Stock Yards Bancorp, Inc.
Form 10-Q
November 02, 2018

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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 September 30, 2018

OR

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

For the transition period from _____________ to _______________.

Commission file number ___1-13661___

STOCK YARDS BANCORP, INC.

(Exact name of registrant as specified in its charter)

Kentucky	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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	**Accelerated filer**
Non-accelerated filer	**Smaller reporting company**
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 October 26, 2018 was 22,745,294.

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Stock Yards Bancorp, inc. and subsidiary

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PART I – FINANCIAL INFORMATION

Glossary of Acronyms and Terms

The following listing provides a comprehensive reference of common acronyms and terms used throughout the document:

ASU	Accounting Standards Update
Bancorp	Stock Yards Bancorp, Inc.
Bank	Stock Yards Bank & Trust Company
BOLI	Bank Owned Life Insurance
BP	Basis Point = 1/100th of one percent
COSO	Committee of Sponsoring Organizations
CRA	Community Reinvestment Act of 1977
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EPS	Earnings Per Share
FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association
GNMA	Government National Mortgage Association
LIBOR	London Interbank Offered Rate
MSR	Mortgage Servicing Right
OAEM	Other Assets Especially Mentioned
OREO	Other Real Estate Owned
PSU	Performance Stock Unit
RSU	Restricted Stock Unit
SAR	Stock Appreciation Right
SEC	Securities and Exchange Commission
TDR	Troubled Debt Restructuring

US GAAP	United States Generally Accepted Accounting Principles
VA	U.S. Department of Veterans Affairs
WM&T	Wealth Management and Trust

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Item 1. Financial Statements

STOCK YARDS BANCORP, INC. AND SUBSIDIARY
Consolidated Balance Sheets
September 30, 2018 (unaudited) and December 31, 2017
(In thousands, except share data)

	September 30, 2018	December 31, 2017
Assets		
Cash and due from banks	$66,029	$41,982
Federal funds sold and interest bearing due from banks	54,451	97,266
Cash and cash equivalents	120,480	139,248
Mortgage loans held-for-sale	2,533	2,964
Securities available-for-sale (amortized cost of $561,365 in 2018 and $577,406 in 2017)	550,091	574,524
Federal Home Loan Bank stock	10,370	7,646
Loans	2,534,483	2,409,570
Less allowance for loan losses	25,222	24,885
Net loans	2,509,261	2,384,685
Premises and equipment, net	43,621	41,655
Bank owned life insurance	32,613	32,049
Accrued interest receivable	8,943	8,369
Other assets	46,885	48,506
Total assets	$3,324,797	$3,239,646
Liabilities and Stockholders' Equity		
Deposits:		
Non-interest bearing	$705,386	$674,697
Interest bearing	1,892,652	1,903,598
Total deposits	2,598,038	2,578,295
Securities sold under agreements to repurchase	53,883	70,473
Federal funds purchased and other short-term borrowings	231,344	161,352
Federal Home Loan Bank advances	48,500	49,458
Accrued interest payable	681	232
Other liabilities	39,371	46,192
Total liabilities	2,971,817	2,906,002
Stockholders' equity:		
Preferred stock, no par value. Authorized 1,000,000 shares; no shares issued or outsanding	-	-
Common stock, no par value. Authorized 40,000,000 shares; issued and outstanding 22,745,709 and 22,679,362 shares in 2018 and 2017, respectively	36,678	36,457
Additional paid-in capital	35,598	31,924

Retained earnings	289,340	267,193
Accumulated other comprehensive loss	(8,636)	(1,930)
Total stockholders’ equity	352,980	333,644
Total liabilities and stockholders’ equity	$3,324,797	$3,239,646

See accompanying notes to unaudited consolidated financial statements.

