

S Y BANCORP INC
Form 10-Q
May 06, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from to .

Commission file number 1-13661

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 April 26, 2013, was 13,958,931.

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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
March 31, 2013 (Unaudited) and December 31, 2012

Consolidated Statements of Income
for the three months ended March 31, 2013 and 2012 (Unaudited)

Consolidated Statements of Comprehensive Income
for the three months ended March 31, 2013 and 2012 (Unaudited)

Consolidated Statements of Cash Flows
for the three months ended March 31, 2013 and 2012 (Unaudited)

Consolidated Statement of Changes in Stockholders' Equity
for the three months ended March 31, 2013 (Unaudited)

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Consolidated Balance Sheets

March 31, 2013 and December 31, 2012

(In thousands, except share data)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Cash and due from banks	\$ 31,715	\$ 42,610
Federal funds sold	27,745	25,093
Mortgage loans held for sale	4,576	14,047
Securities available for sale (amortized cost of \$354,583 in 2013 and \$377,383 in 2012)	362,904	386,440
Federal Home Loan Bank stock	5,180	5,180
Other securities	1,000	1,000
Loans	1,600,960	1,584,594
Less allowance for loan losses	32,022	31,881
Net loans	1,568,938	1,552,713
Premises and equipment, net	36,094	36,532
Bank owned life insurance	28,402	28,149
Accrued interest receivable	5,342	5,091
Other assets	49,170	51,407
Total assets	\$ 2,121,066	\$ 2,148,262
Liabilities and Stockholders Equity		
Deposits:		
Non-interest bearing	\$ 376,972	\$ 396,159
Interest bearing	1,359,912	1,385,534
Total deposits	1,736,884	1,781,693
Securities sold under agreements to repurchase	50,879	59,045
Federal funds purchased	36,821	16,552
Accrued interest payable	140	166
Other liabilities	24,673	22,949
Federal Home Loan Bank advances	31,872	31,882
Subordinated debentures	30,900	30,900
Total liabilities	1,912,169	1,943,187
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 13,958,482 and 13,915,265 shares in 2013 and 2012, respectively	7,416	7,273
Additional paid-in capital	19,118	17,731
Retained earnings	177,420	174,650
Accumulated other comprehensive income	4,943	5,421
Total stockholders equity	208,897	205,075
Total liabilities and stockholders equity	\$ 2,121,066	\$ 2,148,262

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Income

For the three months ended March 31, 2013 and 2012 (Unaudited)

(In thousands, except per share data)

	2013	2012
Interest income:		
Loans	\$ 19,049	\$ 19,880
Federal funds sold	80	72
Mortgage loans held for sale	64	63
Securities taxable	1,370	1,477
Securities tax-exempt	272	320
Total interest income	20,835	21,812
Interest expense:		
Deposits	1,339	2,046
Fed funds purchased	8	8
Securities sold under agreements to repurchase	35	49
Federal Home Loan Bank advances	217	363
Subordinated debentures	773	796
Total interest expense	2,372	3,262
Net interest income	18,463	18,550
Provision for loan losses	2,325	4,075
Net interest income after provision for loan losses	16,138	14,475
Non-interest income:		
Investment management and trust services	3,886	3,490
Service charges on deposit accounts	2,000	2,055
Bankcard transaction revenue	961	965
Gains on sales of mortgage loans held for sale	867	739
Brokerage commissions and fees	615	541
Bank owned life insurance income	252	257
Other	647	1,198
Total non-interest income	9,228	9,245
Non-interest expenses:		
Salaries and employee benefits	9,657	9,052
Net occupancy expense	1,231	1,369
Data processing expense	1,356	1,313
Furniture and equipment expense	291	292
FDIC insurance expense	350	351
Other	2,694	2,359
Total non-interest expenses	15,579	14,736
Income before income taxes	9,787	8,984
Income tax expense	3,019	2,482
Net income	\$ 6,768	\$ 6,502
Net income per share:		
Basic	\$ 0.49	\$ 0.47
Diluted	\$ 0.49	\$ 0.47
Average common shares:		
Basic	13,814	13,844
Diluted	13,851	13,890

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See accompanying notes to unaudited consolidated financial statements.

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S.Y. BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

For the three months ended March 31, 2013 and 2012 (Unaudited)

(In thousands)

	Three months ended	
	March 31,	
	2013	2012
Net income	\$ 6,768	\$ 6,502
Other comprehensive income, net of tax:		
Unrealized losses on securities available for sale:		
Unrealized losses arising during the period (net of tax of (\$257) and (\$19), respectively)	(478)	(35)
Other comprehensive loss	(478)	(35)
Comprehensive income	6,290	6,467

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statements of Cash Flows

For the three months ended March 31, 2013 and 2012 (Unaudited)

(In thousands)

