

S Y BANCORP INC
Form 10-Q
August 05, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from to .

Commission file number 1-13661

S.Y. BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky
(State or other jurisdiction of

61-1137529
(I.R.S. Employer

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incorporation or organization)

Identification No.)

1040 East Main Street, Louisville, Kentucky 40206

(Address of principal executive offices including zip code)

(502) 582-2571

(Registrant's telephone number, including area code)

Not Applicable

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 number of shares of the registrant's Common Stock, no par value, outstanding as of July 31, 2011, was 13,797,256.

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S.Y. BANCORP, INC. AND SUBSIDIARY

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The following consolidated financial statements of S.Y. Bancorp, Inc. and Subsidiary, Stock Yards Bank & Trust Company, are submitted herewith:

Consolidated Balance Sheets
June 30, 2011(Unaudited) and December 31, 2010

Consolidated Statements of Income
for the three and six months ended June 30, 2011 and 2010 (Unaudited)

Consolidated Statements of Cash Flows
for the six months ended June 30, 2011 and 2010 (Unaudited)

Consolidated Statement of Changes in Stockholders' Equity
for the six months ended June 30, 2011 (Unaudited)

Consolidated Statements of Comprehensive Income
for the three and six months ended June 30, 2011 and 2010 (Unaudited)

Notes to Consolidated Financial Statements

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PART II OTHER INFORMATION

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Consolidated Balance Sheets

June 30, 2011 and December 31, 2010

(In thousands, except share data)

| | June 30, 2011 (Unaudited) | December 31, 2010 |
|---|--|------------------------------|
| Assets | | |
| Cash and due from banks | \$ 24,226 | \$ 17,702 |
| Federal funds sold | 19,972 | 23,953 |
| Mortgage loans held for sale | 4,439 | 12,387 |
| Securities available for sale (amortized cost of \$250,618 in 2011 and \$240,097 in 2010) | 258,280 | 245,332 |
| Securities held to maturity (fair value of \$22 in 2010) | | 20 |
| Federal Home Loan Bank stock | 4,948 | 4,771 |
| Other securities | 1,001 | 1,001 |
| Loans | 1,538,950 | 1,508,425 |
| Less allowance for loan losses | 27,564 | 25,543 |
| Net loans | 1,511,386 | 1,482,882 |
| Premises and equipment, net | 34,564 | 31,665 |
| Bank owned life insurance | 26,628 | 26,124 |
| Accrued interest receivable | 5,928 | 6,288 |
| Other assets | 52,012 | 50,820 |
| Total assets | \$ 1,943,384 | \$ 1,902,945 |
| Liabilities and Stockholders Equity | | |
| Deposits: | | |
| Non-interest bearing | \$ 266,745 | \$ 247,465 |
| Interest bearing | 1,265,626 | 1,246,003 |
| Total deposits | 1,532,371 | 1,493,468 |
| Securities sold under agreements to repurchase | 64,856 | 60,075 |
| Federal funds purchased | 22,928 | 25,436 |
| Other short-term borrowings | 1,243 | 1,998 |
| Accrued interest payable | 179 | 304 |
| Other liabilities | 41,645 | 50,461 |
| Federal Home Loan Bank advances | 60,437 | 60,442 |
| Subordinated debentures | 40,900 | 40,900 |
| Total liabilities | 1,764,559 | 1,733,084 |
| Stockholders equity: | | |
| Preferred stock, no par value. Authorized 1,000,000 shares; no shares issued or outstanding | | |
| Common stock, no par value. Authorized 20,000,000 shares; issued and outstanding 13,798,914 and 13,736,942 shares in 2011 and 2010, respectively | 6,885 | 6,679 |
| Additional paid-in capital | 13,810 | 12,206 |
| Retained earnings | 153,414 | 147,837 |
| Accumulated other comprehensive income | 4,716 | 3,139 |
| Total stockholders equity | 178,825 | 169,861 |
| Total liabilities and stockholders equity | \$ 1,943,384 | \$ 1,902,945 |

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Income

For the three and six months ended June 30, 2011 and 2010

(In thousands, except per share data)

| | For three months ended | | For six months ended | |
|---|------------------------|-----------|----------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest income: | | | | |
| Loans | \$ 19,875 | \$ 19,715 | \$ 39,475 | \$ 38,929 |
| Federal funds sold | 49 | 19 | 95 | 44 |
| Mortgage loans held for sale | 34 | 53 | 97 | 119 |
| Securities taxable | 1,260 | 1,376 | 2,492 | 2,780 |
| Securities tax-exempt | 348 | 285 | 695 | 533 |
| Total interest income | 21,566 | 21,448 | 42,854 | 42,405 |
| Interest expense: | | | | |
| Deposits | 2,654 | 3,394 | 5,325 | 7,076 |
| Fed funds purchased | 10 | 8 | 23 | 17 |
| Securities sold under agreements to repurchase | 64 | 81 | 131 | 168 |
| Federal Home Loan Bank advances | 364 | 556 | 725 | 1,081 |
| Subordinated debentures | 863 | 862 | 1,724 | 1,722 |
| Total interest expense | 3,955 | 4,901 | 7,928 | 10,064 |
| Net interest income | 17,611 | 16,547 | 34,926 | 32,341 |
| Provision for loan losses | 2,600 | 2,384 | 5,400 | 5,079 |
| Net interest income after provision for loan losses | 15,011 | 14,163 | 29,526 | 27,262 |
| Non-interest income: | | | | |
| Investment management and trust services | 3,661 | 3,232 | 7,198 | 6,493 |
| Service charges on deposit accounts | 2,034 | 2,187 | 3,958 | 4,185 |
| Bankcard transaction revenue | 960 | 863 | 1,837 | 1,614 |
| Gains on sales of mortgage loans held for sale | 441 | 445 | 823 | 830 |
| Brokerage commissions and fees | 530 | 503 | 1,043 | 959 |
| Bank owned life insurance income | 255 | 248 | 504 | 491 |
| Other | 271 | 445 | 794 | 1,327 |
| Total non-interest income | 8,152 | 7,923 | 16,157 | 15,899 |
| Non-interest expenses: | | | | |
| Salaries and employee benefits | 8,648 | 8,319 | 17,048 | 16,408 |
| Net occupancy expense | 1,357 | 1,296 | 2,587 | 2,572 |
| Data processing expense | 1,346 | 1,322 | 2,483 | 2,459 |
| Furniture and equipment expense | 337 | 321 | 692 | 635 |
| FDIC insurance expense | 339 | 531 | 960 | 1,002 |
| Other | 2,698 | 2,592 | 5,782 | 5,063 |
| Total non-interest expenses | 14,725 | 14,381 | 29,552 | 28,139 |
| Income before income taxes | 8,438 | 7,705 | 16,131 | 15,022 |
| Income tax expense | 2,441 | 2,149 | 4,643 | 4,485 |
| Net income | 5,997 | 5,556 | 11,488 | 10,537 |
| Net income per share: | | | | |
| Basic | \$ 0.43 | \$ 0.41 | \$ 0.83 | \$ 0.77 |
| Diluted | \$ 0.43 | \$ 0.40 | \$ 0.83 | \$ 0.77 |
| Average common shares: | | | | |

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| | | | | |
|---------|--------|--------|--------|--------|
| Basic | 13,789 | 13,690 | 13,768 | 13,668 |
| Diluted | 13,879 | 13,790 | 13,857 | 13,752 |

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Cash Flows

For the six months ended June 30, 2011 and 2010

(In thousands)

| | 2011 | 2010 |
|--|-----------|-----------|
| Operating activities: | | |
| Net income | \$ 11,488 | \$ 10,537 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 5,400 | 5,079 |
| Depreciation, amortization and accretion, net | 1,917 | 1,653 |
| Deferred income tax benefit | (635) | (1,184) |
| Gain on sales of mortgage loans held for sale | (823) | (830) |
| Origination of mortgage loans held for sale | (42,953) | (54,494) |
| Proceeds from sale of mortgage loans held for sale | 51,724 | 61,810 |
| Bank owned life insurance income | (504) | (491) |
| Decrease (increase) in value of private investment fund | 102 | (368) |
| Loss on the disposal of equipment | 382 | 2 |
| Loss (gain) on the sale of other real estate | 32 | (51) |
| Stock compensation expense | 564 | 455 |
| Excess tax benefits from share-based compensation arrangements | (77) | (48) |
| Decrease (increase) in accrued interest receivable and other assets | 951 | (7,804) |
| Increase (decrease) in accrued interest payable and other liabilities | (8,864) | 11,257 |
| Net cash provided by operating activities | 18,704 | 25,523 |
| Investing activities: | | |
| Purchases of securities available for sale | (132,819) | (91,798) |
| Proceeds from sale of securities available for sale | | |
| Proceeds from maturities of securities available for sale | 121,840 | 110,259 |
| Proceeds from maturities of securities held to maturity | 20 | 10 |
| Net increase in loans | (41,503) | (63,540) |
| Purchases of premises and equipment | (4,750) | (1,353) |
| Proceeds from disposal of premises and equipment | 7 | 3 |
| Proceeds from sale of foreclosed assets | 5,293 | 887 |
| Net cash used in investing activities | (51,912) | (45,532) |
| Financing activities: | | |
| Net increase in deposits | 38,903 | 55,647 |
| Net increase in securities sold under agreements to repurchase and federal funds purchased | 2,273 | 1,357 |
| Net decrease in other short-term borrowings | (755) | (326) |
| Proceeds from Federal Home Loan Bank advances | | 10,000 |
| Repayments of Federal Home Loan Bank advances | (5) | (5) |
| Repayments of subordinated debentures | | (30) |
| Issuance of common stock for options and dividend reinvestment plan | 381 | 442 |
| Excess tax benefits from share-based compensation arrangements | 77 | 48 |
| Common stock repurchases | (167) | (79) |
| Cash dividends paid | (4,956) | (4,649) |
| Net cash provided by financing activities | 35,751 | 62,405 |
| Net increase in cash and cash equivalents | 2,543 | 42,396 |
| Cash and cash equivalents at beginning of period | 41,655 | 32,424 |
| Cash and cash equivalents at end of period | \$ 44,198 | \$ 74,820 |
| Supplemental cash flow information: | | |

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| | | | | |
|---|----|-------|----|--------|
| Income tax payments | \$ | 985 | \$ | 4,080 |
| Cash paid for interest | | 8,053 | | 10,036 |
| Supplemental non-cash activity: | | | | |
| Transfers from loans to other real estate owned | \$ | 7,599 | \$ | 1,364 |

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**S.Y. BANCORP, INC. AND SUBSIDIARY**

Consolidated Statement of Changes in Stockholders' Equity

For the six months ended June 30, 2011

(In thousands, except per share data)

| | Common stock | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income | Total |
|---|---------------------|----------|-------------------------------|----------------------|---|------------|
| | Number of shares | Amount | | | | |
| Balance December 31, 2010 | 13,737 | \$ 6,679 | \$ 12,206 | \$ 147,837 | \$ 3,139 | \$ 169,861 |
| Net income | | | | 11,488 | | 11,488 |
| Change in accumulated other comprehensive income, net of tax | | | | | 1,577 | 1,577 |
| Stock compensation expense | | | 564 | | | 564 |
| Stock issued for stock options exercised and dividend reinvestment plan | 46 | 154 | 710 | | | 864 |
| Stock issued for non-vested restricted stock | 42 | 140 | 866 | (1,006) | | |
| Cash dividends, \$0.36 per share | | | | (4,956) | | (4,956) |
| Shares repurchased or cancelled | (26) | (88) | (536) | 51 | | (573) |
| Balance June 30, 2011 | 13,799 | \$ 6,885 | \$ 13,810 | \$ 153,414 | \$ 4,716 | \$ 178,825 |

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Comprehensive Income

For the three and six months ended June 30, 2011 and 2010

(In thousands)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|----------|------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$ 5,997 | \$ 5,556 | \$ 11,488 | \$ 10,537 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized gains on securities available for sale: | | | | |
| Unrealized gains arising during the period (net of tax of \$775, \$598, \$849 and \$908, respectively) | 1,440 | 1,110 | 1,577 | 1,687 |
| Other comprehensive income | 1,440 | 1,110 | 1,577 | 1,687 |
| Comprehensive income | \$ 7,437 | \$ 6,666 | \$ 13,065 | \$ 12,224 |

See accompanying notes to unaudited consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

(1) Summary of Significant Accounting Policies

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

The consolidated financial statements include the accounts of S.Y. Bancorp, Inc. and its wholly-owned subsidiary, Stock Yards Bank & Trust Company (Bank). S.Y. Bancorp Capital Trust II is a Delaware statutory trust that is a wholly-owned unconsolidated finance subsidiary of S.Y. Bancorp, Inc. Significant intercompany transactions and accounts have been eliminated in consolidation.

