelled	(235)	(780)	(4,619)	15		(5,384)	
Balance December 31, 2008	13,474	\$ 5,802	\$ 7,485	\$ 128,923	\$ 2,290	\$ 144,500	
Net income				16,308		16,308	
Change in other comprehensive loss, net of tax					(91)	(91)	
Stock compensation expense			691			691	
Shares issued for stock options exercised and	124	414	1,423			1,837	

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employee benefit plans									
Shares issued for non-vested restricted stock	26		85		481		(566)		
Cash dividends, \$0.68 per share							(9,238)		(9,238)
Shares repurchased or cancelled	(17)		(57)		(351)		15		(393)
Balance December 31, 2009	13,607	\$	6,244	\$	9,729	\$	135,442	\$	2,199 \$ 153,614

See accompanying notes to consolidated financial statements.



Table of Contents**Consolidated Statements of Comprehensive Income**

(In thousands)	Years ended December 31,		
	2009	2008	2007
<b>Net income</b>	\$ 16,308	\$ 21,676	\$ 24,052
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 \$(163), \$967, and \$601, respectively)	(303)	1,796	1,114
Reclassification adjustment for securities losses realized in income (net of tax of \$119, \$212, and \$0, respectively)	220	395	
Minimum Pension Liability adjustment (net of tax of \$(4), \$9, and \$(9) respectively)	(8)	16	(18)
Other comprehensive income (loss)	(91)	2,207	1,096
<b>Comprehensive income</b>	<b>\$ 16,217</b>	<b>\$ 23,883</b>	<b>\$ 25,148</b>

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Statements of Cash Flows**

(in thousands)	Years ended December 31		
	2009	2008	2007
<b>Operating activities</b>			
Net income	\$ 16,308	\$ 21,676	\$ 24,052
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	12,775	4,050	3,525
Depreciation, amortization and accretion, net	2,554	2,532	2,496
Deferred income tax benefit	(1,949)	(1,526)	(1,548)
Loss on sale of securities available for sale	339	607	
Gains on sales of mortgage loans held for sale	(2,163)	(1,253)	(1,164)
Origination of mortgage loans held for sale	(231,399)	(92,189)	(90,474)
Proceeds from sale of mortgage loans held for sale	223,263	95,263	90,902
Bank owned life insurance income	(988)	(1,020)	(985)
Decrease (increase) in value of private investment fund	(459)	153	287
Gain (loss) on the sale of foreclosed assets	(46)	9	67
Loss on the disposal of equipment			15
Stock compensation expense	691	657	467
Excess tax benefits from share-based compensation arrangements	(150)	(188)	(53)
Valuation losses on other assets		1,154	
Valuation losses (reversal) of mortgage servicing rights	(176)	176	
Increase in accrued interest receivable and other assets	(6,374)	(4,520)	(2,837)
Increase (decrease) in accrued interest payable and other liabilities	916	(1,033)	1,447
<b>Net cash provided by operating activities</b>	<b>13,142</b>	<b>24,548</b>	<b>26,197</b>
<b>Investing activities</b>			
Purchases of securities available for sale	(268,064)	(293,950)	(98,202)
Proceeds from sale of securities available for sale	7,774	3,344	
Proceeds from maturities of securities available for sale	203,756	282,025	80,802
Proceeds from maturities of securities held to maturity	8	1,086	2,015
Net increase in loans	(84,624)	(148,370)	(70,123)
Purchases of premises and equipment	(2,607)	(3,260)	(4,887)
Proceeds from sale of foreclosed assets	1,012	3,384	6,090
<b>Net cash used in investing activities</b>	<b>(142,745)</b>	<b>(155,741)</b>	<b>(84,305)</b>
<b>Financing activities</b>			
Net increase in deposits	147,259	164,218	3,465
Net increase (decrease) in securities sold under agreements to repurchase and federal funds purchased	4,322	(42,182)	24,386
Net increase (decrease) in other short-term borrowings	677	(9,533)	9,931
Proceeds from Federal Home Loan Bank advances	20,460		40,000
Repayments of Federal Home Loan Bank advances	(30,007)	(20,000)	(10,000)
Proceeds from issuance of subordinated debentures		40,900	
Issuance costs of subordinated debentures		(1,414)	
Repayments of subordinated debentures	(30)	(30)	(30)
Issuance of common stock for options and dividend reinvestment plan	1,687	1,267	1,193
Excess tax benefits from share-based compensation arrangements	150	188	53
Common stock repurchases	(393)	(5,384)	(22,369)
Cash dividends paid	(9,211)	(9,053)	(8,870)
<b>Net cash provided by financing activities</b>	<b>134,914</b>	<b>118,977</b>	<b>37,759</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>5,311</b>	<b>(12,216)</b>	<b>(20,349)</b>

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<b>Cash and cash equivalents at beginning of year</b>		27,113		39,329		59,678
<b>Cash and cash equivalents at end of period</b>	\$	32,424	\$	27,113	\$	39,329
<b>Supplemental cash flow information:</b>						
Income tax payments	\$	9,155	\$	9,350	\$	10,275
Cash paid for interest		25,444		30,665		37,376
<b>Supplemental non-cash activity:</b>						
Transfers from loans to foreclosed assets	\$	759	\$	1,411	\$	5,991

See accompanying notes to consolidated financial statements.

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**Notes to Consolidated Financial Statements**

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

**Principles of Consolidation and Nature of Operations**

The consolidated financial statements include the accounts of S.Y. Bancorp, Inc. (Bancorp) and its wholly owned subsidiaries, Stock Yards Bank & Trust Company (the Bank) and S.Y. Bancorp Capital Trust II. Significant intercompany transactions and accounts have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to the 2009 presentation. The Company has evaluated subsequent events for recognition or disclosure up to the date on which financial statements were issued.

In addition to traditional commercial and personal banking activities, the Bank has an investment management and trust department offering a wide range of trust administration, investment management, retirement planning, estate administration and financial planning services. The Bank's primary market area is Louisville, Kentucky and surrounding communities including southern Indiana. Other markets include Indianapolis, Indiana where the Bank has two full service branches, and Cincinnati, Ohio where the Bank has one full service branch. In 2009, the Company acquired property for one additional location, and agreed to lease another, in the Cincinnati market, with both offices projected to open in 2010.

**Basis of Financial Statement Presentation and Use of Estimates**

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

**Cash and Cash Equivalents**

Cash and cash equivalents include cash and due from banks and Federal funds sold as segregated in the accompanying consolidated balance sheets.

**Securities**

Securities that we have the intent and ability to hold until maturity are carried at amortized cost. Securities available for sale include securities that may be sold in response to changes in interest rates, resultant prepayment risk and other factors related to interest rate and prepayment risk changes. Securities available for sale are carried at fair value with unrealized gains or losses, net of tax effect, included in stockholders' equity. Amortization of premiums and accretion of discounts are recorded using the interest method over the life of the security. Gains or losses on sales of securities are computed on a specific identification cost basis for securities. For securities for which impairment is other than temporary, losses are reflected in operations and a new cost basis is established.

#### **Mortgage Loans Held for Sale**

Mortgage loans held for sale are carried at the lower of cost or market value on an individual loan basis. Gains on sales of mortgage loans are recorded at the time of disbursement by an investor at the difference between the sales proceeds and the loans carrying value net of any origination costs.

#### **Loans**

Loans are stated at the unpaid principal balance less net deferred loan fees or costs. Loan fees, net of any costs, are deferred and amortized over the life of the related loan on an effective yield basis. Interest income

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on loans is recorded on the accrual basis except for those loans in a non-accrual income status. Loans are placed in a non-accrual income status when the prospects for recovering both principal and accrued interest are considered doubtful or when a default of principal or interest has existed for 90 days or more unless such a loan is well secured and in the process of collection. When a loan is placed on non-accrual status, any interest previously accrued but not yet collected is reversed against current income. Interest income is recorded on a cash basis during the period a loan is on non-accrual status so long as the recovery of principal is reasonably assured. Non-accrual loans may be returned to accrual status once principal recovery is reasonably assured. Loans are accounted for as troubled debt restructuring when the Bank, for economic or legal reasons related to the debtor's financial difficulties, grants a change in terms not allowing for the full collection of principal and interest. If a restructured loan at a current market rate performs according to its restructured terms for 12 months following its initial classification, it shall be removed from restructured status.

Loans are classified as impaired when it is probable the Bank will be unable to collect interest and principal according to the terms of the loan agreement. These loans are measured based on the present value of future cash flows discounted at the loans' effective interest rate or at the estimated fair value of the loans' collateral, if applicable.

### **Allowance for Loan Losses**

The allowance for loan losses is maintained at a level that adequately provides for probable losses inherent in the loan portfolio. Management determines the adequacy of the allowance based on reviews of individual credits and the underlying collateral, recent loss experience, current economic conditions, the risk characteristics of the various loan categories and such other factors that, in management's judgment, deserve current recognition in estimating loan losses. The allowance for loan losses is increased by the provision for loan losses and reduced by net loan charge-offs.

Various regulatory agencies, as an integral part of their examination process, periodically review the adequacy of Bancorp's allowance for loan losses. Such agencies may require Bancorp to make additional provisions to the allowance based upon their judgments about information available to them at the time of their examinations.

### **Premises and Equipment**

Premises and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation of premises and equipment is computed using straight-line methods over the estimated useful lives of the assets ranging from 3 to 39 years. Leasehold improvements are amortized on the straight-line method over the terms of the related leases, including renewals, or over the useful lives of the improvements, whichever is shorter. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized.

### **Other Assets**

Bank-owned life insurance is carried at net realizable value, which considers any applicable surrender charges. Also, the Bank maintains life insurance policies other than BOLI in conjunction with its non-qualified defined benefit and non-qualified compensation plans.

Other real estate is carried at the lower of cost or estimated fair value minus estimated selling costs. Any write downs to fair value at the date of acquisition are charged to the allowance for loan losses. In certain situations, improvements to prepare assets for sale are capitalized if those costs increase the estimated fair value of the asset. Expenses incurred in maintaining assets, write downs to reflect subsequent declines in value, and realized gains or losses are reflected in operations and are included in non-interest income and expense.

The Company's investment in a domestic private investment fund is comprised of bank and other financial industry stocks and is accounted for in accordance with FASB ASC 323-10 Investments Equity Method and Joint Ventures . In 2008, this investment was reclassified to other assets and the equity method of accounting was applied. This investment was previously included in securities available for sale.

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Mortgage servicing rights (MSRs) are amortized in proportion to and over the period of estimated net servicing income, considering appropriate prepayment assumptions. MSRs are evaluated quarterly for impairment by comparing the carrying value to the fair value.

