S Y BANCORP INC
Form 10-Q
August 08, 2007

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, 2007

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	**61-1137529**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer 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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o **Accelerated filer x** **Non-accelerated filer o**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.).

Yes o No x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock, no par value 14,260,461
Shares issued and outstanding at August 1, 2007

S.Y. BANCORP, INC. AND SUBSIDIARY

Index

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:

S.Y. BANCORP, INC. AND SUBSIDIARY

Condensed Consolidated Balance Sheets

June 30, 2007 and December 31, 2006

(In thousands, except share data)

	June 30, 2007 (Unaudited)	**December 31, 2006**
Assets		
Cash and due from banks	$ 42,910	$ 44,007
Federal funds sold	10,645	15,671
Mortgage loans held for sale	4,965	4,035
Securities available for sale (amortized cost of $129,119 in 2007 and $146,859 in 2006)	127,745	145,695
Securities held to maturity (approximate fair value of $2,306 in 2007 and $3,159 in 2006)	2,306	3,148
Federal Home Loan Bank stock	3,797	3,591
Loans	1,162,906	1,148,954
Less allowance for loan losses	12,065	12,203
Net loans	1,150,841	1,136,751
Premises and equipment, net	24,650	24,823
Accrued interest receivable and other assets	57,440	48,600
Total assets	$ 1,425,299	$ 1,426,321
Liabilities and Stockholders Equity		
Deposits:		
Non-interest bearing	$ 184,000	$ 179,657
Interest bearing	901,316	923,585
Total deposits	1,085,316	1,103,242
Securities sold under agreements to repurchase and federal funds purchased	87,868	84,313
Other short-term borrowings	1,204	734
Accrued interest payable and other liabilities	38,933	40,468
Federal Home Loan Bank advances	70,000	60,000
Subordinated debentures	90	120
Total liabilities	1,283,411	1,288,877
Stockholders equity:		
Preferred stock, no par value. Authorized 1,000,000 shares; no shares issued or outstanding		
Common stock, no par value. Authorized 20,000,000 shares; issued and outstanding 14,297,604 and 14,400,420 shares in 2007 and 2006, respectively	8,538	8,878
Additional paid-in capital	25,149	27,703
Retained earnings	109,353	101,876
Accumulated other comprehensive loss	(1,152)	(1,013)
Total stockholders equity	141,888	137,444
Total liabilities and stockholders equity	$ 1,425,299	$ 1,426,321

See accompanying notes to unaudited condensed consolidated financial statements.

S.Y. BANCORP, INC. AND SUBSIDIARY

Unaudited Condensed Consolidated Statements of Income

For the three and six months ended June 30, 2007 and 2006

(In thousands, except per share data)

	For three months ended June 30, 2007	2006	For six month ended June 30, 2007	2006
Interest income:				
Loans	$ 21,243	$ 19,570	$ 41,874	$ 38,027
Federal funds sold	151	145	588	565
Mortgage loans held for sale	77	51	124	111
Securities taxable	1,069	1,155	2,276	2,250
Securities tax-exempt	275	323	559	618
Total interest income	22,815	21,244	45,421	41,571
Interest expense:				
Deposits	7,777	6,494	15,685	12,565
Securities sold under agreements to repurchase and federal funds purchased	720	517	1,352	986
Other short-term borrowings	6	8	6	18
Federal Home Loan Bank advances	732	309	1,382	647
Subordinated debentures	1	466	3	932
Total interest expense	9,236	7,794	18,428	15,148
Net interest income	13,579	13,450	26,993	26,423
Provision for loan losses	460	600	1,240	950
Net interest income after provision for loan losses	13,119	12,850	25,753	25,473
Non-interest income:				
Investment management and trust services	3,336	2,931	6,533	5,718
Service charges on deposit accounts	2,204	2,279	4,222	4,408
Bankcard transaction revenue	590	517	1,132	986
Gains on sales of mortgage loans held for sale	391	302	647	607
Gains on sales of securities available for sale				
Brokerage commissions and fees	452	574	945	1,099
Other	751	626	1,401	1,324
Total non-interest income	7,724	7,229	14,880	14,142
Non-interest expenses:				
Salaries and employee benefits	6,632	6,492	13,239	13,444
Net occupancy expense	930	847	1,820	1,709
Data processing expense	1,051	899	2,066	1,890
Furniture and equipment expense	290	298	582	603
State bank taxes	311	261	489	644
Other	2,270	2,481	4,662	4,766
Total non-interest expenses	11,484	11,278	22,858	23,056
Income before income taxes	9,359	8,801	17,775	16,559
Income tax expense	3,062	2,933	5,774	5,371
Net income	$ 6,297	$ 5,868	$ 12,001	$ 11,188
Net income per share:				
Basic	$ 0.44	$ 0.41	$ 0.84	$ 0.77
Diluted	0.43	0.40	0.82	0.76
Average common shares:				
Basic	14,325	14,484	14,357	14,494
Diluted	14,536	14,752	14,588	14,750

See accompanying notes to unaudited condensed consolidated financial statements.

3

S.Y. BANCORP, INC. AND SUBSIDIARY

Unaudited Condensed Consolidated Statements of Cash Flows

For the six months ended June 30, 2007 and 2006

(In thousands)

	2007	2006
Operating activities:		
Net income	$ 12,001	$ 11,188
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,240	950
Depreciation, amortization and accretion, net	1,345	1,534
Provision for deferred income taxes	(305)	(316)
Gain on sales of securities available for sale		
Gains on sales of mortgage loans held for sale	(647)	(607)
Origination of mortgage loans held for sale	(41,350)	(46,086)
Proceeds from sale of mortgage loans held for sale	41,067	49,656
Loss on the sale of premises and equipment		13
Bank owned life insurance income	482	443
Loss (gain) on the sale of other real estate	30	(7)
Stock compensation expense	242	384
Excess tax benefits from share-based compensation arrangements	(17)	(117)
Increase in accrued interest receivable and other assets	(12,510)	(3,102)
Decrease in accrued interest payable and other liabilities	(1,342)	(5,024)
Net cash provided by operating activities	236	8,909
Investing activities:		
Purchases of securities available for sale	(23,346)	(38,566)
Proceeds from maturities of securities available for sale	40,886	67,662
Proceeds from maturities of securities held to maturity	841	540
Net increase in loans	(14,050)	(32,461)
Purchases of premises and equipment	(1,177)	(1,314)
Proceeds from sales of other real estate	1,949	163
Net cash provided by (used in) investing activities	5,103	(3,976)
Financing activities:		
Net (decrease) increase in deposits	(17,926)	28,168
Net increase (decrease) in securities sold under agreements to repurchase and federal funds purchased	3,555	(6,450)
Net increase (decrease) in other short-term borrowings	470	(929)
Proceeds of Federal Home Loan Bank advances		
Proceeds from Federal Home Loan Bank advances	20,000	
Repayments of Federal Home Loan Bank advances	(10,000)	(10,000)
Repayments of subordinated debentures	(30)	(30)
Issuance of common stock for options and dividend reinvestment plan	813	1,267
Excess tax benefits from share-based compensation arrangements	17	117
Common stock repurchases	(4,040)	(3,798)
Cash dividends paid	(4,321)	(3,754)
Net cash (used) in provided by financing activities	(11,462)	4,591
Net (decrease) increase in cash and cash equivalents	(6,123)	9,524
Cash and cash equivalents at beginning of period	59,678	44,039
Cash and cash equivalents at end of period	$ 53,555	$ 53,563
Supplemental cash flow information:		
Income tax payments	$ 4,565	$ 4,685
Cash paid for interest	18,237	15,230
Supplemental non-cash activity:		
Transfers from loans to other real estate owned	$ 1,280	$ 588

See accompanying notes to unaudited condensed consolidated financial statements.