	2013	2012
Operating activities:		
Net income	\$ 6,768	\$ 6,502
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,325	4,075
Depreciation, amortization and accretion, net	1,232	1,185
Deferred income tax benefit	(1,152)	(714)
Gain on sales of mortgage loans held for sale	(867)	(739)
Origination of mortgage loans held for sale	(47,036)	(47,362)
Proceeds from sale of mortgage loans held for sale	57,374	45,547
Bank owned life insurance income	(252)	(257)
Increase in value of private investment fund		(627)
Loss (gain) on the sale of other real estate	35	(25)
Stock compensation expense	531	349
Excess tax benefits from share-based compensation arrangements	(18)	(15)
Decrease (increase) in accrued interest receivable and other assets	1,593	(335)
Increase in accrued interest payable and other liabilities	1,716	6,955
Net cash provided by operating activities	22,249	14,539
Investing activities:		
Purchases of securities available for sale	(106,748)	(121,008)
Proceeds from maturities of securities available for sale	129,192	124,133
Net (increase) decrease in loans	(18,649)	9,029
Purchases of premises and equipment	(350)	(2,105)
Proceeds from sale of other real estate	1,778	707
Net cash provided by investing activities	5,223	10,756
Financing activities:		
Net (decrease) increase in deposits	(44,809)	9,578
Net increase (decrease) in securities sold under agreements to repurchase and federal funds purchased	12,103	(23,160)
Repayments of Federal Home Loan Bank advances	(10)	(3)
Repayments of subordinated debentures		(10,000)
Issuance of common stock for options and dividend reinvestment plan	61	130
Excess tax benefits from share-based compensation arrangements	18	15
Common stock repurchases	(286)	(189)
Cash dividends paid	(2,792)	(2,635)
Net cash used in financing activities	(35,715)	(26,264)
Net decrease in cash and cash equivalents	(8,243)	(969)
Cash and cash equivalents at beginning of period	67,703	54,920
Cash and cash equivalents at end of period	\$ 59,460	\$ 53,951
Supplemental cash flow information:		
Income tax payments	400	
Cash paid for interest	2,398	3,260
Supplemental non-cash activity:		
Transfers from loans to other real estate owned	\$ 99	\$ 1,462

See accompanying notes to unaudited consolidated financial statements.

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Consolidated Statement of Changes in Stockholders' Equity

For the three months ended March 31, 2013 (Unaudited)

(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, 2012	13,915	\$ 7,273	\$ 17,731	\$ 174,650	\$ 5,421	\$ 205,075
Net income				6,768		6,768
Other comprehensive loss, net of tax					(478)	(478)
Stock compensation expense			531			531
Stock issued for stock options exercised and dividend reinvestment plan	3	10	69			79
Stock issued for non-vested restricted stock	55	184	1,083	(1,267)		
Cash dividends, \$0.20 per share				(2,792)		(2,792)
Shares repurchased or cancelled	(15)	(51)	(296)	61		(286)
Balance March 31, 2013	13,958	\$ 7,416	\$ 19,118	\$ 177,420	\$ 4,943	\$ 208,897

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, 2012 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 month period ended March 31, 2013 are not necessarily indicative of the results for the entire year.

Critical Accounting Policies

Management has identified the accounting policy related to the allowance and provision for loan losses as critical to the understanding of Bancorp's results of operations and discussed this conclusion with the Audit Committee of the Board of Directors. Since the application of this policy requires significant management assumptions and estimates, it could result in materially different amounts to be reported if conditions or underlying circumstances were to change. Assumptions include many factors such as changes in borrowers' financial condition which can change quickly or historical loss ratios related to certain loan portfolios which may or may not be indicative of future losses. 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:

March 31, 2013 Securities available for sale (in thousands)	Amortized cost	Unrealized Gains	Losses	Fair value
U.S. Treasury and other U.S. government obligations	\$ 40,000	\$	\$	\$ 40,000
Government sponsored enterprise obligations	122,445	2,680	71	125,054
Mortgage-backed securities	133,772	3,512	567	136,717
Obligations of states and political subdivisions	57,366	2,748	15	60,099
Trust preferred securities of financial institutions	1,000	34		1,034
Total securities available for sale	\$ 354,583	\$ 8,974	\$ 653	\$ 362,904

December 31, 2012 Securities available for sale (in thousands)	Amortized cost	Unrealized Gains	Losses	Fair value
U.S. Treasury and other U.S. government obligations	\$ 98,000	\$	\$	\$ 98,000
Government sponsored enterprise obligations	83,015	2,789	56	85,748
Mortgage-backed securities	137,407	3,594	120	140,881
Obligations of states and political subdivisions	57,961	2,844	12	60,793
Trust preferred securities of financial institutions	1,000	18		1,018
Total securities available for sale	\$ 377,383	\$ 9,245	\$ 188	\$ 386,440

No securities were sold in 2013 or 2012. There are no securities held to maturity as of March 31, 2013 or December 31, 2012.

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 for borrowing availability, and are classified as restricted securities. 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.

Bancorp reviewed the investment in FHLB stock as of March 31, 2013, considering the FHLB equity position, its continuance of dividend payments, liquidity position, and positive year-to-date net income. Based on this review, Bancorp is of the opinion that its investment in FHLB stock is not impaired.