A description of other significant accounting policies is presented in the notes to the Consolidated Financial Statements for the year ended December 31, 2010 included in S.Y. Bancorp, Inc.'s Annual Report on Form 10-K. Certain reclassifications have been made in the prior year financial statements to conform to current year classifications.

Interim results for the three and six month periods ended June 30, 2011 are not necessarily indicative of the results for the entire year.

Critical Accounting Policies

Management has identified the accounting policy related to the allowance 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 or lower provision for loan losses. The accounting policy related to the allowance for loan losses is applicable to the commercial banking segment of Bancorp.

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

Bancorp's financial position and its results from operations.

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

| June 30, 2011 | | | Unrealized | | |
|--|-------------------|-----------|-------------------|---------------|-------------------|
| Securities available for sale | Amortized | | Gains | Losses | Fair Value |
| (in thousands) | Cost | | | | |
| U.S. Treasury and other U.S. government obligations | \$ 23,000 | \$ | \$ | \$ | \$ 23,000 |
| Government sponsored enterprise obligations | 100,808 | | 2,948 | | 103,756 |
| Mortgage-backed securities | 58,936 | | 2,801 | 35 | 61,702 |
| Obligations of states and political subdivisions | 66,624 | | 1,953 | 25 | 68,552 |
| Trust preferred securities of other financial institutions | 1,250 | | 20 | | 1,270 |
| Total securities available for sale | \$ 250,618 | \$ | 7,722 | \$ 60 | \$ 258,280 |

| December 31, 2010 | | | Unrealized | | |
|--|-------------------|-----------|-------------------|---------------|-------------------|
| Securities available for sale | Amortized | | Gains | Losses | Fair Value |
| (in thousands) | Cost | | | | |
| Government sponsored enterprise obligations | \$ 111,802 | \$ | 2,737 | \$ | \$ 114,539 |
| Mortgage-backed securities | 58,616 | | 2,348 | 216 | 60,748 |
| Obligations of states and political subdivisions | 68,429 | | 777 | 417 | 68,789 |
| Trust preferred securities of other financial institutions | 1,250 | | 6 | | 1,256 |
| Total securities available for sale | \$ 240,097 | \$ | 5,868 | \$ 633 | \$ 245,332 |

The investment portfolio includes a significant level of obligations of states and political subdivisions. The issuers of the bonds are generally school districts or essential-service public works projects. The bonds are concentrated in Kentucky, Indiana and Ohio. Each of these securities has a rating of A or better by a recognized bond rating agency.

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At December 31, 2010, Bancorp had mortgage-backed securities classified as held to maturity. These securities, with an amortized cost of \$20,000, had a fair value of \$22,000. There are no securities held to maturity as of June 30, 2011.

In addition to the available for sale portfolio, investment securities held by Bancorp include certain securities which are not readily marketable and are carried at cost. This category includes holdings of Federal Home Loan Bank of Cincinnati (FHLB) stock which are required as part of the condition for borrowing availability from the FHLB and are classified as restricted securities. See Note 5 for information relating to FHLB borrowings. 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.

A summary of securities as of June 30, 2011 based on contractual maturity is presented below. Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations.

| (In thousands) | Securities Available for Sale | |
|---|----------------------------------|------------|
| | Cost | Fair Value |
| Due within one year | \$ 67,308 | \$ 67,354 |
| Due within one year through five years | 87,624 | 90,217 |
| Due within five years through ten years | 38,034 | 40,153 |
| Due after ten years | 57,652 | 60,556 |
| | \$ 250,618 | \$ 258,280 |

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Securities with unrealized losses not recognized in income at June 30, 2011 and December 31, 2010 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 |
| June 30, 2011 | | | | | | |
| Mortgage-backed securities | \$ 4,881 | \$ 35 | \$ | \$ | \$ 4,881 | \$ 35 |
| Obligations of states and political subdivisions | 2,186 | 25 | | | 2,186 | 25 |
| Total temporarily impaired securities | \$ 7,067 | \$ 60 | \$ | \$ | \$ 7,067 | \$ 60 |
| December 31, 2010 | | | | | | |
| Mortgage-backed securities | \$ 9,620 | \$ 216 | \$ | \$ | \$ 9,620 | \$ 216 |
| Obligations of states and political subdivisions | 31,444 | 417 | | | 31,444 | 417 |
| Total temporarily impaired securities | \$ 41,064 | \$ 633 | \$ | \$ | \$ 41,064 | \$ 633 |

Unrealized losses on Bancorp's investment securities portfolio have not been recognized in income because the securities are of high credit quality, and the decline in fair values is largely due to changes in the prevailing interest rate environment since the purchase date. The fair value is expected to recover as the securities reach their maturity date and/or the interest rate environment returns to conditions similar to when the securities were purchased. These investments consist of 5 and 49 separate investment positions as of June 30, 2011 and December 31, 2010, respectively, that are not considered other-than-temporarily impaired. Based on this information, Bancorp has not recorded other-than-temporary losses on any securities held at June 30, 2011.

Management evaluates the impairment of securities on a quarterly basis, considering various factors including issuer financial condition, agency rating, payment prospects, impairment duration and general industry condition. As of June 30, 2011, Bancorp had no securities which had been impaired for 12 months or longer. As of June 30, 2011, Bancorp had one trust preferred security with a credit rating below investment grade Caa1 by Moody's Investor Service. This security had an amortized cost of \$1,000,000, a carrying value of \$1,014,000, and an unrealized gain of \$14,000. Because management does not intend to sell the investments, and it is not likely that Bancorp will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, management is of the opinion that none of the securities are other-than-temporarily impaired at June 30, 2011.

(3) Stock-Based Compensation

The fair value of all new and modified awards granted, net of estimated forfeitures, is recognized as compensation expense over the respective service period. Forfeiture estimates are based on historical experience.

Bancorp currently has one stock-based compensation plan. Initially, in the 2005 Stock Incentive Plan, there were 735,000 shares of common stock reserved for issuance of stock based awards. In 2010, shareholders approved a proposal to amend the 2005 Stock Incentive Plan to reserve an additional 700,000

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shares of common stock for issuance under the plan. As of June 30, 2011, there were 668,820 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, equity grants to certain executive officers vested six months after grant date. Restricted shares generally vest over three to five years. All awards under both plans have been granted at an exercise price equal to the market value of common stock at the time of grant; options and SARs expire ten years after the grant date.

In April 2011, the Board of Directors of Bancorp approved an amendment to the 2005 Stock Incentive Plan to authorize restricted stock units (RSUs) as a type of award that the Company may grant pursuant to the Plan. The RSU awards entitle those officers to issuance of one share of common stock for each vested RSU shortly after expiration of a three-year performance period, provided certain goals are achieved. Executives do not have voting rights and do not receive dividends or other distributions paid on stock related to RSUs, until that stock is actually issued.

Bancorp has recognized stock-based compensation expense, within salaries and employee benefits in the consolidated statements of income, as follows:

| | For three months ended June 30, | | For six months ended June 30, | |
|--|------------------------------------|------------|----------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Stock-based compensation expense before income taxes | \$ 316,000 | \$ 247,000 | \$ 564,000 | \$ 455,000 |
| Deferred tax benefit | 110,000 | 86,000 | 197,000 | 159,000 |
| Reduction of net income | \$ 206,000 | \$ 161,000 | \$ 367,000 | \$ 296,000 |

Bancorp expects to record an additional \$662,000 of stock-based compensation expense in 2011 for equity grants outstanding as of June 30, 2011. As of June 30, 2011, Bancorp has \$3,503,000 of unrecognized stock-based compensation expense that will be recorded as compensation expense over the next five years as awards vest. Bancorp received cash of \$369,000 and \$429,000 from the exercise of options during the first six months of 2011 and 2010, respectively.

The fair value of Bancorp's stock options and SARs is estimated at the date of grant using the Black-Scholes option pricing model, a leading formula for calculating the value of stock options. 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 fair value of restricted stock units is determined by Bancorp's closing stock price on the date of the award, less the present value of dividends expected to be paid during the performance period.

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The following assumptions were used in SAR/option valuations at the grant date in each year:

| | 2011 | 2010 |
|--|-------|-------|
| Dividend yield | 2.48% | 2.18% |
| Expected volatility | 22.64 | 23.87 |
| Risk free interest rate | 2.90 | 3.57 |
| Forfeitures | 6.07 | 5.96 |
| Expected life of options and SARs (in years) | 7.5 | 7.6 |

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. 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.

All outstanding options have a 10-year contractual term from the date of grant. The expected life of options is based on actual experience of past like-term awards. Bancorp evaluated historical exercise and post-vesting termination behavior when determining the expected life of options and SARs.

A summary of stock option and SARs activity and related information for the six months ended June 30, 2011 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, 2010 | | | | | | |
| Vested and exercisable | 710 | \$ 16.00-26.83 | \$ 22.03 | \$ 2,007 | \$ 4.91 | 4.15 |
| Unvested | 273 | 21.03-26.83 | 22.85 | 552 | 5.36 | 7.72 |
| Total outstanding | 983 | 16.00-26.83 | 22.26 | 2,559 | 5.03 | 5.14 |
| Granted | 67 | 23.76-24.87 | 23.78 | | 5.04 | |
| Exercised | (46) | 16.00-22.81 | 16.93 | 323 | 3.47 | |
| Forfeited | (9) | 18.05-26.83 | 21.54 | 18 | 4.85 | |
| At June 30, 2011 | | | | | | |
| Vested and exercisable | 755 | 16.00-26.83 | 22.55 | 1,090 | 5.07 | 4.10 |
| Unvested | 240 | 21.03-26.83 | 22.82 | 211 | 5.22 | 8.20 |
| Total outstanding | 995 | 16.00-26.83 | 22.61 | \$ 1,301 | 5.11 | 5.09 |
| Vested during year | 95 | 21.03-26.83 | 23.59 | \$ 59 | 5.48 | |

Intrinsic value for stock options is defined as the amount by which the current market price of the underlying stock exceeds the exercise price.

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In the first quarter of 2011, Bancorp granted 66,579 SARs at the weighted average current market price of \$23.78 and a Black-Scholes fair value of \$5.04. There were no SARs granted in the second quarter. In the first six months of 2011, Bancorp granted 41,991 shares of restricted common stock at the weighted average current market price of \$23.96. Also in the second quarter of 2011, Bancorp awarded RSUs with a fair value of \$21.99 to executive officers of the Bank, the three-year performance period for which began January 1, 2011. Bancorp believes, based on most recent analysis, the most likely vesting of these RSUs will be 20,228 shares of common stock.