4

S.Y. BANCORP, INC. AND SUBSIDIARY

Unaudited Condensed Consolidated Statement of Changes in Stockholders Equity

For the six months ended June 30, 2007

(In thousands, except per share data)

	Com mon stock Number of shares	Amount	Additional Paid in Capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance December 31, 2006	14,400	$ 8,878	$ 27,703	$ 101,876	$ (1,013)	$ 137,444
Net income				12,001		12,001
Change in accumulated other comprehensive loss, net of tax					(139)	(139)
Stock compensation expense			242			242
Stock issued for stock options exercised and dividend reinvestment plan	55	185	645			830
Stock issued for non-vested restricted stock	3	9	65	(74)		
Cash dividends, $0.31 per share				(4,450)		(4,450)
Shares repurchased	(160)	(534)	(3,506)			(4,040)
Balance June 30, 2007	14,298	$ 8,538	$ 25,149	$ 109,353	$ (1,152)	$ 141,888

See accompanying notes to unaudited condensed consolidated financial statements.

S.Y. BANCORP, INC. AND SUBSIDIARY

Unaudited Condensed Consolidated Statements of Comprehensive Income

For the three and six months ended June 30, 2007 and 2006

(In thousands)

	Three months ended June 30		Six months ended June 30	
	2007	**2006**	**2007**	**2006**
Net income	$ 6,297	$ 5,868	$ 12,001	$ 11,188
Other comprehensive gain (loss), net of tax:				
Unrealized gains (losses) on securities available for sale -				
Unrealized holding gains (losses) arising during the period (net of tax of ($188), ($332), ($75) and ($625), respectively)	(350)	(617)	(139)	(1,160)
Other comprehensive income (loss)	(350)	(617)	(139)	(1,160)
Comprehensive income	$ 5,947	$ 5,251	$ 11,862	$ 10,028

See accompanying notes to unaudited condensed consolidated financial statements.

6

S.Y. BANCORP, INC. AND SUBSIDIARY

Notes to Unaudited Condensed Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

The accompanying unaudited condensed 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 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). 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, 2006 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, 2007 are not necessarily indicative of the results for the entire year.

(a) 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.

(b) Securities

Unrealized losses on Bancorp s bond portfolio have not been recognized in income because the bonds are of high credit quality, management has the intent and the ability to hold for the foreseeable future, and the decline in fair values is largely due to an increase in prevailing interest rates since the purchase date. The fair value is expected to recover as the securities reach their maturity date and/or interest rates decline. Bonds with unrecognized unrealized losses consist of 78 and 69 separate investment positions as of June 30, 2007 and December 31, 2006, respectively that are not considered other-than-temporarily impaired.

(c) *Stock-Based Compensation*

On January 1, 2006, Bancorp adopted the modified version of prospective application of Statement of Financial Standard No. 123 (R) Share-based Payment , (SFAS No. 123R). Under this method, the fair value of all new and modified awards granted subsequent to the date of adoption will be recognized as compensation expense, net of estimated forfeitures. Further, the fair value of any unvested awards at the date of adoption was recognized as compensation expense, net of estimated forfeitures.

Bancorp s 1995 Stock Incentive Plan expired in 2005; however, options granted under this plan expire as late as 2015. The 2005 Stock Incentive Plan reserved 735,000 shares of common stock for issuance of stock based awards. As of June 30, 2007, there were 401,664 shares available for future awards. Options granted have been subject to a vesting schedule of 20% per year except for those granted to certain executive officers which vest six months after grant date. All outstanding options were granted at an exercise price equal to the market value of common stock at the time of grant and expire ten years after the grant date. Restricted shares granted to executive officers are subject to a vesting schedule of one-third per year. Certain other officers received grants vesting over two to five years.

The fair value of Bancorp s stock options is estimated at the date of grant using the Black-Scholes option pricing model, an accepted and widely used 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. As a result of applying the provisions of SFAS No. 123R, Bancorp recognized for the six months ended June 30, 2007 and 2006, within salaries and employee benefits in the unaudited condensed consolidated income statements, stock-based compensation expense of $242,000 and $384,000 before income taxes and a deferred tax benefit of $85,000 and $134,000 resulting in a reduction of net income of $157,000 and $250,000, or $0.01 and $0.02, in both years, per basic and diluted shares, respectively. For the second quarter of 2007 and 2006, Bancorp recognized $189,000 and $210,000 of compensation expense before taxes, a deferred tax benefit of $66,000 and $74,000 and a reduction of net income of $123,000 and $136,000, or $0.01 and $0.01, in both years, per basic and diluted shares, respectively. Bancorp expects to record an additional $224,000 of compensation expense in 2007. As of June 30, 2007 Bancorp has $1,317,000 of unrecognized stock-based compensation expense. Related to stock options is $1,251,000, which will be recorded as compensation expense over the next 4.5 years, the weighted-average remaining life of these options. Related to restricted shares is $66,000, which will be recorded as stock compensation expense over the next 2.5 years, the weighted average remaining life of these restricted shares.

In accordance with the Financial Accounting Standards Board Staff Position SFAS No. 123R 3, Transition Election to Accounting for the Tax Effects of Share-Based Payment Awards , Bancorp has elected the alternative transition method to calculate the beginning balance of the pool of excess tax benefits. The beginning balance of excess tax benefits was calculated as the sum of all net increases in additional paid-in-capital related to tax benefits from stock-based employee compensation, less the incremental stock-based after-tax compensation costs that would have been recognized if the fair value recognition provisions of SFAS No. 123 had been used to account for stock-based compensation costs.

SFAS No. 123R requires the cash flows resulting from excess tax deductions related to the compensation costs recognized for the share-based awards be classified as financing cash inflows. Cash flows provided by financing activities relating to excess tax benefits from share-based compensation arrangements increased by $17,000 and $117,000 and cash flows used in operating activities decreased by $17,000 and $117,000 for the six months ended June 30, 2007 and 2006, respectively. Bancorp received cash of $541,000 and $1,254,000 from the exercise of options during the first six months of 2007 and 2006, respectively.