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

**Securities Sold Under Agreements to Repurchase**

Bancorp enters into sales of securities under agreement to repurchase at a specified future date. Such repurchase agreements are considered financing agreements and, accordingly, the obligation to repurchase assets sold is reflected as a liability in the consolidated balance sheets of Bancorp. Repurchase agreements are collateralized by debt securities which are owned and under the control of Bancorp. These agreements are used in conjunction with corporate sweep accounts. Because the Bank may not pay interest on demand deposit accounts to corporate depositors, this sweep arrangement allows excess deposit balances to be automatically transferred into a repurchase agreement account where the funds earn interest.

**Repurchased Shares of Common Stock**

The repurchase of Bancorp's common stock is recorded at cost, and repurchased shares are returned to the status of authorized, but unissued. Amounts recorded in common stock are based on the stated value of the shares, as there is no par value. Residual amounts are recorded in additional paid in capital.

**Income Taxes**

Bancorp accounts for income taxes using the asset and liability method. The objective of the asset and liability method is to establish deferred tax assets and liabilities for temporary differences between the financial reporting and the tax bases of Bancorp's assets and liabilities at enacted tax rates expected to be in effect when such amounts are realized or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the statement of income in the period that includes the enactment date.

No valuation allowance for deferred tax assets was recorded as of December 31, 2009 and 2008 because Bancorp has sufficient prior taxable income and tax planning strategies to allow for utilization of the deductible temporary differences and capital loss carryforwards within the carryback and carryforward period. Management believes that it is more likely than not that all of the deferred tax assets will be realized.

To the extent unrecognized income tax benefits become realized or the related accrued interest is no longer necessary, our provision for income taxes would be favorably impacted. As of December 31, 2009, the gross amount of unrecognized tax benefits was \$230,000. If recognized, all



of the tax benefits would increase net income, resulting in a decrease of the effective tax rate. The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to statutes of limitation, changes in management's judgment about the level of uncertainty, status of examination, litigation and legislative activity and the addition or elimination of uncertain tax positions.

Bancorp's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of January 1 and December 31, 2009, the amount accrued for the potential payment of interest and penalties was \$20,000.

Bancorp invests in certain low-income housing projects that yield investment tax credits and tax deductible losses. These tax benefits are recognized in income tax expense using an effective yield method over the life of the investment.

### **Net Income Per Share**

Basic net income per common share is determined by dividing net income by the weighted average number of shares of common stock outstanding. Diluted net income per share is determined by dividing net income

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by the weighted average number of shares of common stock outstanding plus the weighted average number of shares that would be issued upon exercise of dilutive options, assuming proceeds are used to repurchase shares under the treasury stock method.

**Comprehensive Income**

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

**Segment Information**

The Bank provides a broad range of financial services to individuals, corporations and others through its twenty-eight full service banking locations as of December 31, 2009. These services include lending and deposit services, cash management services, brokerage activities, mortgage lending and investment management and trust activities. The Bank's chief decision makers monitor the results of the various banking products and services and accordingly, the Bank's operations are considered by management to be aggregated in two reportable operating segments: commercial banking and investment management and trust.

**Stock-Based Compensation**

Under US GAAP, the fair value of all new and modified awards granted is recognized as compensation expense, net of estimated forfeitures.

**Derivatives**

The Company offers interest rate swaps to customers desiring long-term fixed rate lending whereby the Company receives interest at a fixed rate and pays interest at a variable rate. Simultaneously the Company enters into an interest rate swap agreement with a correspondent bank whereby the Company pays interest at a fixed rate and receives interest at a variable rate. Because of matching terms of offsetting contracts and the collateral provisions mitigating any non-performance risk, changes in fair value subsequent to initial recognition have an insignificant effect on earnings.

The Company's interest rate swaps are recognized as other assets and liabilities in the consolidated statements of financial condition at fair value. The Company's derivative instruments have not been designated as hedging instruments. These undesignated derivative instruments are recognized on the consolidated balance sheet at fair value, with changes in fair value, due to changes in prevailing interest rates, recorded in other noninterest income.

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

The Bank is required to maintain an average reserve balance in cash or with the Federal Reserve Bank relating to customer deposits. The amount of those required reserve balances was approximately \$755,000 and \$919,000 at December 31, 2009 and 2008, respectively.

Table of Contents**(3) Securities**

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

(In thousands)	Amortized cost	Gains	Unrealized Losses	Fair value
<b>December 31, 2009</b>				
U.S. Treasury and other U.S. government obligations	\$ 3,000	\$ 19	\$	\$ 3,019
Government sponsored enterprise obligations	122,761	2,006	79	124,688
Mortgage-backed securities	65,179	1,519	17	66,681
Obligations of states and political subdivisions	32,298	689	175	32,812
Trust preferred securities of financial institutions	1,250		225	1,025
	\$ 224,488	\$ 4,233	\$ 496	\$ 228,225
<b>December 31, 2008</b>				
U.S. Treasury and other U.S. government obligations	\$ 6,796	\$ 159	\$	\$ 6,955
Government sponsored enterprise obligations	104,137	3,480		107,617
Mortgage-backed securities	28,898	379	14	29,263
Obligations of states and political subdivisions	26,441	712	69	27,084
Trust preferred securities of financial institutions	3,233		781	2,452
	\$ 169,505	\$ 4,730	\$ 864	\$ 173,371

In the fourth quarter of 2009, the Company sold trust preferred securities of a large financial company with a par value of \$1,983,000, generating a loss of \$359,000, as Management was concerned about the long term prospects of performance of the security. In addition, the Company sold mortgage-backed securities in the normal course of portfolio management, generating gains of \$20,000. Management has the intent and ability to hold all remaining investment securities available for sale for the foreseeable future.

In 2008, the Company sold preferred securities of other bank holding companies, with a cost of \$3,951,000, resulting in a loss of \$607,000. There were no sales of securities in 2007.

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The amortized cost, unrealized gains and losses, and fair value of securities held to maturity follow:

(In thousands)	Amortized cost	Gains	Unrealized Losses	Fair value
<b>December 31, 2009</b>				
Mortgage-backed securities	\$ 35	\$ 2	\$	\$ 37
<b>December 31, 2008</b>				
Mortgage-backed securities	\$ 43	\$ 1	\$	\$ 44

In addition to the available for sale and held to maturity portfolios, investment securities held by the Company include certain securities which are not readily marketable, and are classified as non-marketable on the Company's consolidated balance sheets. This category includes holdings of Federal Home Loan Bank of Cincinnati (FHLB) stock which is required for borrowing availability, and is redeemable at par. The other securities consist of a Community Reinvestment Act (CRA) investment which matures in 2014, and is fully collateralized with a government agency security of similar duration. These securities, which are carried at cost, consisted of the following at December 31, 2009 and 2008:

Federal Home Loan Bank stock and other securities (in thousands)	2009	2008
Federal Home Loan Bank stock	\$ 4,546	\$ 4,324
Other securities	1,001	
<b>Total Federal Home Loan Bank stock and other securities</b>	<b>\$ 5,547</b>	<b>\$ 4,324</b>

The Company reviewed the investment in FHLB Stock as of December 31, 2009, considering the FHLB equity position, its continuance of dividend payments, liquidity position, and positive year-to-date net income. Based on this review, the Company is of the opinion that its investment in FHLB stock is not impaired.

A summary of securities as of December 31, 2009 based on maturity is presented below. Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

(In thousands)	Securities Available for sale		Securities Held to maturity	
	Amortized cost	Approximate fair value	Amortized cost	Fair value
Due within one year	\$ 74,656	\$ 74,767	\$	\$
Due after one year through five years	53,381	54,476		
Due after five year through ten years	34,051	35,446	28	30
Due after ten years	62,400	63,536	7	7
	\$ 224,488	\$ 228,225	\$ 35	\$ 37



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Securities with a carrying value of approximately \$85,569,000 at December 31, 2009 and \$96,179,000 at December 31, 2008 were pledged to secure the accounts of commercial depositors in cash management accounts, public deposits and certain borrowings.

At year end 2009 and 2008, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of stockholders' equity.

Securities with unrealized losses at December 31, 2009 and 2008, not recognized in income are as follows:

(In thousands)	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
<b>December 31, 2009</b>						
U.S. Treasury and other U.S. government obligations	\$	\$	\$	\$	\$	\$
Government sponsored enterprise obligations	13,402	79			13,402	79
Mortgage-backed securities	9,692	17			9,692	17
Obligations of states and political subdivisions	8,084	175			8,084	175
Trust preferred securities of financial institutions			1,025	225	1,025	225
<b>Total temporarily impaired securities</b>	<b>\$ 31,178</b>	<b>\$ 271</b>	<b>\$ 1,025</b>	<b>\$ 225</b>	<b>\$ 32,203</b>	<b>\$ 496</b>
<b>December 31, 2008</b>						
U.S. Treasury and other U.S. government obligations	\$	\$	\$	\$	\$	\$
Government sponsored enterprise obligations						
Mortgage-backed securities	6,035	14			6,035	14
Obligations of states and political subdivisions	4,259	69			4,259	69
Trust preferred securities of financial institutions	2,452	781			2,452	781
<b>Total temporarily impaired securities</b>	<b>\$ 12,746</b>	<b>\$ 864</b>	<b>\$</b>	<b>\$</b>	<b>\$ 12,746</b>	<b>\$ 864</b>

Unrealized losses on Bancorp's investment securities portfolio have not been recognized in income because the securities are of high credit quality, the decline in fair values is largely due to changes in the prevailing interest rate and credit environment since the purchase date, management does not intend to sell the investments, and it is not likely that the Bancorp will be required to sell the investments before recovery of their amortized cost bases, which may be maturity. The fair value is expected to recover as the securities reach their maturity date and/or the interest rate and credit environment returns to conditions similar to when the securities were purchased. These investments consist of 14 and 19 separate investment positions as of December 31, 2009 and 2008 that are not considered other-than-temporarily impaired. Based on these detailed reviews, the Company has not recorded other-than-temporary losses on any securities held at December 31, 2009. Volatility in capital markets subsequent to December 31, 2009 could give rise to other-than-temporary impairment in the future.

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As of December 31, 2009, Bancorp had two securities with a total carrying value of \$1,025,000 which were impaired for 12 months or longer. These are trust preferred securities with a total amortized cost of \$1,250,000 and an unrealized loss totaling \$225,000 caused by interest rate changes and other market conditions. As of December 31, 2009, one of the securities with a credit rating below investment grade, an amortized cost of \$1,000,000, a carrying value of \$815,200, and an unrealized loss of \$184,800 is rated Caa1 by Moody's Investor Service as of September 2009. Management evaluates the impairment of securities on a



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quarterly basis, considering various factors including issuer financial condition, agency rating, payment prospects, impairment duration and general industry condition. Based on the evaluation as of December 31, 2009, management is of the opinion that neither of the securities is other than temporarily impaired. 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.