(4) Loans

The composition of loans by primary loan classification follows:

| (In thousands) | June 30, 2011 | | December 31, 2010 | |
|--------------------------------|---------------|-----------|-------------------|-----------|
| Commercial and industrial | \$ | 365,008 | \$ | 343,956 |
| Real estate mortgage: | | | | |
| Commercial investment | | 382,753 | | 362,904 |
| Owner occupied commercial | | 313,531 | | 316,291 |
| 1-4 family residential | | 159,320 | | 157,983 |
| Home equity - first lien | | 38,376 | | 39,449 |
| Home equity - junior lien | | 83,880 | | 91,813 |
| Subtotal: Real estate mortgage | | 977,860 | | 968,440 |
| Construction and development | | 158,412 | | 159,482 |
| Consumer | | 37,670 | | 36,547 |
| Total loans | \$ | 1,538,950 | \$ | 1,508,425 |

An analysis of the changes in the allowance for loan losses for the six months ended June 30, 2011 and 2010 follows (in thousands):

| | 2011 | | 2010 | |
|------------------------------|------|---------|------|---------|
| Beginning balance January 1, | \$ | 25,543 | \$ | 20,000 |
| Provision for loan losses | | 5,400 | | 5,079 |
| Loans charged off | | (3,715) | | (2,560) |
| Recoveries | | 336 | | 414 |
| Ending balance June 30, | \$ | 27,564 | \$ | 22,933 |

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The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2011 and December 31, 2010.

| June 30, 2011 (in thousands) | Type of Loan | | | | | | Total |
|--|------------------------------|---------------------------------|-------------------------|-----------|-------------|----|-----------|
| | Commercial and industrial | Construction and development | Real estate mortgage | Consumer | Unallocated | | |
| Allowance for credit losses | | | | | | | |
| Beginning balance | | | | | | | |
| December 31, 2010 | \$ 2,796 | \$ 3,630 | \$ 12,272 | \$ 623 | \$ 6,222 | \$ | 25,543 |
| Charge-offs | (816) | (1,226) | (1,366) | (307) | | | (3,715) |
| Recoveries | 20 | | 116 | 200 | | | 336 |
| Provision | 3,390 | 989 | 2,613 | 60 | (1,652) | | 5,400 |
| Ending balance | | | | | | | |
| June 30, 2011 | \$ 5,390 | \$ 3,393 | \$ 13,635 | \$ 576 | \$ 4,570 | \$ | 27,564 |
| Balance: | | | | | | | |
| individually evaluated for impairment | \$ 500 | \$ | \$ 824 | \$ | \$ | \$ | 1,324 |
| Balance: | | | | | | | |
| collectively evaluated for impairment | \$ 4,890 | \$ 3,393 | \$ 12,811 | \$ 576 | \$ 4,570 | \$ | 26,240 |
| Balance: loans acquired with deteriorated credit quality | | | | | | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | |
| Loans | | | | | | | |
| Balance | \$ 365,008 | \$ 158,412 | \$ 977,860 | \$ 37,670 | | \$ | 1,538,950 |
| Balance: | | | | | | | |
| individually evaluated for impairment | \$ 2,209 | \$ 700 | \$ 12,815 | \$ 96 | | \$ | 15,820 |
| Balance: | | | | | | | |
| collectively evaluated for impairment | \$ 362,799 | \$ 157,712 | \$ 965,045 | \$ 37,574 | | \$ | 1,523,130 |
| Balance: loans acquired with deteriorated credit quality | | | | | | | |
| | \$ | \$ | \$ | \$ | | \$ | |

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| December 31, 2010 (in thousands) | Type of Loan | | | | | Total |
|---|------------------------------|---------------------------------|-------------------------|-----------|-------------|--------------|
| | Commercial and industrial | Construction and development | Real estate mortgage | Consumer | Unallocated | |
| Allowance for credit losses | | | | | | |
| Beginning balance | | | | | | |
| December 31, 2009 | \$ 4,091 | \$ 1,518 | \$ 6,513 | \$ 947 | \$ 6,931 | \$ 20,000 |
| Charge-offs | (1,418) | (2,211) | (2,450) | (687) | | (6,766) |
| Recoveries | 115 | 26 | 163 | 536 | | 840 |
| Provision | 8 | 2,947 | 8,046 | (173) | 641 | 11,469 |
| Ending balance | | | | | | |
| December 31, 2010 | \$ 2,796 | \$ 2,280 | \$ 12,272 | \$ 623 | \$ 7,572 | \$ 25,543 |
| Balance: individually evaluated for impairment | \$ 90 | \$ | \$ 1,724 | \$ | \$ | \$ 1,814 |
| Balance: collectively evaluated for impairment | \$ 2,706 | \$ 2,280 | \$ 10,548 | \$ 623 | \$ 7,572 | \$ 23,729 |
| Balance: loans acquired with deteriorated credit quality | \$ | \$ | \$ | \$ | \$ | \$ |
| Loans | | | | | | |
| Balance | \$ 343,956 | \$ 159,482 | \$ 968,440 | \$ 36,547 | \$ | \$ 1,508,425 |
| Balance: individually evaluated for impairment | \$ 520 | \$ 700 | \$ 15,955 | \$ 95 | \$ | \$ 17,270 |
| Balance: collectively evaluated for impairment | \$ 343,436 | \$ 158,782 | \$ 952,485 | \$ 36,452 | \$ | \$ 1,491,155 |
| Balance: loans acquired with deteriorated credit quality | \$ | \$ | \$ | \$ | \$ | \$ |

Information regarding impaired loans follows (in thousands):

| | June 30, 2011 | December 31, 2010 |
|--|---------------|-------------------|
| Principal balance of impaired loans | \$ 15,820 | \$ 17,270 |
| Impaired loans with a valuation allowance | 3,832 | 7,335 |
| Amount of valuation allowance | 1,324 | 1,814 |
| Impaired loans with no valuation allowance | 11,988 | 9,935 |
| Average balance of impaired loans for the period | 15,572 | 13,212 |

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Management uses the following classes of loans when assessing and monitoring the risk and performance of the loan portfolio:

- Commercial and industrial
- Real estate mortgage
- Construction and development
- Consumer

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The following table presents loans individually evaluated for impairment as of June 30, 2011 and December 31, 2010.

| June 30, 2011 (in thousands) | Recorded investment | Unpaid principal balance | Related allowance |
|---|--------------------------------|---|------------------------------|
| Loans with no related allowance recorded | | | |
| Commercial and industrial | \$ 794 | \$ 1,918 | |
| Real estate mortgage | 10,398 | 11,653 | |
| Construction and development | 700 | 700 | |
| Consumer | 96 | 139 | |
| Loans with an allowance recorded | | | |
| Commercial and industrial | \$ 1,415 | \$ 2,000 | \$ 500 |
| Real estate mortgage | 2,417 | 2,417 | 824 |
| Construction and development | | | |
| Consumer | | | |
| Total | | | |
| Commercial and industrial | \$ 2,209 | \$ 3,918 | \$ 500 |
| Real estate mortgage | \$ 12,815 | \$ 14,070 | \$ 824 |
| Construction and development | \$ 700 | \$ 700 | \$ |
| Consumer | \$ 96 | \$ 139 | \$ |

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| December 31, 2010 (in thousands) | Recorded investment | Unpaid principal balance | Related allowance |
|---|--------------------------------|---|------------------------------|
| Loans with no related allowance recorded | | | |
| Commercial and industrial | \$ 420 | \$ 1,982 | |
| Real estate mortgage | 8,720 | 9,455 | |
| Construction and development | 700 | 700 | |
| Consumer | 95 | 140 | |
| Subtotal | 9,935 | 12,277 | |
| Loans with an allowance recorded | | | |
| Commercial and industrial | \$ 100 | \$ 292 | \$ 90 |
| Real estate mortgage | 7,235 | 7,235 | 1,724 |
| Construction and development | | | |
| Consumer | | | |
| Subtotal | 7,335 | 7,527 | 1,814 |
| Total | | | |
| Commercial and industrial | \$ 520 | \$ 2,274 | \$ 90 |
| Real estate mortgage | \$ 15,955 | \$ 16,690 | \$ 1,724 |
| Construction and development | \$ 700 | \$ 700 | \$ |
| Consumer | \$ 95 | \$ 140 | \$ |
| Subtotal | 17,270 | 19,804 | 1,814 |

Unpaid principal balance does not reflect partial charge-offs which may have occurred over the life of the loans.

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.

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The following table presents the recorded investment in non-accrual loans as of June 30, 2011 and December 31, 2010.

| (In thousands) | June 30 2011 | December 31 2010 |
|------------------------------|------------------|---------------------|
| Commercial and industrial | \$ 2,286 | \$ 2,328 |
| Construction and development | 3,288 | 4,589 |
| Real estate mortgage | 9,899 | 7,194 |
| Consumer | 97 | 277 |
| Total | \$ 15,570 | \$ 14,388 |

Included in non-performing loans are loans accounted for as troubled debt restructuring totaling \$250,000 at June 30, 2011 and \$2,882,000 at December 31, 2010, which continue to accrue interest.

The following table presents the aging of the recorded investment in past due loans as of June 30, 2011 and December 31, 2010.

| June 30, 2011 (in thousands) | 30-59 days past due | 60-89 days past due | Greater than 90 days past due | Total past due | Current | Total loans | Recorded investment > 90 days and accruing |
|---------------------------------|------------------------|------------------------|--|-------------------|---------------------|---------------------|---|
| Commercial and industrial | \$ 1,006 | \$ 92 | \$ 2,209 | \$ 3,307 | \$ 361,701 | \$ 365,008 | \$ |
| Real estate mortgage | 4,815 | 5,650 | 14,228 | 24,693 | 953,167 | 977,860 | 1,663 |
| Construction and development | 699 | 2,318 | 700 | 3,717 | 154,695 | 158,412 | |
| Consumer | 222 | 7 | 96 | 325 | 37,345 | 37,670 | |
| Total | \$ 6,742 | \$ 8,067 | \$ 17,233 | \$ 32,042 | \$ 1,506,908 | \$ 1,538,950 | \$ 1,663 |

| December 31, 2010 (in thousands) | 30-59 days past due | 60-89 days past due | Greater than 90 days past due | Total past due | Current | Total loans | Recorded investment > 90 days and accruing |
|-------------------------------------|------------------------|------------------------|--|-------------------|---------------------|---------------------|---|
| Commercial and industrial | \$ 1,681 | \$ 194 | \$ 547 | \$ 2,422 | \$ 341,534 | \$ 343,956 | \$ 27 |
| Real estate mortgage | 5,943 | 4,821 | 15,039 | 25,803 | 942,637 | 968,440 | 1,966 |
| Construction and development | 256 | | 700 | 956 | 158,526 | 159,482 | |
| Consumer | 69 | 4 | 146 | 219 | 36,328 | 36,547 | 51 |
| Total | \$ 7,949 | \$ 5,019 | \$ 16,432 | \$ 29,400 | \$ 1,479,025 | \$ 1,508,425 | \$ 2,044 |

Bancorp categorizes loans into credit risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends. Pass-rated loans included all risk-rated loans other than those classified as special mention, substandard, and doubtful, which are defined below:

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- Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in

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deterioration of repayment prospects for the loan or of the Bank's credit position at some future date.

- **Substandard:** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize repayment of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

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

As of June 30, 2011 and December 31, 2010, the risk categories of loans were as follows:

Credit risk profile by internally assigned grade

(in thousands)

| June 30, 2011 | Commercial and industrial | Real estate mortgage | Construction and development | Consumer | Total |
|----------------------|--------------------------------------|---------------------------------|---|-----------------|--------------|
| Grade | | | | | |
| Pass | \$ 328,320 | \$ 899,500 | \$ 142,670 | \$ 37,632 | \$ 1,408,122 |
| Special mention | 18,756 | 34,296 | 6,258 | 14 | 59,324 |
| Substandard | 17,932 | 44,064 | 9,484 | 24 | 71,504 |
| Doubtful | | | | | |
| Total | \$ 365,008 | \$ 977,860 | \$ 158,412 | \$ 37,670 | \$ 1,538,950 |

| December 31, 2010 | Commercial and industrial | Real estate mortgage | Construction and development | Consumer | Total |
|--------------------------|--------------------------------------|---------------------------------|---|-----------------|--------------|
| Grade | | | | | |
| Pass | \$ 315,053 | \$ 891,762 | \$ 140,986 | \$ 36,172 | \$ 1,383,973 |
| Special mention | 20,440 | 30,402 | 6,222 | 67 | 57,131 |
| Substandard | 8,463 | 46,276 | 12,274 | 308 | 67,321 |
| Doubtful | | | | | |
| Total | \$ 343,956 | \$ 968,440 | \$ 159,482 | \$ 36,547 | \$ 1,508,425 |

Table of Contents**Credit risk profile based on payment activity**

(in thousands)

| June 30, 2011 | Commercial and industrial | Real estate mortgage | Construction and development | Consumer | Total |
|----------------------|--------------------------------------|---------------------------------|---|------------------|---------------------|
| Performing | \$ 362,799 | \$ 963,382 | \$ 157,712 | \$ 37,574 | \$ 1,521,467 |
| Non-performing | 2,209 | 14,478 | 700 | 96 | 17,483 |
| Total | \$ 365,008 | \$ 977,860 | \$ 158,412 | \$ 37,670 | \$ 1,538,950 |

| December 31, 2010 | Commercial and industrial | Real estate mortgage | Construction and development | Consumer | Total |
|--------------------------|--------------------------------------|---------------------------------|---|------------------|---------------------|
| Performing | \$ 343,409 | \$ 950,519 | \$ 158,782 | \$ 36,401 | \$ 1,489,111 |
| Non-performing | 547 | 17,921 | 700 | 146 | 19,314 |
| Total | \$ 343,956 | \$ 968,440 | \$ 159,482 | \$ 36,547 | \$ 1,508,425 |

(5) Federal Home Loan Bank Advances

The Bank had outstanding borrowings of \$60,437,000 at June 30, 2011, via six separate advances. For five advances totaling \$60 million, all of which are non-callable, interest payments are due monthly, with principal due at maturity. The sixth advance totals \$437,000, and principal and interest payments are due monthly based on a 15 year amortization schedule. In the fourth quarter of 2010, Bancorp restructured and extended terms on two advances with FHLB resulting in lower interest cost over the remaining term of these advances. Prepayment penalties totaling \$1,336,000 were incurred. In accordance with US GAAP, prepayment penalties associated with the modification of advances are to be amortized over the life of the new advances as interest expense, resulting in effective interest rates greater than the contractual rate paid to FHLB. The following is a summary of the contractual maturities and average effective rates as of June 30, 2011:

| (In thousands) | Advance | Rate |
|-----------------------|------------------|--------------|
| 2013 | \$ 20,000 | 1.55% |
| 2014 | 20,000 | 2.43% |
| 2015 | 20,000 | 3.34% |
| 2024 | 437 | 2.40% |
| | \$ 60,437 | 2.44% |

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's agreement with the Federal Home Loan Bank of Cincinnati (FHLB) enables the Bank to borrow up to an additional \$184.5 million as of June 30, 2011 under terms to be established at the time of the advance. The Bank also has a standby letter of credit from the FHLB for \$17.8 million outstanding at

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June 30, 2011. 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 above the \$250,000 per account protection provided by the FDIC to be backed by some form of collateral. The standby letter of credit from the FHLB collateralizes these accounts beyond the FDIC protection as required by Kentucky law.