Under SFAS No. 123R, Bancorp is required to reduce future stock-based compensation expense by estimated forfeitures at the grant date. These forfeiture estimates are based on historical experience.

The following assumptions were used in option valuations:

	2007		**2006**	
Dividend yield	1.81	%	1.63	%
Expected volatility	14.49		16.53	
Risk free interest rate	4.69		4.42	
Forfeitures	5.55		5.69	
Expected life of options (in years)	7.7		7.7	

The expected life of options is based on actual experience of past like-term options. All outstanding options have a 10-year contractual term. Bancorp evaluated historical exercise and post-vesting termination behavior when determining the expected life of 7.7 years for options granted during the first six months of 2007 and 2006.

The dividend yield and expected volatility are based on historical information corresponding to the expected life of options granted. The expected volatility is the volatility of the underlying shares for the expected term on a quarterly basis.

The risk free interest rate is the implied yield currently available on U. S. Treasury issues with a remaining term equal to the expected life of the options.

A summary of stock option activity and related information for the six months ended June 30, 2007 follows. The number of options and aggregate intrinsic value are stated in thousands of dollars.

	Options	Exercise Price	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Fair Value	Weighted Average Remaining Contractual Life
	(In thousands, except per share data)					
At December 31, 2006						
Vested and exercisable	818	$ 6.90-$24.07	$ 17.13	$ 14,009	$ 3.64	
Unvested	139	18.05-24.07	23.89	3,322	5.76	
Total outstanding	957	6.90-24.07	18.12	17,331	3.95	
Granted	153	24.02-26.83	26.81	4,090	6.14	
Exercised	(55)	6.90-22.81	14.71	(599)	3.01	
Forfeited	(8)	20.95-26.83	24.81	(205)	5.87	
At June 30, 2007						
Vested and exercisable	791	9.76-24.07	17.54	13,875	3.75	5.35
Unvested	256	18.05-26.83	25.61	6,544	5.98	9.17
Total outstanding	1,047	9.76-26.83	19.51	20,419	4.30	6.28
Vested during quarter	29	20.25-24.07	23.79	680	5.73	

On February 20, 2007, Bancorp granted 151,550 options to purchase common stock shares at the current market price of $26.83 and a fair value of $6.14. These options were awarded to employees and will primarily vest 20% per year over the next five years. Of these options, 36,500 were granted to certain executive officers and will vest six months from the date of grant. On May 15, 2007, Bancorp granted a new director 1,000 options to purchase common stock shares at the current market price of $24.02 and a fair value of $6.14. All options expire ten years from the date of grant.

Also, on February 20, 2007, Bancorp adopted a restricted stock program under the terms of the Company s 2005 Incentive Stock Plan. Bancorp granted 2,775 shares of common stock at the current market price of $26.83. Shares were granted to executive officers and will vest one-third per year over the next three years. Certain other officers received grants vesting over two to five years. As of June 30, 2007, none of these restricted shares had vested or canceled.

(2) Allowance for Loan Losses

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

	2007	2006
Beginning balance January 1,	$ 12,203	$ 12,035
Provision for loan losses	1,240	950
Loans charged off	(1,843)	(956)
Recoveries	465	363
Ending balance June 30,	$ 12,065	$ 12,392

(3) Federal Home Loan Bank Advances

Under a blanket collateral agreement with the Federal Home Loan Bank of Cincinnati and secured by certain residential real estate loans, the Bank has outstanding borrowings of $70,000,000, at June 30, 2007, via three separate advances. The first two are fixed rate, non-callable advances of $20,000,000 and $30,000,000, which are due in October of 2008 and November of 2009, respectively. The third advance of $20,000,000 is a fixed rate advance eligible to be called by the FHLB after 12 months, in May of 2008, and then quarterly going forward until its maximum maturity in May of 2012. At June 30, 2007, the weighted average rate of these advances was 4.84%. Interest payments are due monthly, with principal due at maturity.

(4) Intangible Assets

Statement of Financial Accounting Standards No. 142, Goodwill and Intangible Assets (SFAS No. 142), requires that goodwill and intangible assets with indefinite useful lives no longer 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.

(5) Defined Benefit Retirement Plan

The Bank sponsors an unfunded, non-qualified, defined benefit retirement plan for certain key officers. Benefits vest based on years of service. The Bank does not make contributions to this plan. Information about the components of the net periodic benefit cost of the defined benefit plan follows:

	Three months ended June 30			
	2007		2006	
Components of net periodic benefit cost:				
Service cost	$		$	
Interest cost	28		29	
Expected return on plan assets				
Amortization of prior service cost				
Amortization of the net loss	7		7	
Net periodic benefit cost	$	35	$	36

	Six months ended June 30			
	2007		2006	
Components of net periodic benefit cost:				
Service cost	$		$	
Interest cost	57		59	
Expected return on plan assets				
Amortization of prior service cost				
Amortization of the net loss	13		14	
Net periodic benefit cost	$	70	$	73

(6) Commitments to Extend Credit

As of June 30, 2007, 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 financial statements. In management s opinion, commitments to extend credit of $429,988,000, and standby letters of credit of $16,302,000, represent normal banking transactions, and no significant losses are anticipated to result from these commitments as of June 30, 2007. Commitments to extend credit were $359,070,000, and letters of credit were $17,044,000, as of December 31, 2006. Bancorp s exposure to credit loss in the event of nonperformance by the other party to these commitments is represented by the contractual amount of these instruments. Bancorp uses the same credit and collateral policies in making commitments and conditional guarantees as for on-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 primarily 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, property, plant and equipment, income-producing commercial properties, residential properties and other real estate under development.

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.

(7) Preferred Stock

At Bancorp s annual meeting of shareholders held in April 2003, the shareholders approved an amendment to the Articles of Incorporation to create a class of preferred stock and authorize 1,000,000 shares of this preferred stock with no par value. The relative rights, preferences and other terms of this stock or any series within the class will be determined by the Board of Directors prior to any issuance. Some of this preferred stock will be used in connection with a shareholders rights plan upon the occurrence of certain triggering events. None of this stock had been issued as of June 30, 2007.

(8) Net Income Per Share

The following table reflects, for the three and six month periods ended June 30, 2007 and 2006, 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**	
	2007	**2006**	**2007**	**2006**
Net income, basic and diluted	$ 6,297	$ 5,868	$ 12,001	$ 11,188
Average shares outstanding	14,325	14,484	14,357	14,494
Effect of dilutive securities	211	268	231	256
Average shares outstanding including dilutive securities	14,536	14,752	14,588	14,750
Net income per share, basic	$ 0.44	$ 0.41	$ 0.84	$ 0.77
Net income per share, diluted	$ 0.43	$ 0.40	$ 0.82	$ 0.76

(9) Segments

The Bank s, and thus Bancorp s, principal activities include commercial banking and investment management and trust. Commercial banking provides a full range of loan and deposit products to individual consumers and businesses. Commercial banking also includes the Bank s mortgage banking and brokerage activity. Investment management and trust provides wealth management services including investment management, trust and estate administration, and retirement plan services.