**(4) Loans**

The composition of loans follows:

(In thousands)	December 31,	
	2009	2008
Commercial and industrial	\$ 336,889	\$ 348,174
Construction and development	204,653	167,402
Real estate mortgage:		
Commercial investment	326,421	248,308
Owner occupied commercial	230,001	249,164
1-4 family residential	147,342	160,322
Home equity first lien	41,644	22,973
Home equity junior lien	108,398	122,535
Consumer	40,114	30,759
	\$ 1,435,462	\$ 1,349,637

Loan balances include net deferred loan fees of \$178,000 at December 31, 2009 and \$114,000 at December 31, 2008. The Bank's credit exposure is diversified with secured and unsecured loans to individuals and businesses. No specific industry concentration exceeds ten percent of loans. While the Bank has a diversified loan portfolio, a customer's ability to honor contracts is somewhat dependent upon the economic stability and/or industry in which that customer does business. Loans outstanding and related unfunded commitments are primarily concentrated within the Bank's current market areas, which encompass Louisville, Kentucky and surrounding communities including southern Indiana along with Indianapolis, Indiana and Cincinnati, Ohio.

The Company enters into loan participation agreements with correspondent banks in the ordinary course of business to diversify credit risk. For certain participation loans, the Company 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 the Company. US GAAP requires these loans to be recorded as secured borrowings. These loans are included in the commercial and industrial loan totals above, and a corresponding liability is reflected in other liabilities. At December 31, 2009 and 2008, the total loans of this nature were \$18,536,000 and \$10,197,000 respectively.

**Information about impaired loans follows:**

(In thousands)	December 31,	
	2009	2008

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Principal balance of impaired loans	\$	11,208	\$	4,455
Impaired loans with a valuation allowance		8,688		2,724
Amount of valuation allowance		1,676		1,255
Impaired loans with no valuation allowance		2,520		1,731
Average balance of impaired loans during the year		7,005		4,054

Interest income on impaired or non-accrual loans (cash basis) was \$216,000, \$174,000 and \$55,000 in 2009, 2008, and 2007, respectively. Interest income that would have been recorded if non-accrual loans were on a

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current basis in accordance with their original terms was \$627,000, \$393,000 and \$241,000 in 2009, 2008 and 2007, respectively.

Impaired loans include non-accrual loans and loans accounted for as troubled debt restructuring. Non-performing loans include the balance of impaired loans plus any loans over 90 days past due and still accruing interest. Loans past due more than 90 days or more and still accruing interest amounted to \$893,000 in 2009 and \$255,000 in 2008.

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

Loans to directors and executive officers (in thousands)	Year ended December 31,	
	2009	2008
<b>Balance as of January 1</b>	\$ 4,944	\$ 5,810
New loans and advances on lines of credit	2,154	18,756
Repayments on loans and lines of credit	5,315	19,622
<b>Balance as of December 31</b>	\$ 1,783	\$ 4,944
<b>Deposit balances of directors and executive officers as of December 31</b>	\$ 1,552	\$ 1,596

An analysis of the changes in the allowance for loan losses for the years ended December 31, 2009, 2008, and 2007 follows:

(In thousands)	Year ended December 31,		
	2009	2008	2007
<b>Balance at January 1</b>	\$ 15,381	\$ 13,450	\$ 12,203
Provision for loan losses	12,775	4,050	3,525
Loans charged off	(9,117)	(2,963)	(3,111)
Recoveries	961	844	833
Net loan charge-offs	(8,156)	(2,119)	(2,278)
<b>Balance at December 31</b>	\$ 20,000	\$ 15,381	\$ 13,450

**(5) Premises and Equipment**

A summary of premises and equipment follows:

(In thousands)	December 31,	
	2009	2008

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Land	\$	4,628	\$	4,628
Buildings and improvements		26,844		26,395
Furniture and equipment		19,110		18,024
Construction in progress		1,705		633
		52,287		49,680
Accumulated depreciation and amortization		(24,271)		(21,754)
	\$	28,016	\$	27,926

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Depreciation expense related to premises and equipment was \$2,517,000 in 2009, \$2,530,000 in 2008 and \$2,500,000 in 2007.

**(6) Other Assets**

A summary of the major components of other assets follows:

(in thousands)	Years ended December 31	
	2009	2008
Cash surrender value of life insurance other than BOLI	\$ 7,532	\$ 6,721
Other real estate owned and other foreclosed property	1,616	1,560
Net deferred tax asset	7,715	5,717
Goodwill	682	682
Domestic private investment fund	2,235	1,776
Investment in bank in expansion market	520	520
Common securities of S.Y. Bancorp Capital Trust II	900	900
Mortgage servicing rights	1,616	426
Other short term receivables	1,208	2,927
FDIC prepaid assessment	6,458	
Other	7,164	7,454
	\$ 37,646	\$ 28,683

Mortgage servicing rights (MSRs) are amortized in proportion to and over the period of estimated net servicing income, considering appropriate prepayment assumptions. MSRs are evaluated quarterly for impairment by comparing the carrying value to the fair value. MSRs were written down to fair value at December 31, 2008, resulting in a valuation allowance of \$176,000. A corresponding charge was included in earnings for the year 2008. Due to increases in the value of MSRs, the valuation allowance reversed in 2009, resulting in corresponding decreases in expenses. The estimated fair values of MSRs at December 31 2009 and 2008 were \$2,475,000 and 426,000, respectively. The total outstanding principal balances of loans serviced for others were 194,414,000 and 55,962,000 at December 31, 2009 and 2008 respectively. Changes in the net carrying amount of MSRs for the years ended December 31, 2008 and 2009 are shown in the following table.

(in thousands)	
Balance at December 31, 2007	\$ 138
Originations	515
Amortization	(51)
Impairment charge	(176)
Balance at December 31, 2008	426
Originations	1,135
Amortization	(121)
Impairment reversal	176
Balance at December 31, 2009	\$ 1,616

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In 2009, the FDIC required insured institutions to prepay three years of estimated insurance assessments, to strengthen the cash position of the Deposit Insurance Fund without immediately impacting earnings of the

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banking industry. The Company's prepaid assessment, paid on December 30, 2009, totaled \$6,458,000 and will be amortized through 2012.

**(7) Income Taxes**

Income taxes consist of the following:

(In thousands)	2009	Year ended December 31, 2008	2007
<b>Expense (benefit) applicable to operations:</b>			
Current	\$ 8,882	\$ 11,582	\$ 11,463
Deferred	(1,949)	(1,526)	(1,548)
Total applicable to operations	6,933	10,056	9,915
<b>Charged (credited) to stockholders' equity:</b>			
Unrealized gain on securities available for sale	(163)	967	601
Reclassification adjustment for securities losses realized in income	119	212	
Stock options exercised	(244)	(188)	(53)
Minimum pension liability adjustment	(4)	9	(9)
	\$ 6,641	\$ 11,056	\$ 10,454

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

	2009	Year Ended December 31, 2008	2007
U.S. federal income tax rate	35.0%	35.0%	35.0%
Tax exempt interest income	(3.5)%	(2.3)%	(2.3)%
Tax credits	(1.4)%	(1.0)%	(2.9)%
Cash surrender value of life insurance	(2.1)%	(1.3)%	(1.6)%
Other, net	1.8%	1.3%	1.0%
	29.8%	31.7%	29.2%

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

(In thousands)	2009	December 31,	2008
<b>Deferred tax assets</b>			
Allowance for loan losses	\$ 7,219	\$	5,542
Deferred compensation	2,565		2,186
Other	877		830
<b>Total deferred tax assets</b>	<b>10,661</b>		<b>8,558</b>
<b>Deferred tax liabilities</b>			
Securities	2,241		2,338
Property and equipment	432		359
Other	273		144
<b>Total deferred tax liabilities</b>	<b>2,946</b>		<b>2,841</b>
<b>Net deferred tax asset</b>	<b>\$ 7,715</b>	<b>\$</b>	<b>5,717</b>

No valuation allowance for deferred tax assets was recorded as of December 31, 2009 and 2008 because Bancorp has sufficient prior taxable income and tax planning strategies to allow for utilization of the deductible temporary differences and capital loss carryforwards within the carryback and carryforward period. Management believes that it is more likely than not that all of the deferred tax assets will be realized.

US GAAP provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. As of December 31, 2009 and 2008, the gross amount of unrecognized tax benefits was \$230,000. If recognized, all of the tax benefits would increase net income, resulting in a decrease of the effective tax rate. The amount of unrecognized tax benefits may increase or decrease in the future for various reasons including adding amounts for current tax year positions, expiration of open income tax returns due to statutes of limitation, changes in management's judgment about the level of uncertainty, status of examination, litigation and legislative activity and the addition or elimination of uncertain tax positions.

Bancorp's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of December 31, 2009 and 2008, the amount accrued for the potential payment of interest and penalties was \$20,000. Federal and state income tax returns are subject to examination from the 2004 tax return year and forward.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(In thousands)	2009	December 31,	2008
Balance as of January 1	\$ 230	\$	230
Gross increases - current year tax positions	20		
Lapse of statute of limitations	(20)		



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Balance as of December 31	\$	230	\$	230
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Table of Contents**(8) Deposits**

The composition of interest bearing deposits follows:

(In thousands)	December 31,	
	2009	2008
Interest bearing demand	\$ 240,588	\$ 220,245
Savings	60,496	45,934
Money market	397,322	326,866
Time deposits greater than \$100	192,491	191,876
Other time deposits	315,935	303,226
	\$ 1,206,832	\$ 1,088,147

Interest expense related to certificates of deposit and other time deposits in denominations of \$100,000 or more was \$5,544,000, \$7,053,000, and \$6,904,000, respectively, for the years ended December 31, 2009, 2008 and 2007.

At December 31, 2009, the scheduled maturities of time deposits were as follows:

(In thousands)	
2010	\$ 342,823
2011	95,531
2012	38,546
2013	13,406
2014	17,847
Thereafter	273
	\$ 508,426

**(9) Securities Sold Under Agreements to Repurchase and Other Short-Term Borrowings**

Securities sold under agreements to repurchase are a funding source of the Bank and are primarily used by commercial customers for cash management services. Securities sold under agreements to repurchase generally mature within one business day from the transaction date. Information concerning securities sold under agreements to repurchase is summarized as follows:

(Dollars in thousands)	December 31,	
	2009	2008

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Average balance during the year	\$	51,145	\$	65,824
Average interest rate during the year		0.53%		1.28%
Maximum month-end balance during the year	\$	56,125	\$	73,988

Table of Contents**(10) Advances from the Federal Home Loan Bank**

The Bank had outstanding borrowings of \$60.5 million, at December 31, 2009, via five separate advances as detailed in the table below (in thousands).