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A summary of the available for sale investment securities by maturity groupings as of March 31, 2013 is shown below. Actual maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations. The investment portfolio includes agency mortgage-backed securities, which are guaranteed by agencies such as the FHLMC, FNMA, and GNMA. These securities differ from traditional debt securities primarily in that they may have uncertain principal payment dates and are priced based on estimated prepayment rates on the underlying collateral. Bancorp does not have exposure to subprime originated mortgage-backed or collateralized debt obligation instruments.

Securities available for sale (in thousands)	Amortized Cost	Fair Value
Due within 1 year	\$ 97,066	\$ 97,129
Due after 1 but within 5 years	74,088	77,078
Due after 5 but within 10 years	30,895	32,992
Due after 10 years	18,762	18,988
Mortgage-backed securities	133,772	136,717
Total securities available for sale	\$ 354,583	\$ 362,904

Securities with unrealized losses at March 31, 2013 and December 31, 2012, not recognized in income are as follows:

(in thousands)	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2013						
Government sponsored enterprise obligations	\$ 60,030	\$ 71	\$	\$	\$ 60,030	\$ 71
Mortgage-backed securities	25,613	567			25,613	567
Obligations of states and political subdivisions	2,022	15			2,022	15
Total temporarily impaired securities	\$ 87,665	\$ 653	\$	\$	\$ 87,665	\$ 653
December 31, 2012						
Government sponsored enterprise obligations	\$ 29,996	\$ 56	\$	\$	\$ 29,996	\$ 56
Mortgage-backed securities	16,609	120			16,609	120
Obligations of states and political subdivisions	2,292	12			2,292	12
Total temporarily impaired securities	\$ 48,897	\$ 188	\$	\$	\$ 48,897	\$ 188

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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 13 and 14 separate investment positions as of March 31, 2013 and December 31, 2012, respectively, which are not considered other-than-temporarily impaired. Because management does not intend to sell the investments, and it is not likely that Bancorp will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Bancorp does not consider these securities to be other-than-temporarily impaired at March 31, 2013.

(3) Loans

The composition of loans by primary loan portfolio segment follows:

(in thousands)	March 31, 2013		December 31, 2012	
Commercial and industrial	\$	455,258	\$	426,930
Construction and development		125,624		131,253
Real estate mortgage		985,135		989,631
Consumer		34,943		36,780
Total loans	\$	1,600,960	\$	1,584,594

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The following table presents the balance in the recorded investment in loans and allowance for loan losses by portfolio segment and based on impairment method as of March 31, 2013 and December 31, 2012.

March 31, 2013 (in thousands)	Type of loan				Consumer	Total
	Commercial and industrial	Construction and development	Real estate mortgage			
Loans						
Balance	\$ 455,258	\$ 125,624	\$ 985,135		\$ 34,943	\$ 1,600,960
Balance: loans individually evaluated for impairment	\$ 8,653	\$ 12,795	\$ 10,110		\$ 1	\$ 31,559
Balance: loans collectively evaluated for impairment	\$ 446,605	\$ 112,829	\$ 975,025		\$ 34,942	\$ 1,569,401
	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Unallocated	Total
Allowance for loan losses						
Beginning balance						
December 31, 2012	\$ 5,949	\$ 4,536	\$ 14,288	\$ 362	\$ 6,746	\$ 31,881
Provision	198	1,961	(201)	(18)	385	2,325
Charge-offs	(62)	(2,000)	(341)	(172)		(2,575)
Recoveries	33	164	20	174		391
Ending balance March 31, 2013	\$ 6,118	\$ 4,661	\$ 13,766	\$ 346	\$ 7,131	\$ 32,022
Balance: allowance for loans individually evaluated for impairment	\$ 283	\$ 2,898	\$ 1,260			\$ 4,441
Balance: allowance for loans collectively evaluated for impairment	\$ 5,835	\$ 1,763	\$ 12,506	\$ 346	\$ 7,131	\$ 27,581
December 31, 2012 (in thousands)	Type of loan				Consumer	Total
	Commercial and industrial	Construction and development	Real estate mortgage			
Loans						
Balance	\$ 426,930	\$ 131,253	\$ 989,631		\$ 36,780	\$ 1,584,594
Balance: loans individually evaluated for impairment	\$ 8,667	\$ 10,863	\$ 9,795		\$ 4	\$ 29,329
Balance: loans collectively evaluated for impairment	\$ 418,263	\$ 120,390	\$ 979,836		\$ 36,776	\$ 1,555,265
	Commercial and industrial	Construction and development	Real estate mortgage	Consumer	Unallocated	Total

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Allowance for loan losses

Beginning balance												
December 31, 2011	\$	7,364	\$	3,546	\$	11,182	\$	540	\$	7,113	\$	29,745
Provision		3,024		2,716		6,308		(181)		(367)		11,500
Charge-offs		(4,523)		(1,726)		(3,451)		(798)				(10,498)