The financial information for each business segment reflects that which is specifically identifiable or allocated based on an internal allocation method. Principally, all of the net assets of Bancorp are involved in the commercial banking segment. Income taxes are allocated based on the effective federal tax rate. The measurement of the performance of the business segments is based on the management structure of the Bank and is not necessarily comparable with similar information for any other financial institution. The information presented is also not necessarily indicative of the segments operations, if they were independent entities.

Selected financial information by business segment for the three and six months ended June 30, 2007 and 2006 follows:

	Three months ended June 30 2007 (In thousands)	2006	Six months ended June 30 2007 (In thousands)	2006
Net interest income (expense):				
Commercial banking	$ 13,555	$ 13,461	$ 26,957	$ 26,444
Investment management and trust	24	(11)	36	(21)
Total	$ 13,579	$ 13,450	$ 26,993	$ 26,423
Provision for loan losses:				
Commercial banking	$ 460	$ 600	$ 1,240	$ 950
Investment management and trust				
Total	$ 460	$ 600	$ 1,240	$ 950
Non-interest income:				
Commercial banking	$ 4,388	$ 4,298	$ 8,347	$ 8,424
Investment management and trust	3,336	2,931	6,533	5,718
Total	$ 7,724	$ 7,229	$ 14,880	$ 14,142
Non-interest expense:				
Commercial banking	$ 9,889	$ 9,928	$ 19,728	$ 20,163
Investment management and trust	1,595	1,350	3,130	2,893
Total	$ 11,484	$ 11,278	$ 22,858	$ 23,056
Tax expense				
Commercial banking	$ 2,444	$ 2,383	$ 4,570	$ 4,390
Investment management and trust	618	550	1,204	981
Total	$ 3,062	$ 2,933	$ 5,774	$ 5,371
Net income:				
Commercial banking	$ 5,150	$ 4,848	$ 9,766	$ 9,365
Investment management and trust	1,147	1,020	2,235	1,823
Total	$ 6,297	$ 5,868	$ 12,001	$ 11,188

(10) Income Taxes

Effective January 1, 2007, Bancorp adopted Financial Accounting Standards Board Interpretation No. 48 Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 provides guidance on financial statement recognition and measurement of tax positions taken, or expected to be taken, in tax returns. The initial adoption of FIN 48 had no impact on the Company s financial statements. As of January 1, 2007, the gross amount of unrecognized tax benefits was $311,000. If recognized, all of the tax benefits would increase net income, resulting in a decrease of the effective tax rate. Management does not anticipate significant adjustments to the total amount of unrecognized tax benefits within the next twelve months.

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

Bancorp s policy is to report interest and penalties, if any, related to unrecognized tax benefits in income tax expense. As of the date of adoption of FIN 48, the amount accrued for the potential payment of interest and penalties was $31,000. Federal and state income tax returns are open and subject to examination from the 2003 tax return year and forward.

There have been no material changes in unrecognized tax benefits from tax positions taken since the date of adoption.

(11) Subsequent Event

On July 17, 2007, the Board of Directors approved the expansion of the Company s stock repurchase plan by 550,000 shares. The Board also set July 2008 as the plan s expiration date.

The Board of Directors first implemented the repurchase plan in 1999 and expanded the number of shares approved in 2005. At that time, the Company s plan authorized the repurchase of up to 577,500 shares, as adjusted for a five percent stock dividend in 2006. As of June 30, 2007, there were approximately 17,500 shares remaining for repurchase. With these remaining shares and the 550,000 shares approved in July 2007, the Company has the ability to repurchase approximately 567,500 shares.

Under its stock repurchase program, Bancorp may purchase shares from time to time at prevailing prices in open market transactions, subject to market conditions, share price and other considerations. Unsolicited negotiated transactions also are permitted.

S.Y.BANCORP, INC. AND SUBSIDIARY

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

This item discusses the results of operations for S.Y. Bancorp, Inc. (Bancorp or Company), and its subsidiary, Stock Yards Bank & Trust Company (Bank) for the three and six month periods ended June 30, 2007 and compares those 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 has occurred during the first six months of 2007 compared to December 31, 2006. This discussion should be read in conjunction with the unaudited condensed 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 its subsidiaries 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; 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 2007 through June 30

The second quarter of 2007 was highlighted by higher earnings driven primarily by a strong earning asset base and continued growth in the Company s investment management and trust services. Strong credit quality performance also characterized S.Y. Bancorp s results for the second quarter, leading to a reduction in Company s provision for loan losses as compared to the second quarter of 2006 and first quarter of 2007 and helping to offset increasing competitive pressures affecting loan growth and margin. With these factors, the Company completed the second quarter and the first half of the year with net income exceeding the comparable period of 2006 by 7%.

As is the case with most banks, the primary source of Bancorp s revenue is net interest income and fees from various financial services provided to customers. Net interest income is the difference between interest income earned on loans, investment securities and other interest earning assets less interest expense on deposit accounts and other interest bearing liabilities. Loan volume and the interest rates earned on those loans are critical to overall profitability. Similarly deposit volume is crucial to funding loans, and rates paid on deposits directly impact profitability. Business volumes are influenced by overall economic factors including market interest rates, business spending, consumer confidence and competitive conditions within the marketplace.

Net interest income increased 1% for the second quarter and 2% year to date compared with the year-earlier periods. The increase for the second quarter reflected growth in net interest earning assets, offset by ongoing pressure on the net interest margin. Growth in earning assets has been affected by payoffs in the construction loan portfolio and other transaction based business and slowly replaced by growth in commercial and industrial loans. Although net interest margin improved three basis points in the second quarter compared with the first quarter of 2007, net interest margin for the second quarter, at 4.26%, declined 15 basis points versus 4.41% in the year-earlier quarter. This compression was attributed to several factors. The Company has had higher interest expense associated with recent promotions of certificates of deposit causing the increase in deposit yields to outpace the increase in loan yields. Also, the persistence of a relatively flat yield curve, together with mounting competitive pressures on both loan and deposit interest rates, continue to adversely affect net interest margin.

While the Company believes it remains well positioned for the current interest rate environment, with its loan portfolio being split between approximately 60% fixed and 40% variable rates, it expects ongoing pressure on net interest margin.

Operating results were favorably impacted by a lower provision for loan losses in the second quarter of 2007. Based on the Bank s systematic credit risk assessment process, including a declining level of non-performing loans, the Company recorded a provision for loan losses of $460,000 in the second quarter compared to $600,000 in the second quarter of 2006. For the first six months of 2007, the loan loss provision totaled $1,240,000 versus $950,000 in the year-earlier period. The Company s allowance for loan losses was 1.04% of total end-of-quarter loans at June 30, 2007, compared with 1.06% of total end-of-quarter loans at March 31, 2007, and 1.14% at June 30, 2006.