	Amount	Type	Amortization	Maturity	Call feature	Next call date
\$	20,000	Fixed rate	None	December 2010	Quarterly	March 2010
	20,000	Fixed rate	None	May 2012	Quarterly	February 2010
	10,000	Fixed rate	None	April 2012	Non callable	
	10,000	Fixed rate	None	April 2014	Non callable	
	453	Fixed rate	15 Year	April 2024	Non callable	
\$	60,453					

For the first four advances, interest payments are due monthly, with principal due at maturity. For the fifth advance, principal and interest payments are due monthly based on a 15 year amortization schedule. The weighted average rate of these five advances was 3.52% at December 31, 2009. Advances from the FHLB are collateralized by certain commercial and residential real estate mortgage loans under a blanket mortgage collateral agreement and FHLB stock. The Bank views the borrowings as an alternative to higher cost certificates of deposit to fund loan growth.

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

(In thousands)	December 31, 2009		December 31, 2008		
	Advance	Rate	Advance	Rate	
2009	\$		\$	30,000	5.02%
2010		20,000		20,000	3.69%
2011					
2012		30,000		20,000	4.58%
2014		10,000			2.67%
2024		453			2.40%
	\$	60,453	\$	70,000	4.51%

The Bank also has a standby letter of credit from the FHLB with \$20 million outstanding at December 31, 2009. Under Kentucky law, customer cash balances in Investment Management and Trust accounts, may be retained as deposits in the Bank. Kentucky law requires these deposit accounts to be backed by some form of collateral above the per account protection provided by the FDIC (currently \$250,000 per account). The standby letter of credit from the FHLB collateralizes these accounts beyond the FDIC protection as required by Kentucky law. At December 31, 2009, the amount of available credit from the FHLB totaled \$118 million.

**(11) Subordinated Debentures**

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In December 2008, the Company formed S.Y. Bancorp Capital Trust II, a Delaware statutory trust and 100%-owned finance subsidiary. In December 2008, S.Y. Bancorp Capital Trust II issued \$30.0 million of 10% fixed rate cumulative trust preferred securities and invested the proceeds, along with \$900,000 received from the purchase of its common equity securities, in \$30.9 million of a fixed rate subordinated debenture of the Company. The principal asset of S.Y. Bancorp Capital Trust II is a \$30.9 million subordinated debenture of Bancorp. The interest rate on both the trust preferred securities and the subordinated debentures is fixed at 10.00%. The Company may redeem all or part of the trust preferred securities at any time on or after December 31, 2013 at a redemption price equal to 100% of the aggregate liquidation amount of the trust preferred securities plus any accumulated and unpaid distributions thereon to the date of redemption. The trust preferred securities are subject to mandatory redemption when the subordinated debenture is paid at maturity in 2038 or upon any earlier redemption of the debentures. The trust preferred securities may also be

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redeemed at any time in the event of unfavorable changes in certain laws or regulations. The obligations of Bancorp with respect to the issuance of the Securities constituted a full and unconditional guarantee by Bancorp of the Trust's obligation with respect to the Securities. Unamortized issuance costs of \$1,509,000 are being recognized as non-interest expense over the life of the securities.

In September 2008, the Bank issued \$10 million of subordinated debt, with a 10 year maturity, and a call option to the Bank two years after issuance. The debt carries a floating rate, which may be determined by adding a fixed spread to the prime rate or to LIBOR. At December 31, 2009 the Bank had chosen the LIBOR rate related alternative and will reevaluate periodically to ensure the most favorable pricing. The debentures mature in 2018, with a call option to the Bank on or after December 31, 2010. The only financial covenant of the debt agreement requires that the Bank remain well capitalized as defined by its primary regulator. The primary source of funds for payments of the debentures is the current cash on hand of the Bancorp, as well as future dividends received from the Bank, which is limited by regulatory dividend restrictions. See Note 16 for details on dividend restrictions.

In addition, the Bank had subordinated debentures outstanding amounting to \$30,000 at December 31, 2009 and \$60,000 at December 31, 2008. The interest is at a variable rate and was 2.25% at December 31, 2009 and 6.25% at December 31, 2008. The debentures mature in 2049, but the owner may redeem the debentures at any time.

**(12) Preferred Stock**

**At Bancorp's 2003 Annual Meeting of Shareholders, the shareholders approved an amendment to the Articles of Incorporation to create a class of preferred stock and authorize 1,000,000 shares of this preferred stock with no par value. The relative rights, preferences and other terms of this stock or any series within the class will be determined by the board of directors prior to any issuance. Some of this preferred stock will be used in connection with a shareholders' rights plan upon the occurrence of certain triggering events. None of this stock had been issued as of December 31, 2009.**

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

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

(In thousands, except per share data)	2009	2008	2007
Net income, basic and diluted	\$ 16,308	\$ 21,676	\$ 24,052
Average shares outstanding for basic EPS calculation	13,561	13,440	14,168
Effect of dilutive securities	128	190	221
Average shares outstanding including dilutive securities	13,689	13,630	14,389
Net income per share, basic	\$ 1.20	\$ 1.61	\$ 1.70

Net income per share, diluted	\$	1.19	\$	1.59	\$	1.67
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**(14) Employee Benefit Plans**

The Bank has a combined employee stock ownership and profit sharing plan ( KSOP ). The plan is a defined contribution plan and is available to all employees meeting certain eligibility requirements. Employer contributions of the plan for 2009, 2008, and 2007 were \$1,413,000, \$992,000, and \$1,224,000, respectively. Employee and employer contributions are made in accordance with the terms of the plan. As of December 31, 2009 and 2008, the KSOP held 410,801 and 365,012, respectively, shares of Bancorp stock.

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In addition the Bank has non-qualified excess plans into which directors and certain senior officers may defer director fees or salary. The Bank contributed approximately \$72,000, \$61,000, and \$60,000 to the senior officers plan in 2009, 2008 and 2007 respectively. At December 31, 2009 and 2008, the amounts included in other liabilities in the consolidated financial statements for this plan were \$1,955,000 and \$1,431,000. The Bank also sponsors an unfunded, non-qualified, defined benefit retirement plan for certain key officers. Benefits vest based on years of service. Bancorp uses a December 31 measurement date for this plan. At December 31, 2009 and 2008, the accumulated benefit obligation for the plan included in other liabilities in the consolidated financial statements was \$1,894,000 and \$1,928,000, respectively. Discount rates of 5.60% and 5.75% were used in 2009 and 2008 respectively, in determining the actuarial present value of the projected benefit obligation. The Bank funds retirement benefits for both non-qualified plans as they are disbursed and maintains life insurance policies on certain current and former executives, the proceeds from which will offset the cost of benefits. The liability for the Bank's plan met the benefit obligation as of December 31, 2009 and 2008.

Information about the components of the net periodic benefit cost of the defined benefit plan follows:

(Dollars in thousands)	Year ended December 31,		
	2009	2008	2007
<b>Components of net periodic benefit cost:</b>			
Service cost	\$	\$	\$
Interest cost	102	106	110
Expected return on plan assets			
Amortization of prior service cost			
Amortization of net losses	23	23	24
Net periodic benefit cost	\$ 125	\$ 129	\$ 134

The following table sets forth the plan's benefit obligations and funded status at December 31, 2009 and 2008:

(Dollars in thousands)	2009		2008	
<b>Pension benefits</b>				
Benefit obligation at December 31	\$	1,894	\$	1,928
Fair value of plan assets at December 31				
Funded status		(1,894)		(1,928)
Liability accrued in the consolidated financial statements	\$	1,894	\$	1,928

The following table sets forth additional information concerning the plan as of December 31, 2009 and 2008:

(Dollars in thousands)	2009		2008	
<b>Pension benefits</b>				
Benefit cost	\$	125	\$	129
Employer contribution				



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Employee contribution  
Benefits paid

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The benefits expected to be paid in each year from 2010 to 2014 are \$153,000, \$123,000, \$123,000, \$123,000 and \$84,000, respectively. The aggregate benefits expected to be paid beyond 2014 are \$3,782,000. The

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expected benefits to be paid are based on the same assumptions used to measure the Bank's benefit obligation at December 31, 2009.

There are no obligations for other post-retirement and post-employment benefits.

**(15) Stock-Based Compensation**

The fair value of all new and modified awards granted is recognized as compensation expense, net of estimated forfeitures.

Bancorp currently has one stock-based compensation plan. The 2005 Stock Incentive Plan reserved 735,000 shares of common stock for issuance of stock based awards. As of December 31, 2009, there were 182,683 shares available for future awards. Bancorp's 1995 Stock Incentive Plan expired in 2005; however, options granted under this plan expire as late as 2015. Options and stock appreciation rights (SARs) granted generally have been subject to a vesting schedule of 20% per year. Prior to 2009, those granted to certain executive officers vested six months after grant date. Restricted shares generally vest over three to five years, with limited exceptions of shorter vesting schedules due to anticipated retirement. All awards under both plans were granted at an exercise price equal to the market value of common stock at the time of grant and expire ten years after the grant date.

Bancorp recognized, within salaries and employee benefits in the consolidated statements of income, stock-based compensation expense of \$691,000, \$657,000 and \$467,000 and a related deferred tax benefit of \$242,000, \$230,000 and \$163,000 resulting in a reduction of net income of \$449,000, \$427,000 and \$304,000 for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2009 Bancorp has \$1,791,000 of unrecognized stock-based compensation expense that will be recorded as compensation expense over the next over the next five years as awards vest. Bancorp received cash of \$1,045,000, \$1,218,000 and \$1,193,000 from the exercise of options during 2009, 2008 and 2007, respectively.

As required, Bancorp reduces future stock-based compensation expense by estimated forfeitures at the grant date. These forfeiture estimates are based on historical experience.

The fair value of Bancorp's stock options is 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 subjective assumptions, changes to which can materially affect the fair value estimate. The fair value of restricted shares is determined by Bancorp's closing stock price on the date of grant. The following assumptions were used in option valuations:

	2009	2008	2007
<b>Assumptions used in option valuation</b>			
Dividend yield	2.11%	1.95%	1.81%
Expected volatility	23.59%	14.99%	14.49%
Risk free interest rate	3.11%	3.84%	4.69%

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Forfeitures	5.96%	5.65%	5.55%
Expected life of options (in years)	7.69	7.46	7.70

The expected life of options and SARs is based on actual experience of past like-term options. All outstanding options have a 10-year contractual term. Bancorp evaluated historical exercise and post-vesting termination behavior when determining the expected life for options granted during 2009, 2008 and 2007.

The dividend yield and expected volatility are based on historical information corresponding to the expected life of options and SARs granted. The expected volatility is the volatility of the underlying shares for the expected term on a monthly basis. Prior to 2009, volatility was calculated on a quarterly 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.

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A summary of stock option and SARs activity and related information for the year ended December 31, 2009 follows. The number of options and SARs and aggregate intrinsic value are stated in thousands.