(6) Goodwill and Intangible Assets

US GAAP requires that goodwill and intangible assets with indefinite useful lives not be amortized, but instead be tested for impairment at least annually. Annual evaluations have resulted in no charges for impairment. Bancorp currently has goodwill from the acquisition of a bank in southern Indiana in the amount of \$682,000. This goodwill is assigned to the commercial banking segment of Bancorp.

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. The estimated fair values of MSRs at June 30, 2011 and December 31 2010 were \$2,327,000 and \$2,188,000, respectively. The total outstanding principal balances of loans serviced for others were \$272,585,000 and \$254,988,000 at June 30, 2011, and December 31, 2010 respectively. Changes in the net carrying amount of MSRs for the six months ended June 30, 2011 and 2010 are shown in the following table.

| (in thousands) | 2011 | | 2010 | |
|--------------------------------|------|-------|------|-------|
| Balance at beginning of period | \$ | 1,785 | \$ | 1,616 |
| Originations | | 224 | | 257 |
| Amortization | | (346) | | (236) |
| Balance at June 30 | \$ | 1,663 | \$ | 1,637 |

(7) Defined Benefit Retirement Plan

The Bank sponsors an unfunded, non-qualified, defined benefit retirement plan for certain key officers with no plan to add additional participants. Benefits vest based on years of service. The actuarially determined pension costs are expensed and accrued over the service period, and benefits are paid from the Bank's assets. The net periodic benefits costs, which include interest cost and amortization of net losses, totaled \$31,000 for the three months ended June 30, 2011 and 2010. For the six months ended June 30, 2011 and 2010, the net periodic benefit costs totaled \$62,000.

(8) Commitments and Contingent Liabilities

As of June 30, 2011, Bancorp had various commitments outstanding that arose in the normal course of business, including standby letters of credit and commitments to extend credit, which are properly not reflected in the consolidated financial statements. In management's opinion, commitments to extend credit of \$335,625,000 including standby letters of credit of \$10,318,000 represent normal banking transactions, and no significant losses are anticipated to result from these commitments as of June 30, 2011. Commitments to extend credit were \$350,314,000, including letters of credit of \$9,598,000, as of December 31, 2010. Bancorp's maximum exposure to credit loss in the event of nonperformance

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by the other party to these commitments is represented by the contractual amount of these instruments. Bancorp uses the same credit and collateral policies in making commitments and conditional guarantees as for on-

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balance sheet instruments. 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. Commitments to extend credit are mainly made up of commercial lines of credit, construction and development loans and home equity credit lines. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Bancorp evaluates each customer's creditworthiness on a case by case basis. The amount of collateral obtained, if deemed necessary by Bancorp upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, equipment, and real estate.

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

Bancorp has entered into agreements to guarantee the performance of several customers' contracts with other financial institutions. Bancorp will make payments under these agreements if a customer defaults on its obligations to the other financial institutions. The terms of the agreements range from 1 to 20 months. The maximum potential future payment guaranteed by Bancorp cannot be readily estimated because it is dependent upon the fair value of the contracts at the time of default. If an event of default on all contracts had occurred at June 30, 2011, Bancorp would have been required to make payments of approximately \$2,811,000. No payments have ever been required as a result of default on these contracts. These agreements are normally collateralized generally with real properties, equipment, inventories and receivables by the customer, which limits Bancorp's credit risk associated with the agreements.

(9) Preferred Stock

Bancorp has a class of preferred stock (no par value; 1,000,000 shares authorized), the relative rights, preferences and other terms of which or any series within the class will be determined by the Board of Directors prior to any issuance. Some of this preferred stock would 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 June 30, 2011.

Table of Contents**(10) Net Income Per Share**

The following table reflects, for the three and six months ended June 30, 2011 and 2010, net income (the numerator) and average shares outstanding (the denominator) for the basic and diluted net income per share computations:

| (In thousands, except per share data) | Three months ended June 30 | | | Six months ended June 30 | | |
|--|-------------------------------|----------|----------|-----------------------------|-----------|-----------|
| | 2011 | 2010 | 2010 | 2011 | 2010 | 2010 |
| Net income, basic and diluted | \$ 5,997 | \$ 5,556 | \$ 5,556 | \$ 11,488 | \$ 10,537 | \$ 10,537 |
| Average shares outstanding | 13,789 | 13,690 | 13,690 | 13,768 | 13,668 | 13,668 |
| Effect of dilutive securities | 90 | 100 | 100 | 89 | 84 | 84 |
| Average shares outstanding including dilutive securities | 13,879 | 13,790 | 13,790 | 13,857 | 13,752 | 13,752 |
| Net income per share, basic | \$ 0.43 | \$ 0.41 | \$ 0.41 | \$ 0.83 | \$ 0.77 | \$ 0.77 |
| Net income per share, diluted | \$ 0.43 | \$ 0.40 | \$ 0.40 | \$ 0.83 | \$ 0.77 | \$ 0.77 |

(11) 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 individuals, consumers and businesses. Commercial banking also includes the Bank's mortgage banking and securities brokerage activity. Investment management and trust provides wealth management services including investment management, trust and estate administration, retirement plan services and financial planning.

The financial information for each business segment reflects that which is specifically identifiable or allocated based on an internal allocation method. Principally, all of the net assets of Bancorp are involved in the commercial banking segment. Income taxes are allocated to the investment management and trust segment based on the marginal federal tax rate since all activity giving rise to the difference between marginal and effective tax rates occurs in 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 indicative of the segments' operations, if they were independent entities.

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Selected financial information by business segment for the three and six month periods ended June 30, 2011 and 2010 follows:

| (In thousands) | Three months ended June 30 | | Six Months ended June 30 | |
|-----------------------------------|-------------------------------|------------------|-----------------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Net interest income | | | | |
| Commercial banking | \$ 17,581 | \$ 16,520 | \$ 34,863 | \$ 32,284 |
| Investment management and trust | 30 | 27 | 63 | 57 |
| Total | \$ 17,611 | \$ 16,547 | \$ 34,926 | \$ 32,341 |
| Provision for loan losses: | | | | |
| Commercial banking | \$ 2,600 | \$ 2,384 | \$ 5,400 | \$ 5,079 |
| Investment management and trust | | | | |
| Total | \$ 2,600 | \$ 2,384 | \$ 5,400 | \$ 5,079 |
| Non-interest income: | | | | |
| Commercial banking | \$ 4,491 | \$ 4,691 | \$ 8,959 | \$ 9,406 |
| Investment management and trust | 3,661 | 3,232 | 7,198 | 6,493 |
| Total | \$ 8,152 | \$ 7,923 | \$ 16,157 | \$ 15,899 |
| Non-interest expense: | | | | |
| Commercial banking | \$ 12,667 | \$ 12,456 | \$ 25,698 | \$ 24,396 |
| Investment management and trust | 2,058 | 1,925 | 3,854 | 3,743 |
| Total | \$ 14,725 | \$ 14,381 | \$ 29,552 | \$ 28,139 |
| Tax expense | | | | |
| Commercial banking | \$ 1,869 | \$ 1,682 | \$ 3,450 | \$ 3,503 |
| Investment management and trust | 572 | 467 | 1,193 | 982 |
| Total | \$ 2,441 | \$ 2,149 | \$ 4,643 | \$ 4,485 |
| Net income: | | | | |
| Commercial banking | \$ 4,936 | \$ 4,689 | \$ 9,274 | \$ 8,712 |
| Investment management and trust | 1,061 | 867 | 2,214 | 1,825 |
| Total | \$ 5,997 | \$ 5,556 | \$ 11,488 | \$ 10,537 |

(12) Income Taxes

US GAAP provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. As of June 30, 2011 and December 31, 2010 the gross amount of unrecognized tax benefits was \$308,000 and \$230,000, respectively. At June 30, 2011, if recognized, \$284,000 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.

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Bancorp's policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of June 30, 2011 and December 31, 2010, the amount accrued for the potential payment of interest and penalties was \$20,000.

(13) Derivative Financial Instruments

Bancorp typically manages its interest rate risk without the use of hedging instruments, and currently does not have derivative financial instruments employed for any reason except for the accommodation of customers. Bancorp enters into free-standing interest rate swaps for the benefit of its commercial customers who desire to hedge their exposure to changing interest rates. Bancorp hedges its interest rate exposure on commercial customer transactions by entering into offsetting swap agreements with approved reputable independent counterparties with substantially matching terms. Because of matching terms of offsetting contracts and the collateral provisions mitigating any non-performance risk, changes in fair value subsequent to initial recognition are expected to have an insignificant effect on earnings. Exchanges of cash flows related to the interest rate swap agreements for the first six months of 2011 were offsetting and therefore had no effect on Bancorp's earnings or cash flows.

At June 30, 2011, Bancorp's interest rate swaps are recognized as other assets and liabilities in the consolidated balance sheets at fair value. Bancorp's derivative instruments have not been designated as hedging instruments. The 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, payments, and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Bancorp is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. Bancorp 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 June 30, 2011 and December 31, 2010, Bancorp had outstanding interest rate swap contracts as follows:

| (dollar amounts in thousands) | Receiving | | Paying | |
|-----------------------------------|------------------|----------------------|------------------|----------------------|
| | June 30, 2011 | December 31, 2010 | June 30, 2011 | December 31, 2010 |
| Notional amount | \$ 5,070 | \$ 5,270 | \$ 5,070 | \$ 5,270 |
| Weighted average maturity (years) | 7.7 | 8.1 | 7.7 | 8.1 |
| Fair value | \$ (319) | \$ (305) | \$ 319 | \$ 305 |

(14) Fair Value Measurements

Bancorp follows 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. 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. The guidance also establishes a hierarchy to group assets and liabilities carried at fair value in three levels based upon the markets in which the assets and liabilities trade and the reliability of assumptions used to determine fair value. These levels are:

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

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

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

Bancorp's 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, Bancorp uses its 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.

Bancorp's investment securities available for sale and derivative instruments 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 U.S. government-sponsored corporations, mortgage-backed securities, obligations of state and political subdivisions, and trust preferred securities of other banks. 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, Bancorp evaluates the credit risk of its counterparties as well as its own credit risk. To date, Bancorp has not realized any losses due to a counterparty's inability to perform and the change in value of derivative assets and liabilities attributable to credit risk was not significant during 2011.