Non-performing loans at June 30, 2007 were 0.41%, relative to total loans, which showed improvement from 0.45% at the end of the first quarter of 2007, as well as from the 0.67% in the same quarter last year. Net charge-offs also remained low at 0.05% of average loans compared with 0.07% in the first quarter of 2007 and 0.03% in the second quarter of 2006. Management continues to view these metrics as an indication of overall sound asset quality and believes it has appropriately recognized the loan-loss exposure in its portfolio.

Non-interest income increased 7% in the second quarter compared with the same quarter last year, primarily due to higher investment management and trust income, which rose 14% during the quarter. This, along with higher bankcard transaction revenue, gains on sales of mortgage loans and other non-interest income, offset lower service charges on deposit accounts and brokerage fees and commissions for the quarter. Non-interest income increased 5% in the first half of 2007 compared with the year-earlier period, again driven primarily by investment management and trust income.

Non-interest expense increased 2% in the second quarter of 2007 versus the same period last year. The increase for the second quarter reflected higher salaries and employee benefits, due in part to the addition of staff associated with the development of a second office in the Indianapolis market and the Company s recently announced entry into the Cincinnati market, as well as higher data processing expense and net occupancy expense. Non-interest expense declined 1% in the first half of 2007 compared with the year-earlier period. For the year-to-date period of 2007, salaries and employee benefits were less than those of 2006 mainly due to lower health insurance expense, reduced stock compensation expense and deferral of salary expense related to loan originations. Further, the first quarter of 2007 reflected a reduction in state bank taxes resulting from tax credits purchased in the quarter. The Company s efficiency ratio improved to 53.22% from 54.54% in the first quarter of 2007 and 53.88% in the second quarter last year.

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

a) Results Of Operations

Net income of $6,297,000 for the three months ended June 30, 2007 increased $429,000, or 7%, from $5,868,000 for the comparable 2006 period. Basic net income per share was $0.44 for the second quarter of 2007, an increase of 7% from the $0.41 for the same period in 2006. Net income per share on a diluted basis was $0.43 for the second quarter of 2007 compared to $0.40 for the second quarter of 2006; an 8% increase. Annualized return on average assets and annualized return on average stockholders equity were 1.80% and 17.90%, respectively, for the second quarter of 2007, compared to 1.76% and 18.02%, respectively, for the same period in 2006.

Net income of $12,001,000 for the six months ended June 30, 2007 increased $813,000, or 7%, from $11,188,000 from the comparable 2006 period. Basic net income per share was $0.84 for the first six months of 2007, an increase of 9% from the $0.77 for the same period in 2006. Net income per share on a diluted basis was $0.82 for the first six months of 2007 compared to $0.76 for the first six months of 2006. This represents an 8% increase. Annualized return on average assets and annualized return on average stockholders equity were 1.72% and 17.26%, respectively, for the first six months of 2007, compared to 1.68% and 17.42%, respectively, for the same period in 2006.

Net Interest Income

The following tables present the average balance sheets for the three and six month periods ended June 30, 2007 and 2006 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.

	Three months ended June 30							
	2007				**2006**			
	Average Balances (Dollars in thousands)	**Interest**	**Average Rate**		**Average Balances**	**Interest**	**Average Rate**	
Earning assets:								
Federal funds sold	$ 11,430	$ 151	5.30	%	$ 11,681	$ 145	4.98	%
Mortgage loans held for sale	4,829	77	6.40	%	3,101	51	6.60	%
Securities:								
Taxable	95,999	1,008	4.21	%	105,251	1,106	4.21	%
Tax-exempt	28,452	393	5.54	%	32,676	461	5.66	%
FHLB stock	3,734	61	6.55	%	3,502	49	5.61	%
Loans, net of unearned income	1,160,064	21,402	7.40	%	1,086,780	19,685	7.27	%
Total earning assets	1,304,508	23,092	7.10	%	1,242,991	21,497	6.94	%
Less allowance for loan losses	12,514				12,230			
	1,291,994				1,230,761			
Non-earning assets:								
Cash and due from banks	32,233				33,851			
Premises and equipment	24,702				25,105			
Accrued interest receivable and other assets	52,091				47,519			
Total assets	$ 1,401,020				$ 1,337,236			

18

	Three months ended June 30 2007 Average Balances (Dollars in thousands)	Interest	Average Rate		2006 Average Balances	Interest	Average Rate	
Interest bearing liabilities:								
Deposits:								
Interest bearing demand deposits	$ 214,763	$ 795	1.48	%	$ 227,926	$ 833	1.47	%
Savings deposits	42,557	53	0.50	%	48,987	77	0.63	%
Money market deposits	203,721	1,919	3.78	%	174,124	1,400	3.22	%
Time deposits	442,529	5,010	4.54	%	423,935	4,184	3.96	%
Securities sold under agreements to repurchase and federal funds purchased	83,901	720	3.44	%	77,334	517	2.68	%
Other short-term borrowings	661	6	3.64	%	815	8	3.94	%
FHLB advances	60,330	732	4.87	%	30,000	309	4.13	%
Long-term debt	90	1	4.46	%	20,739	466	9.01	%
Total interest bearing liabilities	1,048,552	9,236	3.53	%	1,003,860	7,794	3.11	%
Non-interest bearing liabilities:								
Non-interest bearing demand deposits	171,889				173,327			
Accrued interest payable and other liabilities	39,446				29,438			
Total liabilities	1,259,887				1,206,625			
Stockholders equity	141,133				130,611			
Total liabilities and stockholders equity	$ 1,401,020				$ 1,337,236			
Net interest income		$ 13,856				$ 13,703		
Net interest spread			3.57	%			3.83	%
Net interest margin			4.26	%			4.41	%

19

	Six months ended June 30 2007 Average Balances (Dollars in thousands)	Interest	Average Rate		2006 Average Balances	Interest	Average Rate	
Earning assets:								
Federal funds sold	$ 21,862	$ 588	5.42	%	$ 25,320	$ 565	4.50	%
Mortgage loans held for sale	3,885	124	6.44	%	3,441	111	6.51	%
Securities:								
Taxable	99,620	2,156	4.36	%	108,452	2,153	4.00	%
Tax-exempt	28,920	800	5.58	%	33,126	884	5.38	%
FHLB stock	3,673	120	6.59	%	3,434	97	5.70	%
Loans, net of unearned income	1,151,437	42,193	7.39	%	1,075,065	38,250	7.17	%
Total earning assets	1,309,397	45,981	7.08	%	1,248,838	42,060	6.79	%
Less allowance for loan losses	12,498				12,247			
	1,296,899				1,236,591			
Non-earning assets:								
Cash and due from banks	33,977				33,838			
Premises and equipment	24,811				25,129			
Accrued interest receivable and other assets	48,223				46,953			
Total assets	$ 1,403,910				$ 1,342,511			