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STOCK YARDS BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Income (Unaudited)
For the three and nine months ended September 30, 2018 and 2017
(In thousands, except per share data)

	For three months ended September 30, 2018	2017	For nine months ended September 30, 2018	2017
Interest income				
Loans	$30,359	$25,410	$86,877	$73,856
Federal funds sold and interest bearing deposits	373	388	804	798
Mortgage loans held for sale	42	48	121	145
Securities				
Taxable	2,055	2,003	6,298	6,173
Tax-exempt	192	271	669	829
Total Interest income	33,021	28,120	94,769	81,801
Interest expense				
Deposits	3,972	1,593	8,723	4,237
Securities sold under agreements to repurchase and other short-term borrowings	300	110	850	225
Long term debt	228	244	692	715
Total interest expense	4,500	1,947	10,265	5,177
Net interest income	28,521	26,173	84,504	76,624
Provision for loan losses	735	150	2,705	1,650
Net interest income after provision for loan losses	27,786	26,023	81,799	74,974
Non-interest income				
Wealth management and trust services	5,380	5,025	16,224	15,272
Deposit service charges	1,482	1,568	4,340	4,583
Debit and credit cards	1,759	1,492	4,956	4,412
Treasury management	1,151	1,083	3,311	3,187
Mortgage banking	712	781	2,034	2,380
Gain on call of securities	-	31	-	31

Net investment product sales commissions and fees	444	404	1,245	1,147
Bank owned life insurance	186	204	564	964
Other	312	357	1,096	1,116
Total non-interest income	11,426	10,945	33,770	33,092
Non-interest expenses				
Compensation	11,607	10,614	34,280	31,849
Employee benefits	2,501	2,368	7,646	7,392
Net occupancy and equipment	1,914	1,937	5,543	5,626
Technology and communication	2,183	1,905	6,643	5,873
Marketing and business development	740	611	2,191	1,743
Postage, printing and supplies	370	355	1,161	1,108
Legal and professional	501	571	1,498	1,642
FDIC insurance	238	242	718	716
Amortization/impairment of investments in tax credit partnerships	-	616	58	1,847
Capital and deposit based taxes	738	732	2,452	2,262
Other	989	1,217	2,754	3,314
Total non-interest expense	21,781	21,168	64,944	63,372
Income before income taxes	17,431	15,800	50,625	44,694
Income tax expense	3,555	4,096	9,766	11,597
Net income	$13,876	$11,704	$40,859	$33,097
Net income per share				
Basic	$0.61	$0.52	$1.81	$1.47
Diluted	$0.60	$0.51	$1.78	$1.44
Average common shares				
Basic	22,636	22,542	22,613	22,524
Diluted	22,968	22,964	22,956	22,984

See accompanying notes to unaudited consolidated financial statements.

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STOCK YARDS BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income (Unaudited)
For the three and nine months ended September 30, 2018 and 2017
(In thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income	$13,876	$11,704	$40,859	$33,097
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on securities available-for-sale:				
Unrealized (losses) gains arising during the period , net of tax of ($436), $29, ($1,763), and $512, respectively	(1,632)	56	(6,629)	950
Reclassification adjustment for securities gains realized in income (net of tax of $0, $(11), $0, and $(11), respectively)	-	(20)	-	(20)
Unrealized losses on hedging instruments:				
Unrealized gains arising during the period, net of tax of $11, $23, $114, and $21, respectively	40	43	429	38
Other comprehensive income (loss), net of tax	(1,592)	79	(6,200)	968
Comprehensive income	$12,284	$11,783	$34,659	$34,065

See accompanying notes to unaudited consolidated financial statements.

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STOCK YARDS BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Stockholders' Equity (Unaudited)
For the nine months ended September 30, 2018 and 2017
(In thousands, except per share data)

	Common stock		**Additional**		**Accumulated other**	
	Number of shares	**Amount**	**paid-in capital**	**Retained earnings**	**comprehensive (loss)**	**Total**
Balance December 31, 2016	22,617	$ 36,250	$ 26,682	$ 252,439	$ (1,499)	$ 313,872
Net income	-	-	-	33,097	-	33,097
Other comprehensive income, net of tax	-	-	-	-	968	968
Stock compensation expense	-	-	2,012	-	-	2,012
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	59	198	2,142	(4,669)	-	(2,329)
Cash dividends, $0.59 per share	-	-	-	(13,365)	-	(13,365)
Shares cancelled	(7)	(24)	(155)	179	-	-
Balance September 30, 2017	22,669	$ 36,424	$ 30,681	$ 267,681	$ (531)	$ 334,255
Balance December 31, 2017	22,679	$ 36,457	$ 31,924	$ 267,193	$ (1,930)	$ 333,644
Net income	-	-	-	40,859	-	40,859
Other comprehensive loss, net of tax	-	-	-	-	(6,200)	(6,200)

Reclassification adjustment under Accounting Standard Update 2018-02				506	(506)	-
Stock compensation expense	-	-	2,923	-	-	2,923
Stock issued for share-based awards, net of withholdings to satisfy employee tax obligations upon award	71	236	879	(3,224)	-	(2,109)
Cash dividends, $0.71 per share	-	-	-	(16,137)	-	(16,137)
Shares cancelled	(4)	(15)	(128)	143	-	-
Balance September 30, 2018	22,746	$36,678	$ 35,598	$289,340	$ (8,636)	$352,980

See accompanying notes to unaudited consolidated financial statements.