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

| (In thousands) | Total | Fair Value at June 30, 2011 | | |
|---|-------------------|-----------------------------|-------------------|-----------|
| | | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Investment securities available for sale | | | | |
| U.S. Treasury and other U.S. government obligations | \$ 23,000 | \$ | \$ 23,000 | \$ |
| Government sponsored enterprise obligations | 103,756 | | 103,756 | |
| Mortgage-backed securities | 61,702 | | 61,702 | |
| Obligations of states and political subdivisions | 68,552 | | 68,552 | |
| Trust preferred securities of financial institutions | 1,270 | 1,270 | | |
| Total investment securities available for sale | 258,280 | 1,270 | 257,010 | |
| Interest rate swap | 319 | | 319 | |
| Total Assets | \$ 258,599 | \$ 1,270 | \$ 257,329 | \$ |
| Liabilities | | | | |
| Interest rate swap | \$ 319 | \$ | \$ 319 | \$ |

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| (In thousands) | Total | Fair value at December 31, 2010 | | |
|---|------------|---------------------------------|------------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Assets | | | | |
| Investment securities available for sale | | | | |
| Government sponsored enterprise obligations | \$ 114,539 | \$ | \$ 114,539 | \$ |
| Mortgage-backed securities | 60,748 | | 60,748 | |
| Obligations of states and political subdivisions | 68,789 | | 68,789 | |
| Trust preferred securities of financial institutions | 1,256 | 1,256 | | |
| Total investment securities available for sale | 245,332 | 1,256 | 244,076 | |
| Interest rate swap | 305 | | 305 | |
| Total Assets | \$ 245,637 | \$ 1,256 | \$ 244,381 | \$ |
| Liabilities | | | | |
| Interest rate swap | \$ 305 | \$ | \$ 305 | \$ |

Mortgage loans held for sale are recorded 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 either table below for June 30, 2011 or December 31, 2010.

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. At June 30, 2011 and December 31, 2010 there was no valuation allowance for the mortgage servicing rights, as the fair value exceeded the cost. Accordingly, the MSRs are not included in either table below for June 30, 2011 or December 31, 2010.

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 June 30, 2011 and December 31, 2010, the carrying value of other real estate owned was \$7,187,000 and \$5,445,000, respectively. Other real estate owned is not included in either table below, as the fair value of the properties exceeded their carrying value at June 30, 2011 and December 31, 2010.

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For impaired loans in the table below, the fair value is calculated as the carrying value of only loans with a specific valuation allowance, less the specific allowance. As of June 30, 2011, total impaired loans with a valuation allowance were \$3.8 million, and the specific allowance totaled \$1.3 million, resulting in a fair value of \$2.5 million. The losses represent the change in the specific allowances for the period indicated. See Note 4 for more information on impaired loans and allowances.

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

| (in thousands) | Total | Fair value at June 30, 2011 | | | Losses for 6 month period ended June 30, 2011 |
|----------------|----------|-----------------------------|---------|----------|---|
| | | Level 1 | Level 2 | Level 3 | |
| Impaired loans | \$ 2,508 | \$ | \$ | \$ 2,508 | \$ (469) |

| (in thousands) | Total | Fair value at December 31, 2010 | | | Losses for 6 month period ended June 30, 2010 |
|----------------|----------|---------------------------------|---------|----------|---|
| | | Level 1 | Level 2 | Level 3 | |
| Impaired loans | \$ 5,521 | \$ | \$ | \$ 5,521 | \$ (755) |

(15) Fair Value of Financial Instruments

The estimated fair values of financial instruments are as follows:

| (In thousands) | June 30, 2011 | | December 31, 2010 | |
|---|-----------------|--------------|-------------------|--------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | |
| Cash and short-term investments | \$ 44,198 | \$ 44,198 | \$ 41,655 | \$ 41,655 |
| Mortgage loans held for sale | 4,439 | 4,477 | 12,387 | 12,626 |
| Securities | 258,280 | 258,280 | 245,352 | 245,354 |
| Federal Home Loan Bank stock and other securities | 5,949 | 5,949 | 5,772 | 5,772 |
| Loans, net | 1,511,386 | 1,531,700 | 1,482,882 | 1,507,079 |
| Accrued interest receivable | 5,928 | 5,928 | 6,288 | 6,288 |
| Interest rate swap | 319 | 319 | 305 | 305 |
| Financial liabilities | | | | |
| Deposits | \$ 1,532,371 | \$ 1,549,766 | \$ 1,493,468 | \$ 1,512,882 |
| Short-term borrowings | 89,027 | 89,027 | 87,509 | 87,509 |
| Long-term borrowings | 101,337 | 100,499 | 101,342 | 100,815 |
| Accrued interest payable | 179 | 179 | 304 | 304 |
| Interest rate swap | 319 | 319 | 305 | 305 |

Off balance sheet financial instruments

Commitments to extend credit

Standby letters of credit

(155)

(144)

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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, size and the borrower's credit score.

Loans, net

US GAAP prescribes the exit price concept for estimating fair value of loans. Because there is not a liquid market (exit price) for trading the predominant types of loans in Bancorp's portfolio, 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.

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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.

(16) 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 June 30, 2011.

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The following table sets forth Bancorp's and the Bank's risk based capital amounts and ratios as of June 30, 2011 and December 31, 2010.

| June 30, 2011 (Dollars in thousands) | Actual | | Minimum For Adequate | | Minimum For Well Capitalized | |
|---|------------|--------|----------------------|-------|------------------------------|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total risk-based capital (1) | | | | | | |
| Consolidated | \$ 234,249 | 14.12% | \$ 132,719 | 8.00% | NA | NA |
| Bank | 196,932 | 11.95% | 131,837 | 8.00% | \$ 164,797 | 10.00% |
| Tier I risk-based capital (1) | | | | | | |
| Consolidated | \$ 203,426 | 12.26% | \$ 66,371 | 4.00% | NA | NA |
| Bank | 166,248 | 10.09% | 65,906 | 4.00% | \$ 98,859 | 6.00% |
| Leverage (2) | | | | | | |
| Consolidated | \$ 203,426 | 10.55% | \$ 57,846 | 3.00% | NA | NA |
| Bank | 166,248 | 8.66% | 57,592 | 3.00% | \$ 95,986 | 5.00% |
| December 31, 2010 | | | | | | |
| (Dollars in thousands) | Actual | | Minimum For Adequate | | Minimum For Well Capitalized | |
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total risk-based capital (1) | | | | | | |
| Consolidated | \$ 226,421 | 13.93% | \$ 130,034 | 8.00% | NA | NA |
| Bank | 183,562 | 11.37% | 129,155 | 8.00% | \$ 161,444 | 10.00% |
| Tier I risk-based capital (1) | | | | | | |
| Consolidated | \$ 196,040 | 12.06% | \$ 65,022 | 4.00% | NA | NA |
| Bank | 153,311 | 9.49% | 64,620 | 4.00% | \$ 96,930 | 6.00% |
| Leverage (2) | | | | | | |
| Consolidated | \$ 196,040 | 10.31% | \$ 57,044 | 3.00% | NA | NA |
| Bank | 153,311 | 8.12% | 56,642 | 3.00% | \$ 94,403 | 5.00% |

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

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

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

The variance between the consolidated and the Bank's capital ratios is largely due to the Bancorp's 2008 issuance of \$30 million of trust preferred securities and a special dividend of \$25 million from the Bank to Bancorp in December 2009 as part of a strategy to minimize state bank taxes.

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

This item discusses the results of operations for S.Y. Bancorp, Inc. (Bancorp or Company), and its subsidiary, Stock Yards Bank & Trust Company (Bank) for the three and six months ended June 30, 2011 and compares these periods with the same periods of the previous year. Unless otherwise indicated, all references in this discussion to the Bank include Bancorp. In addition, the discussion describes the significant changes in the financial condition of Bancorp and the Bank that have occurred during the first six months of 2011 compared to the year ended December 31, 2010. This discussion should be read in conjunction with the consolidated financial statements and accompanying notes presented in Part 1, Item 1 of this report.

This report contains forward-looking statements under the Private Securities Litigation Reform Act that involve risks and uncertainties. Although Bancorp believes 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 the following: economic conditions both generally and more specifically in the markets in which Bancorp and the Bank operate; competition for Bancorp's customers from other providers of financial services; government legislation and regulation which change from time to time and over which Bancorp has no control; changes in interest rates; material unforeseen changes in liquidity, results of operations, or financial condition of Bancorp's customers; and other risks detailed in Bancorp's filings with the Securities and Exchange Commission, all of which are difficult to predict and many of which are beyond the control of Bancorp.

Overview of 2011 through June 30

Bancorp completed the first six months of 2011 with net income of \$11.49 million or 9% more than the comparable period of 2010. The increase is primarily due to an improvement in net interest income, partially offset by increasing non-interest expenses. Diluted earnings per share for the first six months of 2011 were \$0.83 compared to the first six months of 2010 at \$0.77.

As is the case with most banks, the primary source of Bancorp's revenue is net interest income and fees from various financial services provided to customers. Net interest income is the difference between interest income earned on loans, investment securities and other interest earning assets less interest expense on deposit accounts and other interest bearing liabilities. Loan volume and 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 market place.

Year-over-year total loans increased \$62 million or 4%, and this was the driving force for growth in interest income. Increased loan volume more than offset the effect of the declining interest rates on loans and investment securities over the past year. Interest expense declined due to lower funding costs on deposits and borrowings. Rates paid on liabilities decreased more than rates declined on assets, contributing to an increased net interest spread and margin compared to the first six months of 2010.

Distinguishing Bancorp from other similarly sized community banks is the magnitude of its investment management and trust revenue, making total non-interest income a continuing key contributor to earnings. Income from investment management and trust services, which constitutes an average of 40% of non-interest income, increased 11% for the six month period primarily due to higher asset values. Investment management

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.

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Bancorp experienced increases in bankcard transaction income and brokerage income, partially offset by decreases in gains on service charges on deposit accounts and other non-interest income. Non-interest income as a percentage of total revenues was 32% in the first half of 2011, compared to 33% in the first half of 2010.

Higher non-interest expense in 2011 was reflected in almost all categories resulting largely from costs of market expansion including personnel.

Also affecting 2011 results, Bancorp's provision for loan losses was \$5.4 million in the first six months compared to \$5.1 million in the first half of 2010. Management's action to provide for loan losses in 2011 reflected ongoing concern that the current economic downturn and prospects for a slow recovery will continue to take a toll on the Company's loan portfolio and underlying collateral values, extending its impact to lending relationships that have to date not been identified. The provision for the first half of 2011 results from a consistent allowance methodology that is driven by risk ratings. Bancorp's allowance for loan losses was 1.79% of total loans at June 30, 2011, compared with 1.69% of total loans at December 31, 2010, and 1.55% at June 30, 2010.

Tangible common equity (TCE), a non-GAAP measure, is a measure of a company's capital which is useful in evaluating the quality and adequacy of capital. The ratio of tangible common equity to total tangible assets was 9.17% as of June 30, 2011, compared to 8.89% at December 31, 2010. See the Non-GAAP Financial Measures section for details on reconciliation to US GAAP measures.

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

a) Results Of Operations

Net income of \$5,997,000 for the three months ended June 30, 2011 increased \$441,000, or 7.9%, from \$5,556,000 for the comparable 2010 period. Basic net income per share was \$0.43 for the second quarter of 2011, compared to \$0.41 for the second quarter of 2010, a 4.9% increase. Net income per share on a diluted basis was \$0.43 for the second quarter of 2011, compared to \$0.40 for the second quarter of 2010, a 7.5% increase. Annualized return on average assets and annualized return on average stockholders' equity were 1.24% and 13.62%, respectively, for the second quarter of 2011, compared to 1.23% and 13.93%, respectively, for the same period in 2010.

Net income of \$11,488,000 for the six months ended June 30, 2011 increased \$951,000, or 9.0%, from \$10,537,000 for the comparable 2010 period. Basic net income per share was \$0.83 for the first six months of 2011, compared to \$0.77 for the same period of 2010, a 7.8% increase. Net income per share on a diluted basis was also \$0.83 for the first six months of 2011 compared to \$0.77 for the same period of 2010. Annualized return on average assets and annualized return on average stockholders' equity were 1.21% and 13.26%, respectively, for the first six months of 2011, compared to 1.18% and 13.35%, respectively, for the same period in 2010.

Net Interest Income

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The following tables present the average balance sheets for the three and six month periods ended June 30, 2011 and 2010 along with the related calculation of tax-equivalent net interest income, net interest margin and net interest spread for the related periods. See the notes following the tables for further explanation.