20

	Six months ended June 30 2007 Average Balances (Dollars in thousands)	Interest	Average Rate	2006 Average Balances	Interest	Average Rate
Interest bearing liabilities:						
Deposits:						
Interest bearing demand deposits	$ 214,187	$ 1,563	1.47 %	$ 228,842	$ 1,590	1.40 %
Savings deposits	42,252	103	0.49 %	47,920	149	0.63 %
Money market deposits	206,504	3,894	3.80 %	179,911	2,780	3.12 %
Time deposits	453,237	10,125	4.50 %	420,508	8,046	3.86 %
Securities sold under agreements to repurchase and federal funds purchased	81,151	1,352	3.36 %	78,120	986	2.55 %
Other short-term borrowings	634	6	1.91 %	934	18	3.89 %
FHLB advances	58,121	1,382	4.80 %	33,204	647	3.93 %
Long-term debt	97	3	6.24 %	20,740	932	9.06 %
Total interest bearing liabilities	1,056,183	18,428	3.52 %	1,010,179	15,148	3.02 %
Non-interest bearing liabilities:						
Non-interest bearing demand deposits	170,309			173,011		
Accrued interest payable and other liabilities	37,166			29,830		
Total liabilities	1,263,658			1,213,020		
Stockholders equity	140,252			129,491		
Total liabilities and stockholders equity	$ 1,403,910			$ 1,342,511		
Net interest income		$ 27,553			$ 26,912	
Net interest spread			3.56 %			3.77 %
Net interest margin			4.24 %			4.34 %

21

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 $277,000 and $253,000, respectively, for the three month periods ended June 30, 2007 and 2006 and $560,000 and $489,000, respectively, for the six month periods end June 30, 2007 and 2006.

Fully taxable equivalent net interest income of $13,856,000 for the three months ended June 30, 2007 increased $153,000, or 1.1%, from $13,703,000 when compared to the same period last year. Net interest spread and net interest margin were 3.57% and 4.26%, respectively, for the second quarter of 2007 and 3.83% and 4.41%, respectively, for the second quarter of 2006.

Fully taxable equivalent net interest income of $27,553,000 for the six months ended June 30, 2007 increased $641,000, or 2.4%, from the same period last year. Net interest spread and net interest margin were 3.56% and 4.24%, respectively, for the first six months of 2007 and 3.77% and 4.34%, respectively, for the first six months of 2006.

While the Company believes it remains well positioned for the current interest rate environment, with its loan portfolio being split between approximately 60% fixed and 40% variable rates, it expects ongoing pressure on net interest margin. Assuming a fairly neutral rate environment for the remainder of 2007, the Company expects its margin to continue slight contraction primarily based on rate competition on loans and deposits.

Average earning assets increased $60,559,000, or 4.8%, to $1,309,397,000 for the first six months of 2007 compared to 2006, primarily reflecting growth in the loan portfolio. Average interest bearing liabilities increased $46,004,000, or 4.6%, to $1,056,183,000 for the first six months of 2007 compared to 2006 primarily due to increases in time and money market deposits as well as FHLB advances.

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.

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, in a one year forecast. 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, 2007 simulation analysis indicates that an increase in interest rates would have a positive effect on net interest income, and a decrease in interest rates would have a negative effect on net interest income. These estimates are summarized below.

Interest Rate Simulation Sensitivity Analysis

	Net interest income change	
Increase 200bp	7.24	%
Increase 100bp	3.61	
Decrease 100bp	(3.58	)
Decrease 200bp	(7.14	)

23

Provision for Loan Losses

The allowance for loan losses is based on management s continuing review and risk evaluation of individual loans, loss experience, current economic conditions, risk characteristics of the various categories of loans, and such other factors that, in management s judgment, require current recognition in estimating loan losses.

Management has established loan grading procedures which result in specific allowance allocations for any estimated inherent risk of loss. For loans not individually graded, 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.

An analysis of the changes in the allowance for loan losses and selected ratios for the three and six month periods ended June 30, 2007 and 2006 follows:

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
	(Dollars in thousands)			
Balance at the beginning of the period	$ 12,183	$ 12,065	$ 12,203	$ 12,035
Provision for loan losses	460	600	1,240	950
Loan charge-offs, net of recoveries	(578)	(273)	(1,378)	(593)
Balance at the end of the period	$ 12,065	$ 12,392	$ 12,065	$ 12,392
Average loans, net of unearned income	$ 1,160,064	$ 1,086,780	$ 1,151,437	$ 1,075,065
Provision for loan losses to average loans (1)	0.04 %	0.06 %	0.11 %	0.09 %
Net loan charge-offs to average loans (1)	0.05 %	0.03 %	0.12 %	0.06 %
Allowance for loan losses to average loans	1.04 %	1.14 %	1.05 %	1.15 %
Allowance for loan losses to period-end loans	1.04 %	1.14 %	1.04 %	1.14 %
Allowance to nonperforming loans	252.99 %	170.81 %	252.99 %	170.81 %

(1) Amounts not annualized

The provision for loan losses increased $290,000 during the first six months of 2007 as compared to 2006. The provision for loan losses for the period is calculated after considering credit quality factors, and ultimately relies on an overall internal analysis of the risk in the loan portfolio. 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, 2007. Among factors considered in determining the provision for allowance for loan losses are net charge-offs and non-performing loans. Net charge-offs increased $785,000 for the first six months of 2007 compared to the same period in 2006 reflecting a charge-off of a single loan totaling $800,000 in the first quarter 2007.

Please refer to the Non-performing Loans and Assets section of this report for further information regarding asset quality.

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, 2007 and 2006.

	Three months ended June 30 2007 (In thousands)	2006	Six months ended June 30 2007	2006
Non-interest income:				
Investment management and trust services	$ 3,336	$ 2,931	$ 6,533	$ 5,718
Service charges on deposit accounts	2,204	2,279	4,222	4,408
Bankcard transaction revenue	590	517	1,132	986
Gains on sales of mortgage loans held for sale	391	302	647	607
Gains on sales of available for sale securities				
Brokerage commissions and fees	452	574	945	1,099
Other	751	626	1,401	1,324
Total non-interest income	$ 7,724	$ 7,229	$ 14,880	$ 14,142
Non-interest expenses:				
Salaries and employee benefits	$ 6,632	$ 6,492	$ 13,239	$ 13,444
Net occupancy expense	930	847	1,820	1,709
Data processing expense	1,051	899	2,066	1,890
Furniture and equipment expense	290	298	582	603
State bank taxes	311	261	489	644
Other	2,270	2,481	4,662	4,766
Total non-interest expenses	$ 11,484	$ 11,278	$ 22,858	$ 23,056

Total non-interest income increased $495,000, or 6.8%, for the second quarter of 2007, and $738,000, or 5.2%, for the first six months of 2007 compared to the same periods in 2006.