	Options and SARs	Exercise price	Weighted average exercise price	Aggregate intrinsic value	Weighted average fair value	Weighted average remaining contractual life
At December 31, 2008						
Vested and exercisable	783	\$ 9.82-26.83	\$ 19.03	\$ 6,637	\$ 4.14	4.67
Unvested	244	20.25-26.83	24.74	672	5.47	8.10
Total outstanding	1,027	9.82-26.83	20.39	7,309	4.46	5.48
Granted	102	22.14-24.30	22.15		5.36	
Exercised	(114)	9.82-18.62	12.60	1,236	2.43	
Forfeited	(9)	22.14-26.83	24.45		5.43	
At December 31, 2009						
Vested and exercisable	730	9.82-26.83	20.50	1,664	4.52	4.42
Unvested	276	20.90-26.83	23.81		5.41	7.93
Total outstanding	1,006	9.82-26.83	21.41	\$ 1,664	4.76	5.38
Vested during year	63			\$ 27		

The aggregate intrinsic value of stock options and SARs exercised in 2009, 2008 and 2007 was \$1,236,000, \$932,000 and \$928,000, respectively. The aggregate intrinsic value of stock options exercised was calculated as the difference in the closing price of Bancorp's common shares on the date of exercise and the exercise price, multiplied by the number of shares exercised.

The weighted average fair values of options and SARs granted in 2009, 2008 and 2007 were \$5.36, \$4.57 and \$6.14, respectively.

In addition to the SARs reflected above, in the first quarter of 2009, Bancorp granted 25,542 shares of restricted common stock at the weighted average current market price of \$22.15. These grants generally vest over three to five years, with limited exceptions of shorter vesting schedules due to anticipated retirement.

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Options and SARs outstanding at December 31, 2009 were as follows:

(In thousands, except per share data)

Option and SAR price per share	Expiration	Number of options and SARs outstanding	Options and SARs exercisable	Weighted average exercise price of options and SARs outstanding
\$ 9.82-10.00	2010	74	74	\$ 9.83
16.00	2011	86	86	16.00
18.62	2012	78	78	18.62
18.05-20.17	2013	105	105	20.13
20.25-22.81	2014	143	143	22.67
20.70-20.90	2015	2	1	20.83
24.07	2016	171	125	24.07
24.02-26.83	2017	139	78	26.81
23.37	2018	107	40	23.37
22.14-24.30	2019	101		22.15
		1,006	730	\$ 21.41

**(16) Dividend Restriction**

Bancorp's principal source of cash revenues is dividends received from the Bank. On January 1 of any year, the Bank's regulatory dividend restriction represents the Bank's net income of the prior two years less any dividends paid for the same two years. At December 31, 2009, the Bank does not have any income available to pay dividends to Bancorp without prior regulatory approval. Prior to the declaration of dividends, management considers the effect such payments will have on total stockholders' equity and capital ratios.

**(17) Commitments and Contingent Liabilities**

As of December 31, 2009, the Bank had various commitments and contingent liabilities outstanding that arose in the normal course of business, such as standby letters of credit and commitments to extend credit, which are not reflected in the consolidated financial statements. In management's opinion, commitments to extend credit of \$379,075,000, including standby letters of credit of \$26,655,000, represent normal banking transactions, and no significant losses are anticipated to result therefrom. This total is comprised largely of unused lines of credit for business and consumer customers, as well as unfunded portions of construction and development loans. The Bank's maximum exposure to credit loss in the event of nonperformance by the other party to these commitments is represented by the contractual amount of these instruments. The Bank uses the same credit and collateral policies in making commitments and conditional guarantees as for on-balance sheet instruments. At December 31, 2009, no amounts have been recorded in the consolidated financial statements relating to these instruments.

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Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since some of the unused commitments are expected to expire or may not be fully used, the total amount of commitments in the preceding table does not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, real estate and securities.

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Standby letters of credit and financial guarantees written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. Standby letters of credit generally have maturities of up to five years.

The Bank leases certain facilities, improvements and equipment under non-cancelable operating leases. Future minimum lease commitments for these leases are outlined in the table below.

Year	Total amount
2010	\$ 1,575,000
2011	1,593,000
2012	1,644,000
2013	1,508,000
2014	809,000
Thereafter	4,561,000

Rent expense, net of sublease income, was \$1,556,000 in 2009, \$1,599,000 in 2008, and \$1,422,000 in 2007.

The Company has commercial customers who entered into interest rate swap agreements with another financial institution to manage their own interest rate risk. The Company assisted two customers by guaranteeing performance of the swaps with the other financial institutions. Accordingly, the Company entered into risk participation agreements as a guarantor. The agreement stipulates that, in the event of default by the Bank's customer on the interest rate swap, the Company will reimburse a portion of the loss, if any, borne by the other financial institution. These interest rate swaps are normally collateralized generally with real property, inventories and equipment by the customer, which limits the Company's credit risk associated with the agreements. The terms of the agreements range from 16 to 38 months. The maximum potential future payment guaranteed by the Company cannot be readily estimated, because it is dependent upon the fair value of the interest rate swaps at the time of default. If an event of default on all contracts had occurred at December 31, 2009, the Company would have been required to make payments of approximately \$386,000. Management believes the unamortized fee income of \$18,000 recorded in other liabilities materially approximates the fair value of these guarantees.

The Company has commercial customers who require international letters of credit for their business needs. The Company assisted several customers by guaranteeing performance of the letters of credit with a correspondent financial institution. Accordingly, the Company has entered into an agreement whereby the Company is ultimately liable for the repayment in the event of non-performance by our customer. The terms of the agreements range from 4 to 16 months. If an event of default on all contracts had occurred at December 31, 2009, the Company would have been required to make payments of approximately \$2,596,000. These letters of credit are normally collateralized generally with real property, inventories and equipment by the customer, which limits the Company's credit risk associated with the agreements. Management believes fees received of \$15,000 approximates the fair value of these guarantees.

Also, as of December 31, 2009, 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.

**(18) Fair Value Measurements**

Effective January 1, 2008 the Company adopted the provisions of the 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; it does not create or modify any current US GAAP requirements to apply fair value accounting. The guidance 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.



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The 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. FASB ASC 820-10 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 our own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques could include pricing models, discounted cash flows and other similar techniques.

Our policy is to maximize the use of observable inputs and minimize the use of unobservable inputs in fair value measurements. Where there exists limited or no observable market data, we use our own estimates 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.

The Company's investment securities available for sale are recorded at fair value on a recurring basis. Other accounts including mortgage loans held for sale, mortgage servicing rights, and impaired loans 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 debt securities of the U.S. Treasury and other U.S. government-sponsored corporations, mortgage-backed securities, obligations of state and political subdivisions, and trust preferred securities of other banks. The trust preferred 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 the instruments. These assumptions are generally observable in the market place and can be derived from or supported by observable data. These measurements are classified as Level 2 in the hierarchy above.

Interest rate swaps are valued using primarily Level 2 inputs. Fair value measurements are obtained from an outside pricing service. Prices obtained are generally based on dealer quotes, benchmark forward yield curves, and other relevant observable market data. For purposes of potential valuation adjustments to derivative positions, the Company evaluates the credit risk of its counterparties as well as its own credit risk. The Company 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 2009.



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

(In thousands)	Fair value at December 31, 2009			
	Total	Level 1	Level 2	Level 3
<b>Assets</b>				
<b>Investment securities available for sale</b>				
U.S. Treasury and other U.S. government obligations	\$ 3,019	\$	\$ 3,019	\$
Government sponsored enterprise obligations	124,688		124,688	
Total government securities	127,707		127,707	
Mortgage-backed securities - GNMA	51,311		51,311	
Mortgage-backed securities - government agencies	15,370		15,370	
Total mortgage-backed securities	66,681		66,681	
Obligations of states and political subdivisions	32,812		32,812	
Trust preferred securities of financial institutions	1,025	1,025		
<b>Total investment securities available for sale</b>	<b>228,225</b>	<b>1,025</b>	<b>227,200</b>	
<b>Interest rate swap</b>	<b>94</b>		<b>94</b>	
<b>Total Assets</b>	<b>\$ 228,319</b>	<b>\$ 1,025</b>	<b>\$ 227,294</b>	<b>\$</b>
<b>Liabilities</b>				
<b>Interest rate swap</b>	<b>\$ 94</b>	<b>\$</b>	<b>\$ 94</b>	<b>\$</b>

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(In thousands)	Total	Fair value at December 31, 2008		
		Level 1	Level 2	Level 3
<b>Investment securities available for sale</b>				
U.S. Treasury and other U.S. government obligations	\$ 6,955	\$	\$ 6,955	\$
Government sponsored enterprise obligations	107,617		107,617	
Total government securities	114,572		114,572	
Mortgage-backed securities - GNMA	22,566		22,566	
Mortgage-backed securities - government agencies	6,697		6,697	
Total mortgage-backed securities	29,263		29,263	
Obligations of states and political subdivisions	27,084		27,084	
Trust preferred securities of financial institutions	2,452	1,072	1,380	
<b>Total investment securities available for sale</b>	<b>\$ 173,371</b>	<b>\$ 1,072</b>	<b>\$ 172,299</b>	<b>\$</b>

Mortgage servicing rights (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. For the year ended December 31, 2009, the MSR valuation allowance reversals totaled \$176,000. A corresponding increase of \$176,000 was included in earnings for 2009. At December 31, 2009 there was no valuation allowance for the mortgage servicing rights, as the fair value exceeded the cost. Accordingly, the MSRs are not included in the table for 2009.

Mortgage loans held for sale are carried at the lower of cost or market value. The portfolio is comprised of residential real estate loans and fair value is based on specific prices of underlying contracts for sales to investors. These measurements are classified as Level 2. Because the fair value of the loans held for sale exceeded their carrying value, they are not included in the table for 2009 or 2008.

Other real estate owned, 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 determined from external appraisals using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 3. At December 31, 2009 and 2008, the carrying value of other real estate owned is \$1,556,000 and \$1,560,000, respectively. At December 31, 2009, the carrying value of other real estate owned is not included in the table below, as the fair value of the properties exceeded their carrying value.

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The Company's investment in a domestic private investment fund is comprised of bank and other financial industry stocks, and this investment, included in other assets, is recorded using the equity method of accounting. An impairment evaluation was performed and determined this investment was not impaired on December 31, 2009. In 2008, the Company recorded equity method and impairment charges as the asset was reclassified from securities available for sale. Individual securities contained in the fund are priced using quoted prices of identical securities, quoted prices of similar securities and market-based models. 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.

The Company's investment in a bank in one of the Company's expansion markets, included in other assets, is recorded as an equity-method investment. As of December 31, 2009 and 2008, the carrying value of the investment is \$520,000. Company evaluated this investment for impairment based on a quoted price for this security in a market that is generally not active. Therefore, the measurement was classified as Level 2.