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Average Balances and Interest Rates Taxable Equivalent Basis

| (Dollars in thousands) | Three months ended June 30 | | | | | |
|---|----------------------------|------------------|--------------|---------------------|------------------|--------------|
| | Average Balances | 2011 Interest | Average Rate | Average Balances | 2010 Interest | Average Rate |
| Earning assets: | | | | | | |
| Federal funds sold | \$ 68,120 | \$ 49 | 0.29% | \$ 32,260 | \$ 19 | 0.24% |
| Mortgage loans held for sale | 2,759 | 34 | 4.94% | 3,966 | 53 | 5.36% |
| Securities: | | | | | | |
| Taxable | 157,203 | 1,203 | 3.07% | 167,618 | 1,322 | 3.16% |
| Tax-exempt | 50,894 | 498 | 3.92% | 33,388 | 408 | 4.90% |
| FHLB stock and other securities | 5,928 | 57 | 3.86% | 5,772 | 54 | 3.75% |
| Loans, net of unearned income | 1,529,039 | 20,119 | 5.28% | 1,460,147 | 19,918 | 5.47% |
| Total earning assets | 1,813,943 | 21,960 | 4.86% | 1,703,151 | 21,774 | 5.13% |
| Less allowance for loan losses | 27,860 | | | 22,592 | | |
| | 1,786,083 | | | 1,680,559 | | |
| Non-earning assets: | | | | | | |
| Cash and due from banks | 25,908 | | | 28,819 | | |
| Premises and equipment | 34,467 | | | 28,117 | | |
| Accrued interest receivable and other assets | 85,859 | | | 75,807 | | |
| Total assets | \$ 1,932,317 | | | \$ 1,813,302 | | |
| Interest bearing liabilities: | | | | | | |
| Deposits: | | | | | | |
| Interest bearing demand deposits | | | | | | |
| deposits | \$ 285,901 | \$ 158 | 0.22% | \$ 249,326 | \$ 117 | 0.19% |
| Savings deposits | 71,165 | 31 | 0.17% | 66,165 | 41 | 0.25% |
| Money market deposits | 483,038 | 696 | 0.58% | 430,963 | 805 | 0.75% |
| Time deposits | 420,167 | 1,769 | 1.69% | 469,642 | 2,431 | 2.08% |
| Securities sold under agreements to repurchase | | | | | | |
| Fed funds purchased and other short term borrowings | 58,044 | 64 | 0.44% | 51,028 | 81 | 0.64% |
| FHLB advances | 23,081 | 10 | 0.17% | 18,498 | 8 | 0.17% |
| Long-term debt | 60,438 | 364 | 2.42% | 65,064 | 556 | 3.43% |
| | 40,900 | 863 | 8.46% | 40,900 | 862 | 8.45% |
| Total interest bearing liabilities | 1,442,734 | 3,955 | 1.10% | 1,391,586 | 4,901 | 1.41% |
| Non-interest bearing liabilities: | | | | | | |
| Non-interest bearing demand deposits | | | | | | |
| | 267,239 | | | 225,769 | | |
| Accrued interest payable and other liabilities | | | | | | |
| | 45,765 | | | 35,964 | | |
| Total liabilities | 1,755,738 | | | 1,653,319 | | |
| Stockholders equity | 176,579 | | | 159,983 | | |
| Total liabilities and stockholders equity | \$ 1,932,317 | | | \$ 1,813,302 | | |
| Net interest income | | \$ 18,005 | | | \$ 16,873 | |
| Net interest spread | | | 3.76% | | | 3.72% |

Net interest margin

3.98%

3.97%

35

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| (Dollars in thousands) | Six months ended June 30 | | | | | |
|---|--------------------------|------------------|--------------|---------------------|------------------|--------------|
| | Average Balances | 2011 Interest | Average Rate | Average Balances | 2010 Interest | Average Rate |
| Earning assets: | | | | | | |
| Federal funds sold | \$ 65,422 | \$ 95 | 0.29% | \$ 43,233 | \$ 44 | 0.21% |
| Mortgage loans held for sale | 3,980 | 97 | 4.91% | 4,388 | 119 | 5.47% |
| Securities: | | | | | | |
| Taxable | 159,058 | 2,378 | 3.01% | 167,065 | 2,671 | 3.22% |
| Tax-exempt | 51,007 | 994 | 3.93% | 29,881 | 763 | 5.15% |
| FHLB stock and other securities | 5,850 | 114 | 3.93% | 5,661 | 109 | 3.88% |
| Loans, net of unearned income | 1,518,366 | 39,964 | 5.31% | 1,449,203 | 39,302 | 5.47% |
| Total earning assets | 1,803,683 | 43,642 | 4.88% | 1,699,431 | 43,008 | 5.10% |
| Less allowance for loan losses | 27,017 | | | 21,727 | | |
| | 1,776,666 | | | 1,677,704 | | |
| Non-earning assets: | | | | | | |
| Cash and due from banks | 25,843 | | | 27,354 | | |
| Premises and equipment | 33,629 | | | 28,028 | | |
| Accrued interest receivable and other assets | 85,514 | | | 71,910 | | |
| Total assets | \$ 1,921,652 | | | \$ 1,804,996 | | |
| Interest bearing liabilities: | | | | | | |
| Deposits: | | | | | | |
| Interest bearing demand deposits | | | | | | |
| deposits | \$ 281,293 | \$ 308 | 0.22% | \$ 243,616 | \$ 230 | 0.19% |
| Savings deposits | 69,806 | 64 | 0.18% | 64,159 | 83 | 0.26% |
| Money market deposits | 481,024 | 1,414 | 0.59% | 416,125 | 1,508 | 0.73% |
| Time deposits | 420,884 | 3,539 | 1.70% | 489,895 | 5,255 | 2.16% |
| Securities sold under agreements to repurchase | | | | | | |
| Fed funds purchased and other short term borrowings | 55,912 | 131 | 0.47% | 53,225 | 168 | 0.64% |
| FHLB advances | 24,662 | 23 | 0.19% | 18,727 | 17 | 0.18% |
| Long-term debt | 60,439 | 725 | 2.42% | 62,770 | 1,081 | 3.47% |
| | 40,900 | 1,724 | 8.50% | 40,902 | 1,722 | 8.49% |
| Total interest bearing liabilities | 1,434,920 | 7,928 | 1.11% | 1,389,419 | 10,064 | 1.46% |
| Non-interest bearing liabilities: | | | | | | |
| Non-interest bearing demand deposits | | | | | | |
| | 265,380 | | | 220,181 | | |
| Accrued interest payable and other liabilities | | | | | | |
| | 46,589 | | | 36,274 | | |
| Total liabilities | 1,746,889 | | | 1,645,874 | | |
| Stockholders equity | 174,763 | | | 159,122 | | |
| Total liabilities and stockholders equity | \$ 1,921,652 | | | \$ 1,804,996 | | |
| Net interest income | | \$ 35,714 | | | \$ 32,944 | |
| Net interest spread | | | 3.77% | | | 3.64% |
| Net interest margin | | | 3.99% | | | 3.91% |

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Notes to the average balance and interest rate tables:

- Net interest income, the most significant component of the Bank's earnings is total interest income less total interest expense. The level of net interest income is determined by the mix and volume of interest earning assets, interest bearing deposits and borrowed funds, and changes in interest rates.
- Net interest spread is the difference between the taxable equivalent rate earned on interest earning assets less the rate expensed on interest bearing liabilities.
- Net interest margin represents net interest income on a taxable equivalent basis as a percentage of average interest earning assets. Net interest margin is affected by both the interest rate spread and the level of non-interest bearing sources of funds, primarily consisting of demand deposits and stockholders' equity.
- Interest income on a fully tax equivalent basis includes the additional amount of interest income that would have been earned if investments in certain tax-exempt interest earning assets had been made in assets subject to federal taxes yielding the same after-tax income. Interest income on municipal securities and loans have been calculated on a fully tax equivalent basis using a federal income tax rate of 35%. The approximate tax equivalent adjustments to interest income were \$394,000 and \$326,000, respectively, for the three month periods ended June 30, 2011 and 2010 and \$788,000 and \$603,000, respectively, for the six month periods ended June 30, 2011 and 2010.

Fully taxable equivalent net interest income of \$18.0 million for the three months ended June 30, 2011 increased \$1.1 million, or 6.7%, from \$16.9 million when compared to the same period last year. Net interest spread and net interest margin were 3.76% and 3.98%, respectively, for the second quarter of 2011 and 3.72% and 3.97%, respectively, for the second quarter of 2010.

Fully taxable equivalent net interest income of \$35.7 million for the six months ended June 30, 2011 increased \$2.8 million, or 8.4%, from \$32.9 million when compared to the same period last year. Net interest spread and net interest margin were 3.77% and 3.99%, respectively, for the first six months of 2011 and 3.64% and 3.91%, respectively, for the first six months of 2010.

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 \$451 million, or 72% of variable rate loans, have reached their contractual floor of 4% or higher. Approximately \$107 million or 17% of variable rate loans have no contractual floor; however, the Bank intends to establish floors whenever possible upon renewal of the loans. The remaining \$66 million of variable rate loans, or 11% of variable rate loans, have contractual floors below 4%. Most of the Bank's fixed rate loans are priced at inception in relation to the five year Treasury bond and the persistence of low short term rates has held those rates low.

Average earning assets increased \$104.3 million or 6.1%, to \$1.804 billion for the first six months of 2011 compared to 2010, reflecting growth in the loan portfolio and investment securities. Average interest bearing liabilities increased \$45.5 million, or 3.3%, to \$1.435 billion for the first

six months of 2011 compared to 2010 primarily due to increases in interest bearing demand and money market deposits, partially offset by decreases in certificates of deposits.

Table of Contents**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. Bank management evaluates interest rate sensitivity while attempting to optimize net interest income within the constraints of prudent capital adequacy, liquidity needs, market opportunities and customer requirements.

Interest Rate Simulation Sensitivity Analysis

Bancorp uses an earnings simulation model to estimate and evaluate the impact of changing interest rates on earnings. 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 June 30, 2011 simulation analysis, which shows very little interest rate sensitivity, indicates that an increase in interest rates of 100 to 200 basis points would have a slightly negative effect on net interest income, and a decrease of 100 basis points in interest rates would have a positive impact. These estimates are summarized below.

| | Net interest income change |
|----------------|---------------------------------------|
| Increase 200bp | (0.57)% |
| Increase 100bp | (1.83) |
| Decrease 100bp | 1.31 |
| Decrease 200bp | (2.70) |

Loans indexed to the prime rate, with floors of 4% or higher, comprise approximately 30% of total loans. Since the prime rate is currently 3.25%, rates would have to increase more than 75 bp before the rates on such loans will rise. This effect, captured in 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 13 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.

Provision for Loan Losses

The provision for loan losses was \$5.4 million for the first six months of 2011 and \$5.1 million for the same period in 2010. The provision for loan losses is calculated after considering credit quality factors, and ultimately relies on an overall internal analysis of the risk in the loan portfolio. The provision reflects an allowance methodology that is driven by risk ratings. Bancorp intends to continue its historically conservative stance toward credit quality, remaining cautious in assessing the potential risk in the loan portfolio. Accordingly, the Company expects the allowance for loan losses to remain at a high level compared with historic amounts, even though charge-offs may continue to be moderate, until there are

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clearer signs of a sustained economic recovery and, thus, a reduction in overall credit risk. Management utilizes loan grading procedures which result in specific allowance allocations for the estimated inherent risk of loss. For all loans graded, but not individually reviewed, a general allowance allocation is computed using factors typically developed over time based on actual loss experience. The specific and general allocations plus consideration of qualitative factors represent management's best estimate of probable losses contained in the loan portfolio at the evaluation date. Although the allowance for loan losses is comprised of specific and general allocations the entire allowance is available to absorb any credit losses. Based on this detailed analysis of credit risk, management considers the allowance for loan losses adequate to cover probable losses inherent in the loan portfolio at June 30, 2011.