Investment management and trust services income increased $405,000, or 13.8%, in the second quarter of 2007, as compared to the same period in 2006. For the first six months of 2007, investment management and trust services income increased $815,000, or 14.3%, compared to 2006. Trust assets under management at June 30, 2007 were $1.67 billion, compared to $1.58 billion at December 31, 2006 and $1.46 billion at June 30, 2006. Trust assets are expressed in terms of market value. In addition to adding new accounts, total assets under management are affected directly by the performance of the equity and bond markets. For the six months ended June 30, 2007, growth in trust assets was attributable to approximately 60% to net new business and approximately 40% to market appreciation.

Service charges on deposit accounts decreased $75,000, or 3.3%, in the second quarter of 2007 and decreased $186,000, or 4.2%, for the first six months of 2007 as compared to the same periods in 2006. Service charge income is driven by transaction volume, which can fluctuate throughout the year.

Bankcard transaction revenue increased $73,000, or 14.1%, in the second quarter of 2007 and $146,000, or 14.8%, for the first six months of 2007 as compared to the same periods in 2006. Results in 2007 compared favorably to 2006 as transaction volume increased.

The Bank operates a mortgage banking division, which originates residential mortgage loans and sells the majority of these loans in the secondary market. Gains on sales of mortgage loans were $391,000 in the second quarter of 2007 and $302,000 in 2006. This represents an increase of 29.5%. For the six months ended June 30, 2007 gains on the sale of mortgage loans increased 6.6% to $647,000 from $607,000 in 2006. This year-to-date increase was partially due to more favorable pricing conditions.

Brokerage commissions and fees decreased $122,000, or 21.3%, in the second quarter of 2007 and decreased $154,000, or 14.0%, for the first six months of 2007 as compared to the same periods in 2006. The decreases corresponded to lower overall brokerage volume and one fewer broker compared to the prior period. Subsequent to June 30, 2007, the Company hired two new brokers and expects transaction volume to increase for the remainder of the year.

Other non-interest income increased $125,000, or 20.0%, in the second quarter of 2007 and $77,000, or 5.8%, for the first six months of 2007 as compared to 2006. The increase on other non-interest income is related to a variety of factors none of which are individually significant.

Total non-interest expenses increased $206,000, or 1.8%, for the second quarter of 2007. Total non-interest expenses decreased $198,000, or 0.9% for the first six months of 2007 compared to the same period in 2006 as the first quarter of 2007 compared to 2006 decreased $404,000.

Salaries and employee benefits increased $140,000, or 2.2%, for the second quarter of 2007 and decreased $205,000, or 1.5%, for the first six months of 2007 compared to the same periods of 2006. The increase for the second quarter reflected higher salaries and employee benefits, due in part to the addition of staff. For the year-to-date period of 2007, salaries and employee benefits were less than those of 2006 mainly due to lower health insurance expense, reduced stock compensation expense and deferral of salary expense related to loan originations. The Bank had 445 full time equivalent employees as of June 30, 2007 and 429 full time equivalents as of June 30, 2006.

Net occupancy expense increased $83,000, or 9.8%, in the second quarter of 2007 and $111,000, or 6.5%, for the first six months of 2007 as compared to 2006. Data processing expense increased $152,000, or 16.9%, for the second quarter of 2007 and $176,000, or 9.3%, for the first six months of 2007 compared to 2006. Furniture and equipment expense decreased $8,000, or 2.7%, for the second quarter of 2007 and $21,000, or 3.5% for the first six months of 2007 compared to 2006. These fluctuations relate to a variety of factors, none of which is individually significant.

State bank taxes increased $50,000, or 19.2%, for the second quarter of 2007 and decreased $155,000, or 24.1%, for the first six months of 2007 compared to 2006. These bank taxes are based on capital levels and increase as capital levels increase. The increase in the second quarter of 2007 as compared to 2006 was due to $66,000 refund received in the second quarter of 2006 and to a higher amount of tax credits in 2006. Bancorp purchased Commonwealth of Kentucky historic tax preservation credits at a discount to help reduce state bank tax in 2007 and 2006. The year-to-date 2007 state bank tax expense was reduced by $191,000 as a result of these credits.

Other non-interest expenses decreased $211,000, or 8.5% in the second quarter of 2007 and $104,000, or 2.2%, for the first six months of 2007 as compared to 2006. The increase in other non-interest expenses is related to a variety of factors none of which is individually significant.

Income Taxes

In the second quarter of 2007, Bancorp recorded income tax expense of $3,062,000, compared to $2,933,000 for the same period in 2006. The effective rate for the three month period was 32.7% in 2007 and 33.3% in 2006. The effective rate for the second quarter of 2006 was impacted by a change made in recording the TEFRA penalty. Bancorp recorded income tax expense of $5,774,000 for the first six months of 2007, compared to $5,371,000 for the same period in 2006. The effective rate for the six month period was 32.5% in 2007 and 32.4% in 2006. The year-to-date increase in the effective tax rate was primarily due to a decreasing proportion of municipal tax-exempt income and an increase in state income taxes due to growing operations in Indiana.

Commitments to Extend Credit

The Company utilizes a variety of financial instruments in the normal course of business to meet the financial needs of its customers and to manage its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. A discussion of the Company s commitments is included in Note 6.

Items discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2006, have not materially changed since that report was filed, relative to qualitative and quantitative disclosures of fixed and determinable contractual obligations.

In addition, the Company adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not have a material effect on the contractual obligations table presented in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

b) Financial Condition

Balance Sheet

Total assets decreased $1,022,000, or 0.1%, from $1.426 billion on December 31, 2006 to $1.425 billion on June 30, 2007. The most significant component of the decrease in total assets was a decrease in available for sale securities of $17,950,000, or 12.3%, which was partially offset by an increase in loans of $13,952,000, or 1.2%, in loans. Total assets at June 30, 2007 increased $85,198,000 from June 30, 2006, representing a 0.1% increase. Average assets for the first six months of 2007 were $1.404 billion.

Total liabilities decreased $5,466,000, or 0.4%, from $1.289 billion on December 31, 2006 to $1.283 billion on June 30, 2007. The most significant component of the decrease was a decrease in time deposits of $21,972,000, or 4.7%, during this period primarily as the result competitive pressures. This decrease was somewhat offset by an increase in money market accounts and a $20 million FHLB advance. Total liabilities at June 30, 2007 increased $73,120,000 from June 30, 2006, representing a 6.0% increase. Average liabilities for the first six months of 2007 were $1.264 billion.

Non-performing Loans and Assets

Non-performing loans, which include non-accrual loans of $4,055,000 and loans past due over 90 days and still accruing of $714,000, totaled $4,769,000 at June 30, 2007. Non-performing loans were $6,753,000 at December 31, 2006 including $853,000 of loans past due over 90 days and still accruing. This represents 0.41% of total loans at June 30, 2007 compared to 0.59% at December 31, 2006. This decrease was partially the result of charging off one loan of $800,000 in 2007 that was included in the December 2006 total. Total non-performing loans as of June 30, 2007 decreased $368,000 from the March 31, 2007 level of $5,137,000 or 0.45% of total loans. 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.