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

(in thousands)	Total	Fair value at December 31, 2009			Total losses
		Level 1	Level 2	Level 3	
Impaired loans	\$ 7,012	\$	\$	\$ 7,012	\$ (1,438)
Total	\$ 7,012	\$	\$	\$ 7,012	\$ (1,438)

(in thousands)	Total	Fair value at December 31, 2008			Total losses
		Level 1	Level 2	Level 3	
Mortgage servicing rights	\$ 426	\$	\$	\$ 426	\$ (176)
Investment in domestic private equity fund	1,776		1,776		(152)
Investment in bank in expansion market	520		520		(866)
Impaired loans	2,358			2,358	(1,365)
Total	\$ 5,080	\$	\$ 2,296	\$ 2,784	\$ (2,559)

The following represent impairment charges recognized during the period.

Loans are measured for impairment and, if indicated, a specific allocation is established based on the value of underlying collateral. At December 31, 2009, the carrying value of impaired loans with a specific allocation was \$8,688,000 and the corresponding total allocation was \$1,429,000. Impaired loans include non-accrual loans and loans accounted for as troubled debt restructuring.

**Table of Contents****(19) Fair Value of Financial Instruments**

The estimated fair values of financial instruments at December 31 are as follows:

(In thousands)	December 31, 2009		December 31, 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Cash and short-term investments	\$ 32,424	\$ 32,424	\$ 27,113	\$ 27,113
Mortgage loans held for sale	13,249	13,268	2,950	3,097
Securities	228,260	228,262	173,414	173,415
Federal Home Loan Bank stock and other securities	5,547	5,547	4,324	4,324
Loans, net	1,415,462	1,440,374	1,334,256	1,363,152
Accrued interest receivable	5,745	5,745	5,955	5,955
Interest rate swap	94	94		
<b>Financial liabilities</b>				
Deposits	\$ 1,418,184	\$ 1,429,863	\$ 1,270,925	\$ 1,283,281
Short-term borrowings	72,648	72,765	67,649	67,652
Long-term borrowings	101,383	109,959	110,960	124,490
Accrued interest payable	427	427	690	690
Interest rate swap	94	94		
<b>Off balance sheet financial instruments</b>				
Commitments to extend credit				
Standby letters of credit		(400)		(328)

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, Federal Home Loan Bank stock, Accrued interest receivable/payable and Short-term borrowings**

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

**Securities**

For securities, fair value equals quoted market price, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities or dealer quotes.

**Mortgage loans held for sale**

The fair value of mortgage loans held for sale is determined by market quotes for each loan based on loan type, term, rate and size.

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**Loans, net**

The 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 (e.g. entrance price).

**Interest rate swaps**

Fair value measurements are obtained from an outside pricing service. Prices obtained are generally based on dealer quotes, benchmark forward yield curves, and other relevant observable market data.

**Deposits**

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-rate certificates of deposits is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

**Long-term borrowings**

**The fair value of long-term borrowings is estimated by discounting the future cash flows using estimates of the current market rate for instruments with similar terms and remaining maturities.**

**Commitments to extend credit and standby letters of credit**

The fair values of commitments to extend credit are estimated using fees currently charged to enter into similar agreements and the creditworthiness of the customers. The fair values of standby letters of credit are based on fees currently charged for similar agreements or the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

**Limitations**



The fair value estimates are made at a specific point in time based on relevant market information and information about the 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, the 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 the estimates.

**(20) Derivative Financial Instruments**

The Company offers interest rate swaps to customers desiring long-term fixed rate lending whereby the Company receives interest at a fixed rate and pays interest at a variable rate. Simultaneously the Company enters into an interest rate swap agreement with a correspondent bank whereby the Company pays interest at a fixed rate and receives interest at a variable rate. Because of matching terms of offsetting contracts and the collateral provisions mitigating any non-performance risk, changes in fair value subsequent to initial recognition have an insignificant effect on earnings.

At December 31, 2009, the Company's interest rate swaps are recognized as other assets and liabilities in the consolidated statements of financial condition at fair value. The Company's derivative instruments have not been designated as hedging instruments. These undesignated derivative instruments are recognized on the consolidated balance sheet at fair value, with changes in fair value, due to changes in prevailing interest rates, recorded in other noninterest income.

The Company's interest rate swap agreements derive their value from underlying interest rates. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations,

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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. The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. The Company controls 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 December 31, 2009, two of the outstanding swap agreements have a forward-effective date in the fourth quarter of 2010. The remaining swap agreements have a first cash flow payment due in the first quarter of 2010. There are no exchanges of cash flows related to interest rate swap agreements as of December 31, 2009.

At December 31, 2009, the Company has contracts to make payments at a variable rate determined by a specified index (1 month LIBOR) in exchange for receiving payments at a fixed rate is as follows:

Notional amount	\$	5,500,000
Weighted average maturity		9.1
Fair value	\$	(93,651)

Correspondingly, at December 31, 2009, the Company has contracts to make payments at a fixed rate in exchange for receiving payments at a variable rate determined by a specified index (1 month LIBOR) is as follows:

Notional amount	\$	5,500,000
Weighted average maturity		9.1
Fair value	\$	93,651

To reduce credit risk related to the use of derivative instruments, the Company may obtain collateral. The amount and nature of the collateral obtained is based on the Company's credit evaluation of the customer. In addition, per the terms of the agreement with the correspondent bank, the Company may be required to post collateral for swaps with negative fair values.

**(21) Regulatory Matters**

Bancorp and the Bank are subject to various capital requirements prescribed by banking regulations and administered by federal banking agencies. Under these requirements, Bancorp and the Bank must meet minimum amounts and percentages of Tier I and total capital, as defined, to risk weighted assets and Tier I 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 consolidated financial statements. Management believes Bancorp and the Bank met all capital requirements to which they were subject as of December 31, 2009.

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As of December 2009 and 2008, the Bank's primary regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since those notifications that management believes have changed the Bank's capital categories.

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A summary of Bancorp's and the Bank's capital ratios at December 31, 2009 and 2008 follows:

December 31, 2009 (Dollars in thousands)	Actual		Minimum for adequate		Minimum for well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Total risk-based capital (1)</b>						
Consolidated	\$ 210,064	13.55%	\$ 124,023	8.00%	\$ NA	NA
Bank	157,535	10.23%	123,195	8.00%	153,993	10.00%
<b>Tier I risk-based capital (1)</b>						
Consolidated	180,734	11.66%	62,001	4.00%	NA	NA
Bank	128,245	8.33%	61,582	4.00%	92,373	6.00%
<b>Leverage (2)</b>						
Consolidated	\$ 180,734	10.16%	\$ 53,366	3.00%	NA	NA
Bank	128,245	7.24%	53,140	3.00%	\$ 88,567	5.00%

December 31, 2008 (Dollars in thousands)	Actual		Minimum for adequate		Minimum for well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>Total risk-based capital (1)</b>						
Consolidated	\$ 196,968	13.67%	\$ 115,270	8.00%	\$ NA	NA
Bank	162,161	11.30%	114,804	8.00%	143,505	10.00%
<b>Tier I risk-based capital (1)</b>						
Consolidated	171,527	11.90%	57,656	4.00%	NA	NA
Bank	136,720	9.53%	57,385	4.00%	86,078	6.00%
<b>Leverage (2)</b>						
Consolidated	\$ 171,527	10.62%	\$ 48,454	3.00%	NA	NA
Bank	136,720	8.49%	48,311	3.00%	\$ 80,518	5.00%

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

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

NA Not applicable. Well capitalized is not defined for holding companies in the regulatory framework.

**Table of Contents****(22) S.Y. Bancorp, Inc. (parent company only)****Condensed Balance Sheets**

(In thousands)	December 31,	
	2009	2008
<b>Assets</b>		
Cash on deposit with subsidiary bank	\$ 45,875	\$ 27,627
Investment in and receivable from subsidiaries	134,224	141,699
Securities available for sale (amortized cost of \$1,250 in 2009 and 2008)	1,025	1,072
Other assets	5,418	7,246
<b>Total assets</b>	<b>\$ 186,542</b>	<b>\$ 177,644</b>
<b>Liabilities and stockholders equity</b>		
Short-term borrowings	\$	\$
Other liabilities	2,028	2,244
Subordinated debentures	30,900	30,900
Total stockholders equity	153,614	144,500
<b>Total liabilities and stockholders equity</b>	<b>\$ 186,542</b>	<b>\$ 177,644</b>

**Condensed Statements of Income**

(In thousands)	Years ended December 31,		
	2009	2008	2007
Income - dividends and interest from subsidiaries	\$ 29,683	\$ 19,065	\$ 14,942
Income - interest income from securities	102	107	34
Income - other	459	10	1,007
Expenses	4,134	2,096	934
Income before income taxes and equity in undistributed net income of subsidiary	26,110	17,086	15,049
Income tax (benefit) expense	(963)	(407)	(267)
Income before equity in undistributed net income of subsidiary	27,073	17,493	15,316
Equity in undistributed net income of subsidiary	(10,765)	4,183	8,736
<b>Net income</b>	<b>\$ 16,308</b>	<b>\$ 21,676</b>	<b>\$ 24,052</b>

Table of Contents**Condensed Statements of Cash Flows**

(in thousands)	Years ended December 31		
	2009	2008	2007
<b>Operating activities</b>			
Net income	\$ 16,308	\$ 21,676	\$ 24,052
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	10,765	(4,183)	(8,736)
(Increase) decrease in receivable from subsidiaries	(3,290)	(3,495)	2,082
Stock compensation expense	691	657	467
Excess tax benefits from share- based compensation arrangements	(150)	(188)	(53)
Decrease (increase) in other assets	1,945	3,015	(2,080)
Increase (decrease) in other liabilities	(255)	783	(734)
<b>Net cash provided by operating activities</b>	<b>26,014</b>	<b>18,265</b>	<b>14,998</b>
<b>Investing activities</b>			
Purchases of securities available for sale	(44,999)		
Proceeds from maturities of securities available for sale	45,000		
<b>Net cash provided by investing activities</b>	<b>1</b>		
<b>Financing activities</b>			
Net increase (decrease) in short-term borrowings		(8,900)	8,900
Proceeds from issuance of trust preferred securities		30,900	
Proceeds from stock options	1,687	1,267	1,193
Excess tax benefit from share-based compensation arrangements	150	188	53
Common stock repurchases	(393)	(5,384)	(22,369)
Cash dividends paid	(9,211)	(9,053)	(8,870)
<b>Net cash provided by (used in) financing activities</b>	<b>(7,767)</b>	<b>9,018</b>	<b>(21,093)</b>
<b>Net increase (decrease) in cash</b>	<b>18,248</b>	<b>27,283</b>	<b>(6,095)</b>
<b>Cash at beginning of year</b>	<b>27,627</b>	<b>344</b>	<b>6,439</b>
<b>Cash at end of year</b>	<b>\$ 45,875</b>	<b>\$ 27,627</b>	<b>\$ 344</b>

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**(23) Segments**

The Bank's, and thus 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 the Bank's mortgage banking and brokerage activity. Investment management and trust provides wealth management services including investment management, trust and estate administration, and retirement plan services.