An analysis of the changes in the allowance for loan losses and selected ratios for the three and six month periods ended June 30, 2011 and 2010 follows:

| (Dollars in thousands) | Three months ended June 30 | | Six months ended June 30 | |
|--|----------------------------|--------------|--------------------------|--------------|
| | 2011 | 2010 | 2011 | 2010 |
| Balance at the beginning of the period | \$ 26,956 | \$ 21,811 | \$ 25,543 | \$ 20,000 |
| Provision for loan losses | 2,600 | 2,384 | 5,400 | 5,079 |
| Loan charge-offs, net of recoveries | (1,992) | (1,262) | (3,379) | (2,146) |
| Balance at the end of the period | \$ 27,564 | \$ 22,933 | \$ 27,564 | \$ 22,933 |
| Average loans, net of unearned income | \$ 1,529,039 | \$ 1,460,147 | \$ 1,518,366 | \$ 1,449,203 |
| Provision for loan losses to average loans (1) | 0.17% | 0.16% | 0.36% | 0.35% |
| Net loan charge-offs to average loans (1) | 0.13% | 0.09% | 0.22% | 0.15% |
| Allowance for loan losses to average loans | 1.80% | 1.57% | 1.82% | 1.58% |
| Allowance for loan losses to period-end loans | 1.79% | 1.55% | 1.79% | 1.55% |

(1) Amounts not annualized

Loans are charged off when deemed uncollectible and typically after underlying collateral has been liquidated; however, collection efforts continue and future recoveries may occur. Management charges loans down to net realizable value if liquidation is inevitable but may take time. An analysis of net charge-offs by loan category for the three and six month periods ended June 30, 2011 and 2010 follows:

(in thousands)

| Net loan charge-offs (recoveries) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|----------------------------|--------|--------------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Commercial and industrial | \$ 102 | \$ 658 | \$ 796 | \$ 786 |
| Construction and development | 627 | (1) | 1,227 | 298 |
| Real estate mortgage - commercial investment | 620 | 195 | 620 | 448 |

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| | | | | | | | |
|---|----------|----------|----------|----------|--|--|--|
| Real estate mortgage - owner occupied | | | | | | | |
| commercial | 124 | 95 | 124 | 235 | | | |
| Real estate mortgage - 1-4 family residential | 282 | 115 | 306 | 244 | | | |
| Home equity | 183 | 89 | 199 | 89 | | | |
| Consumer | 54 | 111 | 107 | 46 | | | |
| Total net loan charge-offs | \$ 1,992 | \$ 1,262 | \$ 3,379 | \$ 2,146 | | | |

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

The following table sets forth the major components of non-interest income and expenses for the three and six month periods ended June 30, 2011 and 2010.

| (In thousands) | Three months ended June 30 | | Six months ended June 30 | |
|--|-------------------------------|------------------|-----------------------------|------------------|
| | 2011 | 2010 | 2011 | 2010 |
| Non-interest income: | | | | |
| Investment management and trust services | \$ 3,661 | \$ 3,232 | \$ 7,198 | \$ 6,493 |
| Service charges on deposit accounts | 2,034 | 2,187 | 3,958 | 4,185 |
| Bankcard transaction revenue | 960 | 863 | 1,837 | 1,614 |
| Gains on sales of mortgage loans held for sale | 441 | 445 | 823 | 830 |
| Brokerage commissions and fees | 530 | 503 | 1,043 | 959 |
| Bank owned life insurance income | 255 | 248 | 504 | 491 |
| Other | 271 | 445 | 794 | 1,327 |
| Total non-interest income | \$ 8,152 | \$ 7,923 | \$ 16,157 | \$ 15,899 |
| Non-interest expenses: | | | | |
| Salaries and employee benefits | \$ 8,648 | \$ 8,319 | \$ 17,048 | \$ 16,408 |
| Net occupancy expense | 1,357 | 1,296 | 2,587 | 2,572 |
| Data processing expense | 1,346 | 1,322 | 2,483 | 2,459 |
| Furniture and equipment expense | 337 | 321 | 692 | 635 |
| FDIC insurance expense | 339 | 531 | 960 | 1,002 |
| Other | 2,698 | 2,592 | 5,782 | 5,063 |
| Total non-interest expenses | \$ 14,725 | \$ 14,381 | \$ 29,552 | \$ 28,139 |

Total non-interest income increased \$229,000, or 2.9%, for the second quarter of 2011 and increased \$258,000, or 1.6% for the first six months of 2011, compared to the same periods in 2010.

Investment management and trust services income increased \$429,000, or 13.3% in the second quarter of 2011 and \$705,000, or 10.9% for the first six months of 2011, as compared to the same periods in 2010, primarily due to the effect of an increased market value of assets under management, growth in assets from net new accounts and a modest increase in executor fees. Most fees earned for managing accounts are based on a percentage of market value on a monthly basis. Trust assets under management at June 30, 2011 were \$1.81 billion, compared to \$1.50 billion at June 30, 2010.

Service charges on deposit accounts decreased \$153,000, or 7.0%, in the second quarter of 2011, and \$227,000, or 5.4%, for the first six months of 2011, as compared to the same periods in 2010. Service charge income is driven by transaction volume in deposit accounts, which can fluctuate throughout the year. Recent legislation required that our customers opt in to access their overdraft protection beginning in the third quarter of 2010. While it has been difficult to evaluate the impact of this change, management believes this requirement has resulted in some decline in service charge income in 2011.

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Bankcard transaction revenue increased \$97,000, or 11.2%, in the second quarter of 2011, and increased \$223,000, or 13.8%, for the first six months of 2011, as compared to the same periods in 2010 and primarily represents income the Bank derives from customers' use of debit cards. Results in 2011

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compared favorably to 2010 as bankcard transaction volume continues to increase. Most of this revenue is interchange income based on rates set by service providers in a competitive market. Beginning in October 2011, this rate will be set by the Federal Reserve Board for banks with over \$10 billion in assets. While this threshold indicates we will not be directly affected due to our size, this change could indirectly affect Bancorp. While there are many uncertainties about its effect or ultimately when these changes may take place, the Dodd-Frank legislation may negatively affect this source of income.

The Bank's mortgage banking division originates residential mortgage loans to be sold in the secondary market. Interest rates on the loans sold are locked with the borrower and investor prior to closing the loans, thus Bancorp bears no interest rate risk related to these loans. The division offers conventional, VA and FHA financing, for purchases and refinances, as well as programs for low-income and first time home buyers. The mortgage banking division also offers home equity conversion mortgages or reverse mortgages insured by the U.S. Department of Housing and Urban Development (HUD). These HUD loans give homeowners 62 years of age or older a vehicle for converting equity in their homes to cash. Gains on sales of mortgage loans were virtually unchanged in the quarter and six month periods ended June 30, 2011 compared to the same periods in 2010. Interest rates on mortgage loans directly impact the volume of business transacted by the mortgage banking division. Prevailing mortgage interest rates remained at attractive levels through the second quarter of 2011; however, being equal to or just slightly lower than rates from 2010, they did not generate the same refinance activity mainly due to market saturation.

Brokerage commissions and fees increased \$27,000, or 5.4%, in the second quarter of 2011, and increased \$84,000 or 8.8% for the first six months of 2011, as compared to the same period in 2010. These increases corresponded to higher overall brokerage volume. Bancorp deploys its brokers primarily through its branch network, while larger managed accounts are serviced in the investment management and trust department.

Bank Owned Life Insurance (BOLI) income totaled \$255,000 and \$248,000 for the second quarter of 2011 and 2010, respectively, and totaled \$504,000 and \$491,000 for the first six months of 2011 and 2010, 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 increase in cash surrender value and any proceeds received under the policies, none of which have occurred to date, are recorded as non-interest income. This income helps offset the cost of employee benefits.

Other non-interest income decreased \$174,000, or 39.1%, in the second quarter of 2011 as compared to the same period in 2010, primarily due to a decrease of \$158,000 in income from the domestic private investment fund and a variety of other factors, none of which were individually significant. Other non-interest income decreased \$533,000, or 40.2%, in the first six months of 2011 as compared to the same period in 2010, primarily due to a decrease of \$471,000 in income from the domestic private investment fund and a variety of other factors, none of which were individually significant. Bancorp's investment in a domestic private investment fund is comprised of bank and other financial industry securities, and is recorded using the equity method of accounting.

Total non-interest expenses increased \$344,000, or 2.4%, for the second quarter of 2011 as compared to the same period in 2010 and \$1,413,000, or 5.0%, for the first six months of 2011 as compared to the same period in 2010. Bancorp's second quarter efficiency ratio was 56.29% compared with 57.66% in the first quarter and 58.00% in the second quarter last year.

Salaries and employee benefits increased \$329,000, or 4.0%, for the second quarter of 2011, and \$640,000, or 3.9% for the first six months of 2011, as compared to the same periods of 2010, due to increases in

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salaries and pension expense. Increased staffing levels, mainly related to the expansion in Cincinnati, included senior staff with higher per capita salaries and contributed to the overall increase. At June 30, 2011, the Bank had 466 full time equivalent (FTE) employees compared to 474 at June 30, 2010. However, Bancorp has several open positions, and expects the number of FTE employees to increase in the near future.

Net occupancy expense increased \$61,000, or 4.7%, in the second quarter of 2011, and \$15,000, or 0.6% in the first six months of 2011, as compared to the same periods of 2010. Data processing expense increased \$24,000, or 1.8% in the second quarter of 2011, and \$24,000, or 1.0% for the first six months of 2011, compared to the same periods of 2010. Furniture and equipment expense increased \$16,000 or 5.0% for the second quarter of 2011, and \$57,000, or 9.0% for the first six months of 2011, as compared to the same periods in 2010. These fluctuations relate to a variety of factors, none of which were individually significant.

FDIC insurance expense declined \$192,000, or 36.2%, for the second quarter of 2011, and \$42,000 or 4.2% for the first six months of 2011, as compared to the same periods in 2010. The decreases are due to a change in the base on which the assessment is calculated combined with lower assessment rates in 2011.

Other non-interest expenses increased \$106,000 or 4.1% in the second quarter of 2011, and \$719,000 or 14.2% in the first six months of 2011, as compared to the same periods in 2010. The increase for the six months period was due largely to \$400,000 write-down on a previously foreclosed property, and \$312,000 write-down of fixed assets related to a building renovation. This category also includes legal and professional fees, MSR amortization, advertising, printing, mail and telecommunications, none of which had variances which were individually significant.

Income Taxes

In the second quarter of 2011, Bancorp recorded income tax expense of \$2,441,000, compared to \$2,149,000 for the same period in 2010. The effective rate for the three month period was 28.9% in 2011 and 27.9% in 2010. Bancorp recorded income tax expense of \$4,643,000 for the first six months of 2011, compared to \$4,485,000 for the same period in 2010. The effective rate for the six month period was 28.8% in 2011 and 29.9% in 2010. The decrease in the 2011 effective tax rate was primarily due to an increased proportion of tax-exempt interest to pre-tax net income and an increasing amount of tax credits.

Commitments

Bancorp utilizes a variety of financial instruments in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. A discussion of Bancorp's commitments is included in Note 8.

Other commitments discussed in Bancorp's Annual Report on Form 10-K for the year ended December 31, 2010, have not materially changed since that report was filed, relative to qualitative and quantitative disclosures of fixed and determinable contractual obligations.

b) *Financial Condition*

Balance Sheet

Total assets increased \$40.4 million, or 2.1%, from \$1.903 billion on December 31, 2010 to \$1.943 billion on June 30, 2011. The most significant contributor of the increase in assets was loans, which increased \$30.5 million in the first six months while investment securities increased \$12.9 million. Federal funds sold decreased \$4.0 million as a result of purchasing short-term securities, and mortgage loans held for sale decreased \$7.9 million from the end of 2010 as origination volume declined.

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Total liabilities increased \$31.5 million, or 1.8%, from \$1.733 billion on December 31, 2010 to \$1.765 billion on June 30, 2011. The most significant component of the increase was in deposits of \$38.9 million or 2.6% in support of loan growth. Securities sold under agreement to repurchase increased \$4.8 million or 8.0%, while federal funds purchased decreased \$2.5 million or 9.9%. Other liabilities decreased \$8.8 million or 17.4%. In December 2010, Bancorp purchased \$4.9 million of securities for which payment was due in January 2011, resulting in a payable recorded in other liabilities. Secured borrowings decreased \$4.4 million as noted in the Elements of the Loan Portfolio section below.

Elements of Loan Portfolio

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

(In thousands)

| Loans by Type | June 30, 2011 | | December 31, 2010 | |
|--------------------------------|----------------------|-----------|--------------------------|-----------|
| Commercial and industrial | \$ | 365,008 | \$ | 343,956 |
| Construction and development | | 158,412 | | 159,482 |
| Real estate mortgage: | | | | |
| Commercial investment | | 382,753 | | 362,904 |
| Owner occupied commercial | | 313,531 | | 316,291 |
| 1-4 family residential | | 159,320 | | 157,983 |
| Home equity - first lien | | 38,376 | | 39,449 |
| Home equity - junior lien | | 83,880 | | 91,813 |
| Subtotal: Real estate mortgage | | 977,860 | | 968,440 |
| Consumer | | 37,670 | | 36,547 |
| Total loans | \$ | 1,538,950 | \$ | 1,508,425 |

Bancorp enters into loan participation agreements with downstream correspondent banks in the ordinary course of business to diversify credit risk. For certain participation loans, as the lead lender, Bancorp has retained effective control of the loans, typically by restricting the participating institutions from pledging or selling their share of the loan without permission from Bancorp. US GAAP requires these loans to be recorded as secured borrowings. These loans are included in the loan totals above, and a corresponding liability is recorded in other liabilities. At June 30, 2011 and December 31, 2010, the total loans of this nature were \$30.4 million and \$34.8 million, respectively. A corresponding decrease of \$4.4 million is reflected in other liabilities.