Non-performing assets, which include non-performing loans, other real estate and repossessed assets, totaled $7,549,000 at June 30, 2007 and $9,219,000 at December 31, 2006. This represents 0.53% of total assets at June 30, 2007 compared to 0.65% at December 31, 2006.

c) Liquidity

The role of liquidity is to ensure that funds are available to meet depositors withdrawal and borrowers credit demands. This is accomplished by balancing changes in demand for funds with changes in the supply of those funds. Liquidity to meet demand is provided by maturing assets, short-term liquid assets that can be converted to cash, and the ability to attract funds from external sources, principally deposits. Management believes it has the ability to increase deposits at any time by offering rates slightly higher than the market rate.

The Bank has a number of sources of funds to meet its liquidity needs on a daily basis. The deposit base, consisting of relatively stable consumer and commercial deposits, and large denomination ($100,000 and over) certificates of deposit, is a source of funds. The majority of these deposits is from long-term customers and is a stable source of funds. The Bank has no brokered deposits.

Other sources of funds available to meet daily needs include the sale of securities under agreements to repurchase and funds made available under a treasury tax and loan note agreement with the federal government. Also, the Bank is a member of the Federal Home Loan Bank of Cincinnati (FHLB). As a member, the Bank has access to credit products of the FHLB. As of June 30, 2007, the Bank s additional borrowing capacity with the FHLB was approximately $7 million. Additionally, the Bank has an available line of credit and federal funds purchased lines with correspondent banks totaling $58 million.

Bancorp s liquidity depends primarily on the dividends paid to it as the sole shareholder of the Bank. At June 30, 2007, the Bank may pay up to $8,080,000 in dividends to Bancorp without regulatory approval subject to the ongoing capital requirements of the Bank. During the first six months of 2007, the Bank paid dividends to Bancorp totaling $4,450,000.

d) Capital Resources

At June 30, 2007, stockholders equity totaled $141,888,000, an increase of $4,444,000 since December 31, 2006. See the Consolidated Statement of Changes in Stockholders Equity for further detail of the change in equity since the end of 2006. Accumulated other comprehensive loss which, for Bancorp, consists of net unrealized losses on securities available for sale and a minimum pension liability adjustment, net of taxes, totaled $1,152,000 at June 30, 2007 and $1,013,000 at December 31, 2006. 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 as indicated by updated actuarial data.

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, Bancorp and the Bank must maintain a total risk-based capital ratio of at least 10%; a Tier 1 ratio of at least 6%; and a leverage ratio of at least 5%.

The following table sets forth Bancorp s risk based capital amounts and ratios as of June 30:

	June 30 2007 Amount	Ratio		2006 Amount	Ratio	
Total risk-based capital	$ 154,513	11.62	%	163,721	13.54	%
For capital adequacy purposes	106,389	8.00		96,740	8.00	
To be well capitalized	132,986	10.00		120,924	10.00	
Tier 1 risk-based capital	$ 142,358	10.70	%	151,209	12.50	%
For capital adequacy purposes	53,194	4.00		48,370	4.00	
To be well capitalized	79,792	6.00		72,555	6.00	
Leverage ratio (Tier 1 capital)	$ 142,358	10.17	%	151,209	11.30	%
For capital adequacy purposes	42,012	3.00		40,146	3.00	
To be well capitalized	70,020	5.00		66,911	5.00	

On June 1, 2001, S.Y. Bancorp Capital Trust I, a Delaware statutory business trust and 100%-owned finance subsidiary of Bancorp, issued $20.0 million of 9.00% Cumulative Trust Preferred Securities (Securities). The principal asset of the Trust I was a $20.0 million subordinated debenture of Bancorp, and Bancorp owned all of the common securities of the Trust. The Securities were included in Tier 1 capital for regulatory capital adequacy determination purposes, subject to certain limitations. On July 1, 2006, Bancorp redeemed these securities at par value; therefore reducing Tier I capital comparing June 30, 2007 to the prior period.

e) Recently Issued Accounting Pronouncements

In September 2006, the FASB issued FASB Statement No. 157, Fair Value Measurements . This statement is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by Generally Accepted Accounting Principals (GAAP); it does not create or modify any current GAAP requirements to apply fair value accounting. The Standard provides a single definition for fair value that is to be applied consistently for all accounting applications, and also generally describes and prioritizes according to reliability the methods and inputs used in valuations. FASB Statement No. 157 prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in GAAP. The new measurement and disclosure requirements of FASB Statement No. 157 are effective for Bancorp in the first quarter 2008. The adoption of FASB Statement No. 157 is not expected to have a material impact on Bancorp s consolidated financial statements.

In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 . This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reporting earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of the company s choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The new Statement does not eliminate disclosure requirements included in other accounting standards, including requirements for disclosure about fair value measurements included in FASB Statements No. 157, Fair Value Measurements and No. 107, Disclosures about Fair Value of Financial Instruments . This Statement is effective for fiscal years beginning after November 15, 2007. The adoption of FASB No. 159 is not expected to have a material impact on Bancorp s consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Item 4. Controls and Procedures

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

Based on the evaluation of Bancorp s disclosure controls and procedures by the Chief Executive and Chief Financial Officers, there were no significant changes during the quarter ended June 30, 2007 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, 2007.

	Total number of Shares Purchased	Average price Paid Per Share	Total number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan
April 1 - April 30	22,200	$ 24.71	22,200	105,713
May 1 - May 31	88,100	24.50	88,100	17,613
June 1 - June 30				17,613
Total	110,300	$ 24.54	110,300	17,613

The Board of Directors of S.Y. Bancorp Inc. first approved a share buyback plan in 1999. In February 2005, the Directors of Bancorp expanded this plan to allow for the repurchase of up to 577,500 shares. At June 30, 2007, approximately 17,500 of those shares remain. In July 2007, the Directors expanded this plan by 550,000 additional shares. Accordingly, the Company has the ability to repurchase approximately 567,500 shares.

Item 4. Submission of Matters to a Vote of Security Holders

On April 25, 2007, at the Annual Meeting of Shareholders of S.Y. Bancorp, Inc., the following matters were submitted to a vote of shareholders. Represented in person or by proxy were 12,553,909 shares, and those shares were voted as follows:

(1) Fixing the number of directors at twelve:

For	12,373,992
Against	161,870
Abstain	17,831

(2) Election of Directors: Bancorp has a staggered Board of Directors. The following individuals were nominated in 2007. All nominees were elected. The results were as follows:

	For	Votes Withheld
David H. Brooks	12,407,402	146,265
Nicholas X. Simon	12,465,989	85,893
Kathy C. Thompson	12,368,426	183,279

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

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 8, 2007	By:	/s/ David P. Heintzman David P. Heintzman, Chairman, President & Chief Executive Officer
Date: August 8, 2007	By:	/s/ Nancy B. Davis Nancy B. Davis, Executive Vice President, Treasurer and Chief Financial Officer