The 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. The measurement of the performance of the business segments is based on the management structure of the Bank and is not necessarily comparable with similar information for any other financial institution. The information presented is also not necessarily indicative of the segments' operations if they were independent entities.

Principally, all of the net assets of S.Y. Bancorp, Inc. are involved in the commercial banking segment. Bancorp has goodwill of \$682,000 related to the 1996 purchase of a bank in southern Indiana. This purchase facilitated Bancorp's expansion in southern Indiana. Goodwill has been assigned to the commercial banking segment.

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Selected financial information by business segment follows:

(In thousands)	Years ended December 31,		
	2009	2008	2007
<b>Net interest income</b>			
Commercial banking	\$ 58,420	\$ 56,533	\$ 53,485
Investment management and trust	255	325	206
Total net interest income	\$ 58,675	\$ 56,858	\$ 53,691
<b>Provision for loan losses</b>			
Commercial banking	\$ 12,775	\$ 4,050	\$ 3,525
Investment management and trust			
Total provision for loan losses	\$ 12,775	\$ 4,050	\$ 3,525
<b>Non-interest income</b>			
Commercial banking	\$ 19,093	\$ 16,196	\$ 17,367
Investment management and trust	11,180	12,203	12,886
Total non-interest income	\$ 30,273	\$ 28,399	\$ 30,253
<b>Non-interest expenses</b>			
Commercial banking	\$ 46,542	\$ 43,551	\$ 40,084
Investment management and trust	6,390	5,924	6,368
Total non-interest expenses	\$ 52,932	\$ 49,475	\$ 46,452
<b>Income taxes</b>			
Commercial banking	\$ 5,167	\$ 7,750	\$ 7,562
Investment management and trust	1,766	2,306	2,353
Total income taxes	\$ 6,933	\$ 10,056	\$ 9,915
<b>Net income</b>			
Commercial banking	\$ 13,029	\$ 17,378	\$ 19,681
Investment management and trust	3,279	4,298	4,371
Total net income	\$ 16,308	\$ 21,676	\$ 24,052



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Following is a summary of quarterly operating results (unaudited) for 2009 and 2008:

(In thousands, except per share data)	2009				2008			
	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.	4th Qtr.	3rd Qtr.	2nd Qtr.	1st Qtr.
Interest income	\$ 21,317	\$ 21,225	\$ 20,797	\$ 20,517	\$ 21,478	\$ 22,288	\$ 21,477	\$ 21,878
Interest expense	5,784	6,508	6,480	6,409	6,761	7,823	7,062	8,617
Net interest income	15,533	14,717	14,317	14,108	14,717	14,465	14,415	13,261
Provision for loan losses	5,475	3,475	2,200	1,625	950	900	975	1,225
Net interest income after provision	10,058	11,242	12,117	12,483	13,767	13,565	13,440	12,036
Non-interest income	7,447	8,201	8,064	6,561	6,629	6,636	7,657	7,477
Non-interest expenses	13,605	13,028	14,030	12,269	13,091	11,982	12,332	12,070
Income before income taxes	3,900	6,415	6,151	6,775	7,305	8,219	8,765	7,443
Income tax expense	1,016	2,016	1,863	2,038	2,239	2,776	2,636	2,405
Net income	\$ 2,884	\$ 4,399	\$ 4,288	\$ 4,737	\$ 5,066	\$ 5,443	\$ 6,129	\$ 5,038
Basic earnings per share	\$ 0.21	\$ 0.32	\$ 0.32	\$ 0.35	\$ 0.38	\$ 0.41	\$ 0.46	\$ 0.37
Diluted earnings per share	0.21	0.32	0.31	0.35	0.37	0.40	0.45	0.37

Note: The sum of basic and diluted earnings per share of each of the quarters in 2009 and 2008 may not add to the year to date amount reported in Bancorp's consolidated financial statements due to rounding.

**(25) Subsequent Event**

In late February 2010, new information came to light regarding what had been a performing commercial and industrial loan relationship. Loans to this single borrower totaled approximately \$4,125,000 and were secured by business assets and life insurance. Subsequent to year end, management discovered that the guarantor had multiple borrowing relationships with other lenders, has been named as a defendant in two lawsuits, one of which alleged fraud, and has personally filed for bankruptcy protection. While the borrower has yet to file for bankruptcy protection, information gathered from the personal bankruptcy and disclosed by the guarantor's counsel leads management to believe that the financial records of the borrower have been falsified, the collateral pledged to secure the loans has little or no value, and the borrower and guarantor have no ability to perform. While Bancorp discovered the suspected frauds in first quarter 2010, they appear to be of longstanding nature. Accordingly, management charged off the loans in their entirety and recorded an additional provision for loan losses of \$4,125,000 as of December 31, 2009.

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**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors and Stockholders  
S.Y. Bancorp, Inc.:**

We have audited the accompanying consolidated balance sheets of S.Y. Bancorp, Inc. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of S.Y. Bancorp, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), S.Y. Bancorp, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 12, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Louisville, Kentucky

March 12, 2010



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**Management's Report on Consolidated Financial Statements**

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

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

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

Bancorp's independent auditors, KPMG LLP, have audited the consolidated financial statements. Their audit was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) which provides for consideration of Bancorp's internal controls to the extent necessary to determine the nature, timing, and extent of their audit tests.

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

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

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



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**Item 9.** Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

**Item 9A.** 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 the reports it files with the Securities and Exchange Commission (SEC), and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. Based on their evaluation of Bancorp's disclosure controls and procedures which took place as of December 31, 2009, 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 the 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, no changes occurred during the fiscal quarter ended December 31, 2009 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.

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**Management's Report on Internal Control Over Financial Reporting**

The management of S.Y. Bancorp, Inc and subsidiaries (Bancorp) is responsible for establishing and maintaining adequate internal control over financial reporting. Bancorp's internal control over financial reporting is a process designed under the supervision of Bancorp's Chief Executive Officer and Chief Financial Officer, and effected by Bancorp's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. This process includes those policies and procedures that:

1. Pertain to the maintenance of records, that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Bancorp;
2. Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of Bancorp are being made only in accordance with authorizations of management and directors of Bancorp; and
3. Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Bancorp's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Management has assessed the effectiveness of its internal control over financial reporting as of December 31, 2009, based on the control criteria established in a report entitled *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on such assessment, management has concluded that Bancorp's internal control over financial reporting is effective as of December 31, 2009.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements of Bancorp included in this Annual Report on Form 10-K, has issued an attestation report on Bancorp's internal control over financial reporting as of December 31, 2009. The report expresses an unqualified opinion on the effectiveness of Bancorp's internal control over financial reporting as of December 31, 2009.

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

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



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**Report of Independent Registered Public Accounting Firm**

**To the Board of Directors and Stockholders**

**S.Y. Bancorp, Inc.:**

We have audited S.Y. Bancorp, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). S.Y. Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on S.Y. Bancorp, Inc.'s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, S.Y. Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of S.Y. Bancorp, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, changes in stockholders' equity, comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated March 12, 2010 expressed an unqualified opinion on those consolidated financial statements.

Louisville, Kentucky

March 12, 2010

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**Item 9B. Other Information**

None

**Part III**

**Item 10. Directors, Executive Officers and Corporate Governance**

Information regarding the directors and executive officers of Bancorp is incorporated herein by reference to the discussion under the headings, ITEM 2. ELECTION OF ELEVEN DIRECTORS, and SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE in Bancorp's Proxy Statement for the 2010 Annual Meeting of Shareholders and the section captioned EXECUTIVE OFFICERS OF THE REGISTRANT in this Form 10-K.

Information regarding the Audit Committee is incorporated herein by reference to the discussion under the heading, BOARD OF DIRECTORS MEETINGS AND COMMITTEES in Bancorp's Proxy Statement for the 2010 Annual Meeting of Shareholders.

Information regarding principal occupation of directors of Bancorp follows:

David H. Brooks Retired. Former Chairman and Chief Executive Officer, S.Y. Bancorp, Inc. and Stock Yards Bank & Trust Company;

James E. Carrico Retired. Former Managing Director, Wells Fargo Insurance Services;

Charles R. Edinger, III President, J. Edinger & Son, Inc.;

David P. Heintzman Chairman and Chief Executive Officer, S.Y. Bancorp, Inc. and Stock Yards Bank & Trust Company;

Carl G. Herde Vice President of Finance and Chief Financial Officer, Baptist Healthcare System, Inc.;

James A. Hillebrand President, S.Y. Bancorp, Inc. and Stock Yards Bank & Trust Company;

Richard A. Lechleiter Executive Vice President and Chief Financial Officer, Kindred Healthcare, Inc.;

Bruce P. Madison Chief Executive Officer, Plumbers Supply Company, Inc.;

Nicholas X. Simon President and Chief Executive Officer, Publishers Printing Company, LLC;

Norman Tasman President, Tasman Industries Inc. and Tasman Hide Processing Inc.;

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Robert L. Taylor Professor of Management and Dean Emeritus, College of Business, University of Louisville;

Kathy C. Thompson Senior Executive Vice President, S.Y. Bancorp, Inc. and Stock Yards Bank & Trust Company.

The Board of Directors of Bancorp has adopted a code of ethics for its chief executive officer and financial executives. A copy of the code of ethics is filed as an exhibit to this Annual Report.

### **Item 11. Executive Compensation**

Information regarding the compensation of Bancorp's executive officers and directors is incorporated herein by reference to the discussion under the heading, EXECUTIVE COMPENSATION AND OTHER INFORMATION REPORT ON EXECUTIVE COMPENSATION in Bancorp's Proxy Statement for the 2010 Annual Meeting of Shareholders.

Information regarding the Compensation Committee is incorporated herein by reference to the discussion under the heading, TRANSACTIONS WITH MANAGEMENT AND OTHERS in Bancorp's Proxy Statement for the 2010 Annual Meeting of Shareholders. The report of the Compensation Committee shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed soliciting material or subject to Regulation 14A of the Exchange Act or incorporated by reference in any filing under the Exchange Act or the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

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**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated herein by reference to the discussion under the headings, ITEM 2. ELECTION OF ELEVEN DIRECTORS and SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, in Bancorp's Proxy Statement for the 2010 Annual Meeting of Shareholders.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item is incorporated herein by reference to the discussion under the headings, ITEM 2. ELECTION OF ELEVEN DIRECTORS and TRANSACTIONS WITH MANAGEMENT AND OTHERS, in Bancorp's Proxy Statement for the 2010 Annual Meeting of Shareholders.

**Item 14. Principal Accountant Fees and Services**

The information required by this item is incorporated herein by reference to the discussion under the heading, REPORT OF THE AUDIT COMMITTEE in Bancorp's Proxy Statement for the 2010 Annual Meeting of Shareholders.