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

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

| (Dollars in thousands) | June 30, 2011 | December 31, 2010 |
|---|------------------|-------------------|
| Non-accrual loans | \$ 15,570 | \$ 14,388 |
| Troubled debt restructuring | 250 | 2,882 |
| Loans past due 90 days or more and still accruing | 1,663 | 2,044 |
| Non-performing loans | 17,483 | 19,314 |
| Foreclosed real estate | 7,187 | 5,445 |
| Non-performing assets | \$ 24,670 | \$ 24,759 |
| Non-performing loans as a percentage of total loans | 1.14% | 1.28% |
| Non-performing assets as a percentage of total assets | 1.27% | 1.30% |
| Allowance for loan losses as a percentage of non-performing loans | 158% | 132% |

Non-performing loans, which include non-accrual loans of \$15.6 million, loans past due over 90 days and still accruing of \$1.7 million, and loans accounted for as troubled debt restructuring of \$250 thousand, totaled \$17.5 million at June 30, 2011. Non-performing loans were \$19.3 million at December 31, 2010 including \$14.4 million of non-accrual loans, \$2.0 million of loans past due over 90 days and still accruing and loans accounted for as troubled debt restructuring (TDR) of \$2.9 million. The decrease in non-performing loans reflected charge-offs and migration from loans to foreclosed assets. Management expects some migration of loans from non-accrual status to TDR in the coming months. All loans past due over 90 days and still accruing are well-collateralized and are in the process of collection. Non-performing loans represent 1.14% of total loans at June 30, 2011 compared to 1.28% at December 31, 2010. As noted in the Provision for Loan Losses section of this report, non-performing loans are analyzed in management's evaluation of the allowance and provision for loan losses.

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

(in thousands)

| Non-accrual loans by type | June 30, 2011 | December 31, 2010 |
|--|---------------|-------------------|
| Commercial and industrial | \$ 2,286 | \$ 2,328 |
| Construction and development | 3,288 | 4,589 |
| Real estate mortgage - commercial investment | 3,935 | 3,214 |
| Real estate mortgage - owner occupied commercial | 2,165 | 1,426 |
| Real estate mortgage - 1-4 family residential | 3,293 | 1,984 |
| Home equity | 506 | 570 |
| Consumer | 97 | 277 |
| Total loans | \$ 15,570 | \$ 14,388 |

The increase in non-accrual loans reflects the effect of continuing economic pressures on our customers. However, thus far, the increase in these non-accrual loans has been confined to a relatively small number of borrowers within the portfolio. Bancorp has six borrowers, all in our primary market, who account for \$9.0 million or 58% of total non-accrual loans. Each of these loans is secured by real estate, and management estimates minimal loss exposure after consideration of collateral.

Effects of Declines in Real Estate Collateral Values

Bancorp's principal market, Louisville, has had home values decline less than most markets nationwide according to the Federal Housing Finance Agency. However, further declines in collateral values, including commercial properties, may impact Bancorp'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, Bancorp 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 as a primary payment source, with some reliance on the value of the collateral. Bancorp typically requires appraisals on real estate at application and assesses the transaction and market conditions to determine if updates are needed at renewal. Additionally, Bancorp 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 considered in the allowance for loan losses.

c) *Liquidity*

The role of liquidity is to ensure that funds are available to meet depositors' withdrawals and borrowers' demands to fund credit commitments. This is accomplished by balancing changes in demand for funds with changes in the supply of those funds. Liquidity is provided by short-term liquid assets that can be converted to cash, investment securities available for sale, various lines of credit available to Bancorp, and the ability to attract funds from external sources, principally deposits. Management has maintained a significantly higher liquidity position in 2010 and 2011, which management considers prudent given the current operating environment. When economic conditions improve and rates rise, Management expects higher utilization of lines of credit and potential cash outflow as customers seek alternatives to high cash

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balances. This would result in greater demand for liquidity. Management believes it has the ability to increase deposits at any time by offering rates slightly higher than the market rate.

Bancorp's most liquid assets are comprised of available for sale marketable investment securities and federal funds sold. Federal funds sold totaled \$20.0 million at June 30, 2011. 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 \$258.3 million at March 31, 2011, and included an unrealized net gain of \$7.7 million. The portfolio includes maturities of approximately \$67.3 million over the next twelve months, which, combined with federal funds sold, offer substantial resources to meet either new loan demand or reductions in Bancorp's deposit funding base. Bancorp pledges portions of its investment securities portfolio to secure public fund deposits and securities sold under agreements to repurchase. At June 30, 2011, total investment securities pledged for these purposes comprised 35% of the available for sale investment portfolio, leaving \$167.5 million of unpledged securities.

Bancorp has a large base of core customer deposits, defined as demand, savings, and money market deposit accounts. At June 30, 2011, such deposits totaled \$1.108 billion and represented 72% of Bancorp's total deposits. Because these core deposits are less volatile and are often tied to other products of Bancorp through long lasting relationships they do not put heavy pressure on liquidity. As of June 30, 2011, Bancorp had only \$5.3 million or 0.3% of total deposits, in brokered deposits, which are entirely comprised of Certificate of Deposit Account Registry Service (CDARs) deposits, a program which allows Bancorp to accept customer deposits in excess of FDIC limits through reciprocal agreements with other network participating banks in order to offer FDIC insurance up to as much as \$50 million in deposits.

With regard to credit available to Bancorp, the Bank is a member of the Federal Home Loan Bank of Cincinnati (FHLB). As a member, the Bank has access to credit products of the FHLB. As of June 30, 2011, the Bank's additional borrowing capacity with the FHLB was approximately \$184.5 million. Additionally, the Bank had federal funds purchased lines with correspondent banks totaling \$111.6 million.

Bancorp's liquidity depends primarily on the dividends paid to it as the sole shareholder of the Bank. Bancorp had sufficient cash on hand from its 2008 trust preferred securities offering that it was not necessary for the Bank to fund the first and second quarter cash dividends or the quarterly interest payments on its trust preferred securities. At June 30, 2011, the Bank may pay up to \$29.5 million in dividends to Bancorp without regulatory approval subject to the ongoing capital requirements of the Bank. Prior to the declaration of dividends, management considers the effect such payments will have on total stockholders' equity and capital ratios.

d) Capital Resources

At June 30, 2011, stockholders' equity totaled \$178.8 million, an increase of \$9.0 million since December 31, 2010. See the Consolidated Statement of Changes in Stockholders' Equity for further detail of the change in equity since the end of 2010. Accumulated other comprehensive income which, for Bancorp, consists of net unrealized gains and losses on securities available for sale and a minimum pension liability adjustment, net of taxes, totaled \$4.7 million at June 30, 2011 and \$3.1 million at December 31, 2010. The change since year end is a reflection of maturities within the portfolio and the effect of change in interest rates on the valuation of the Bank's portfolio of securities available for sale. The unrealized pension liability is adjusted annually by reference to updated actuarial data.

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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 values of both balance sheet and off-balance sheet items are adjusted to reflect credit risks. To be categorized as well capitalized, the Bank must maintain a total risk-based capital

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ratio of at least 10%; a Tier 1 ratio of at least 6%; and a leverage ratio of at least 5%. At least until the general economy demonstrates sustained growth, the Company intends to remain cautious with its capital management strategies. The following table sets forth Bancorp's and the Bank's risk based capital ratios as of June 30, 2011 and December 31, 2010.

| | June 30, 2011 | December 31, 2010 |
|--------------------------------------|--------------------------|------------------------------|
| Total risk-based capital (1) | | |
| Consolidated | 14.12% | 13.93% |
| Bank | 11.95% | 11.37% |
| Tier I risk-based capital (1) | | |
| Consolidated | 12.26% | 12.06% |
| Bank | 10.09% | 9.49% |
| Leverage (2) | | |
| Consolidated | 10.55% | 10.31% |
| Bank | 8.66% | 8.12% |

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

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

Importantly, the strengthening of Bancorp's capital position has occurred concurrently with growth in assets, not as a result of shrinkage of the balance sheet. Bancorp intends to maintain capital ratios at these historically high levels at least until such time as the economy demonstrates sustained improvement.

The variance between the consolidated and the Bank's capital ratios is largely due to the Bancorp's 2008 issuance of \$30 million of trust preferred securities and a special dividend of \$25 million from the Bank to Bancorp in December 2009 as part of a strategy to minimize state bank taxes.

The ratio of tangible common equity to total tangible assets, both non-GAAP measures, stood at 9.17% as of June 30, 2011, versus 8.89% at December 31, 2010. Bancorp provides this ratio, in addition to those defined by banking regulators, because of its widespread use by investors as a means to evaluate the quality and adequacy of capital. See Non-GAAP Financial Measures section below for a reconciliation of the calculation of this measure to amounts reported under US GAAP.

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

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

| (in thousands, except per share data) | June 30, 2011 | | December 31, 2010 | |
|--|---------------|-----------|-------------------|-----------|
| Total equity (a) | \$ | 178,825 | \$ | 169,861 |
| Less goodwill | | (682) | | (682) |
| Tangible common equity (c) | \$ | 178,143 | \$ | 169,179 |
| | | | | |
| Total assets (b) | \$ | 1,943,384 | | 1,902,945 |
| Less goodwill | | (682) | | (682) |
| Total tangible assets (d) | \$ | 1,942,702 | \$ | 1,902,263 |
| | | | | |
| Total shareholders' equity to total assets (a/b) | | 9.20% | | 8.93% |
| Tangible common equity ratio (c/d) | | 9.17% | | 8.89% |
| | | | | |
| Number of outstanding shares (e) | | 13,799 | | 13,737 |
| | | | | |
| Book value per share (a/e) | \$ | 12.96 | \$ | 12.37 |
| Tangible common equity per share (c/e) | | 12.91 | | 12.32 |

f) Recently Issued Accounting Pronouncements

In April 2011, the FASB issued ASU No. 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring* as a result of stakeholders questioning whether additional guidance or clarification was needed to assist creditors with determining whether a modification is a Troubled Debt Restructuring (TDR). The final standard does not change the long-standing guidance that a restructuring of a debt constitutes a TDR if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. In other words, the creditor must conclude that both the restructuring constitutes a concession, and the debtor is experiencing financial difficulties. For the purposes of those two tests, the final ASU provides clarifications regarding the debtor's access to funds at current market rates, assessing the debtor's financial difficulties, and payment delays. The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The adoption of ASU 2011-02 may result in additional loans being identified as TDR.

Table of ContentsItem 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

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

Based on the evaluation of Bancorp's disclosure controls and procedures by the Chief Executive and Chief Financial Officers, there were no significant changes during the quarter ended June 30, 2011 in Bancorp's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, Bancorp's internal control over financial reporting.

PART II OTHER INFORMATION

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

The following table shows information relating to the repurchase of shares of common stock by Bancorp during the three months ended June 30, 2011.

| | Total number of Shares Purchased (1) | Average price Paid Per Share | Total number of Shares Purchased as Part of Publicly Announced Plan (2) | Maximum Number of Shares that May Yet Be Purchased Under the Plan |
|--------------------|--|---------------------------------|--|--|
| April 1 - April 30 | | \$ | | |
| May 1 - May 31 | 4,177 | | 23.94 | |
| June 1 - June 30 | 13,168 | | 23.21 | |
| Total | 17,345 | \$ | 23.39 | |

(1) Second quarter 2011 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, subsequently 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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Item 6. Exhibits

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

| Exhibit number | Description of exhibit |
|-----------------------|---|
| 31.1 | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act by David P. Heintzman |
| 31.2 | Certifications pursuant to Section 302 of the Sarbanes-Oxley Act by Nancy B. Davis |
| 32 | Certifications pursuant to 18 U.S.C. Section 1350 |
| 101 | The following financial statements from the S.Y. Bancorp, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, filed on August 5, 2011, formatted in eXtensible Business Reporting Language (XBRL): (1) Consolidated Balance Sheets (2) Consolidated Statements of Income (3) Consolidated Statements of Cash Flows (4) Consolidated Statement of Changes in Stockholders' Equity (5) Consolidated Statements of Comprehensive Income (6) Notes to Consolidated Financial Statements |

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SIGNATURES

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

S.Y. BANCORP, INC.

Date: August 5, 2011

By: /s/ David P. Heintzman
David P. Heintzman, Chairman and
Chief Executive Officer

Date: August 5, 2011

By: /s/ Nancy B. Davis
Nancy B. Davis, Executive Vice President,
Treasurer and Chief Financial Officer