**Part IV**

**Item 15. Exhibits and Financial Statement Schedules**

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

Consolidated Balance Sheets - December 31, 2009 and 2008  
Consolidated Statements of Income - years ended December 31, 2009, 2008 and 2007  
Consolidated Statements of Changes in Stockholders' Equity - years ended December 31, 2009, 2008 and 2007  
Consolidated Statements of Comprehensive Income - years ended December 31, 2009, 2008 and 2007  
Consolidated Statements of Cash Flows - years ended December 31, 2009, 2008 and 2007  
Notes to Consolidated Financial Statements  
Report of Independent Registered Public Accounting Firm

- (a) 2. List of Financial Statement Schedules

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



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(a) 3. List of Exhibits

- 3.1 Amended and Restated Articles of Incorporation of Bancorp filed with the Secretary of State of Kentucky on April 23, 2008. Exhibit 3.1 to Form 8-K filed April 28, 2008, is incorporated by reference herein.
- 3.2 Bylaws of Bancorp as currently in effect. Exhibit 3.2 to Form 8-K filed April 28, 2008, is incorporated by reference herein.
- 4.1 Rights agreement dated as of April 23, 2003, between S.Y. Bancorp, Inc. and Wachovia Bank, National Association, as rights agent. Exhibit 1 to Form 8-A filed April 23, 2003, is incorporated by reference herein.
- 4.2 Indenture for 10% Subordinated Debentures due 2038, dated as of December 23, 2008, between S.Y. Bancorp, Inc. and Wilmington Trust Company, as Trustee. Exhibit 4.1 to Form 8-K filed December 23, 2008, is incorporated by reference herein.
- 10.1\* S.Y. Bancorp, Inc. Stock Option Plan as amended. Exhibit 10.1 to Annual Report on Form 10-K for the year ended December 31, 2001, of Bancorp is incorporated by reference herein.
- 10.2\* Stock Yards Bank & Trust Company Executive Nonqualified Deferred Compensation Plan (as Amended and Restated in 2009), as filed as Exhibit 10.4 to Form 8-K filed on December 19, 2008, is incorporated by reference herein.
- 10.3\* Stock Yards Bank & Trust Company Director Nonqualified Deferred Compensation Plan (as Amended and Restated in 2009), as filed as Exhibit 10.3 to Form 8-K filed on December 19, 2008, is incorporated by reference herein.
- 10.4\* Form of Stock Yards Bank & Trust Company Executive Nonqualified Deferred Compensation Plan Employer Contribution Agreement, as filed as Exhibit 10.3 to Form 8-K filed on October 23, 2006, is incorporated by reference herein.
- 10.5\* Stock Yards Bank & Trust Company 2009 Restated Senior Officers Security Plan Exhibit 10.1 to Form 8-K filed December 19, 2008, is incorporated by reference herein.
- 10.6\* Change in Control Severance Agreement dated as of January 27, 2010 between Stock Yards Bank & Trust Company and David P. Heintzman, Exhibit 10.1 to Form 8-K filed January 27, 2010, is incorporated by reference herein.
- 10.7\* Change in Control Severance Agreement dated as of January 27, 2010 between Stock Yards Bank & Trust Company and Kathleen C. Thompson, Exhibit 10.2 to Form 8-K filed January 27, 2010, is incorporated by reference herein.
- 10.8\* Change in Control Severance Agreement dated as of January 27, 2010 between Stock Yards Bank & Trust Company and James A. Hillebrand, Exhibit 10.3 to Form 8-K filed January 27, 2010, is incorporated by reference herein.
- 10.9\* Change in Control Severance Agreement dated as of January 27, 2010 between Stock Yards Bank & Trust Company and Nancy Davis, Exhibit 10.4 to Form 8-K filed January 27, 2010, is incorporated by reference herein.
- 10.10\* Form of Change in Control Severance Agreement (Poindexter, Hoeck and Dishman), Exhibit 10.5 to Form 8-K filed January 27, 2010, is incorporated by reference herein.
- 10.11\* S.Y. Bancorp, Inc. 2005 Stock Incentive Plan. Exhibit 10.1 to Form 8-K filed May 2, 2005, is incorporated by reference herein.
- 10.12\* Form of Employer Contribution Agreement, Nancy Davis, Participant, as filed as Exhibit 10.4 to Form 8-K filed on October 23, 2006, is incorporated by reference herein.
- 10.13\* Form of Employer Contribution Agreement, Philip S. Smith, Participant, as filed as Exhibit 10.5 to Form 8-K filed on October 23, 2006, is incorporated by reference herein.
- 10.14\* Terms of Restricted Stock Program, as filed as Exhibit 10.1 to Form 8-K filed on February 26, 2007, is incorporated by reference herein.
- 10.15\* Form of Restricted Stock Agreement, as filed as Exhibit 10.2 to Form 8-K filed on February 26, 2007, is incorporated by reference herein.
- 10.16\* Form of Stock Option Grant and Agreement (6 months vesting), as filed as Exhibit 10.1 to Form 8-K filed on January 19, 2006, is incorporated by reference herein.
- 10.17\* Form of Stock Option Grant and Agreement (5 year vesting), as filed as Exhibit 10.2 to Form 8-K filed on January 19, 2006, is incorporated by reference herein.
- 10.18\* Form of Stock Appreciation Right Grant Agreement (six month vesting), as filed as Exhibit 10.1 to Form 8-K filed on February 22, 2008, is incorporated by reference herein.

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- 10.19\* Form of Stock Appreciation Right Grant Agreement (five year vesting), as filed as Exhibit 10.2 to Form 8-K filed on February 22, 2008, is incorporated by reference herein.
- 14 Code of Ethics for the Chief Executive Officer and Financial Executives.
- 21 Subsidiaries of the Registrant.
- 23 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act by David P. Heintzman.
- 31.2 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act by Nancy B. Davis.
- 32.1 Certifications pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David P. Heintzman.
- 32.2 Certifications pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Nancy B. Davis.

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\* Indicates matters related to executive compensation.

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

(b) Exhibits

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

(c) Financial Statement Schedules

None

**Where You Can Find More Information**

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



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**Signatures**

Pursuant to the requirements of Section 13 or 15(d) 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.

March 12, 2010

S.Y. BANCORP, INC.

BY:

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ David P. Heintzman David P. Heintzman	Chairman, Chief Executive Officer and Director (principal executive officer)	March 12, 2010
/s/ James A. Hillebrand James A. Hillebrand	President and Director	March 12, 2010
/s/ Nancy B. Davis Nancy B. Davis	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	March 12, 2010
/s/ David H. Brooks David H. Brooks	Director	March 12, 2010
/s/ James E. Carrico James E. Carrico	Director	March 12, 2010
/s/ Charles R. Edinger, III Charles R. Edinger, III	Director	March 12, 2010
/s/ Carl G. Herde Carl G. Herde	Director	March 12, 2010
/s/ Richard A. Lechleiter Richard A. Lechleiter	Director	March 12, 2010
/s/ Bruce P. Madison Bruce P. Madison	Director	March 12, 2010
/s/ Nicholas X. Simon Nicholas X. Simon	Director	March 12, 2010
/s/ Norman Tasman Norman Tasman	Director	March 12, 2010
/s/ Robert L. Taylor	Director	March 12, 2010

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Robert L. Taylor

/s/ Kathy C. Thompson  
Kathy C. Thompson

Senior Executive Vice President and Director

March 12, 2010

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**Index to Exhibits**

Exhibit Number

- 3.1 Amended and Restated Articles of Incorporation of Bancorp filed with the Secretary of State of Kentucky on April 23, 2008. Exhibit 3.1 to Form 8-K filed April 28, 2008, is incorporated by reference herein.
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- 4.1 Rights agreement dated as of April 23, 2003, between S.Y. Bancorp, Inc. and Wachovia Bank, National Association, as rights agent. Exhibit 1 to Form 8-A filed April 23, 2003, is incorporated by reference herein.
- 4.2 Indenture for 10% Subordinated Debentures due 2038, dated as of December 23, 2008, between S.Y. Bancorp, Inc. and Wilmington Trust Company, as Trustee. Exhibit 4.1 to Form 8-K filed December 23, 2008, is incorporated by reference herein.
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- 10.8\* Change in Control Severance Agreement dated as of January 27, 2010 between Stock Yards Bank & Trust Company and James A. Hillebrand, Exhibit 10.3 to Form 8-K filed January 27, 2010, is incorporated by reference herein.
- 10.9\* Change in Control Severance Agreement dated as of January 27, 2010 between Stock Yards Bank & Trust Company and Nancy Davis, Exhibit 10.4 to Form 8-K filed January 27, 2010, is incorporated by reference herein.
- 10.10\* Form of Change in Control Severance Agreement (Poindexter, Hoeck and Dishman), Exhibit 10.5 to Form 8-K filed January 27, 2010, is incorporated by reference herein.
- 10.11\* S.Y. Bancorp, Inc. 2005 Stock Incentive Plan. Exhibit 10.1 to Form 8-K filed May 2, 2005, is incorporated by reference herein.
- 10.12\* Form of Employer Contribution Agreement, Nancy Davis, Participant, as filed as Exhibit 10.4 to Form 8-K filed on October 23, 2006, is incorporated by reference herein.
- 10.13\* Form of Employer Contribution Agreement, Philip S. Smith, Participant, as filed as Exhibit 10.5 to Form 8-K filed on October 23, 2006, is incorporated by reference herein.
- 10.14\* Terms of Restricted Stock Program, as filed as Exhibit 10.1 to Form 8-K filed on February 26, 2007, is incorporated by reference herein.
- 10.15\* Form of Restricted Stock Agreement, as filed as Exhibit 10.2 to Form 8-K filed on February 26, 2007, is incorporated by reference herein.
- 10.16\* Form of Stock Option Grant and Agreement (6 months vesting), as filed as Exhibit 10.1 to Form 8-K filed on January 19, 2006, is incorporated by reference herein.
- 10.17\* Form of Stock Option Grant and Agreement (5 year vesting), as filed as Exhibit 10.2 to Form 8-K filed on January 19, 2006, is incorporated by reference herein.



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- 10.18\* Form of Stock Appreciation Right Grant Agreement (six month vesting), as filed as Exhibit 10.1 to Form 8-K filed on February 22, 2008, is incorporated by reference herein.
- 10.19\* Form of Stock Appreciation Right Grant Agreement (five year vesting), as filed as Exhibit 10.2 to Form 8-K filed on February 22, 2008, is incorporated by reference herein.
- 14 Code of Ethics for the Chief Executive Officer and Financial Executives.
- 21 Subsidiaries of the Registrant.
- 23 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act by David P. Heintzman.
- 31.2 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act by Nancy B. Davis.
- 32.1 Certifications pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David P. Heintzman.
- 32.2 Certifications pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Nancy B. Davis.

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\* Indicates matters related to executive compensation.