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STOCK YARDS BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows (Unaudited)
For the nine months ended September 30, 2018 and 2017
(In thousands)

	2018	2017
Operating activities:		
Net income	$40,859	$33,097
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,705	1,650
Depreciation, amortization and accretion, net	3,956	6,848
Deferred income tax credit	(490)	(1,811)
Gain on call of securities available for sale	-	(31)
Gain on sales of mortgage loans held for sale	(1,182)	(1,453)
Origination of mortgage loans held for sale	(58,963)	(74,857)
Proceeds from sale of mortgage loans held for sale	60,576	74,064
Bank owned life insurance income	(564)	(964)
Loss on the disposal of premises and equipment	8	-
Gain on the sale of foreclosed assets	(109)	(39)
Stock compensation expense	2,923	2,012
Excess tax benefits from stock-based compensation arrangements	(527)	(1,353)
Decrease (increase) in accrued interest receivable and other assets	2,395	(5,651)
(Decrease) Increase in accrued interest payable and other liabilities	(5,878)	18,062
Net cash provided by operating activities	45,709	49,574
Investing activities:		
Purchases of securities available-for-sale	(599,830)	(422,190)
Proceeds from maturities of securities available for sale	614,926	420,179
Purchase of Federal Home Loan Bank stock	(2,724)	(1,319)
Net increase in loans	(128,996)	(30,454)
Purchases of premises and equipment	(4,917)	(1,733)
Proceeds from disposal of premises and equipment	230	-
Proceeds from mortality benefit of bank owned life insurance	-	970
Proceeds from sale of foreclosed assets	2,860	2,432
Net cash used in investing activities	(118,451)	(32,115)
Financing activities:		
Net increase (decrease) in deposits	19,743	(38,582)

Net increase in securities sold under agreements to repurchase and federal funds purchased	53,402	118,855
Proceeds from Federal Home Loan Bank advances	90,000	90,000
Repayments of Federal Home Loan Bank advances	(90,958)	(90,965)
Repurchase common stock for performing stock units	(154)	(216)
Common stock repurchases of restricted shares surrendered for taxes	(1,955)	(2,113)
Cash dividends paid	(16,104)	(13,333)
Net cash provided by financing activities	53,974	63,646
Net (decrease) increase in cash and cash equivalents	(18,768)	81,105
Cash and cash equivalents at beginning of period	139,248	47,973
Cash and cash equivalents at end of period	$120,480	$129,078
Supplemental cash flow information:		
Income tax payments	$5,512	$11,063
Cash paid for interest	9,816	5,109
Supplemental non-cash activity:		
Transfers from loans to foreclosed assets	$1,715	$-

See accompanying notes to unaudited consolidated financial statements.

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Stock Yards Bancorp, inc. and subsidiary

Notes to Consolidated Financial Statements (Unaudited)

(1) Summary of Significant Accounting Policies

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

The unaudited consolidated financial statements include the accounts of Stock Yards Bancorp, Inc. and its wholly-owned subsidiary, Stock Yards Bank & Trust Company ("Bank"). Significant inter-company transactions and accounts have been eliminated in consolidation. In preparing the unaudited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of related revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of available-for-sale securities, other real estate owned and income tax assets, and estimated liabilities and expense.

A description of other significant accounting policies is presented in the notes to Consolidated Financial Statements for the year ended December 31, 2017 included in Stock Yards Bancorp, Inc.'s Annual Report on Form 10-K. Certain reclassifications have been made in the prior year financial statements to conform to current year classifications.

Interim results for the nine month period ended September 30, 2018 are not necessarily indicative of the results for the entire year.

Critical Accounting Policies

The allowance for loan losses is management’s estimate of probable losses inherent in the loan portfolio as of the balance sheet date. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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. The provision for loan losses reflects an allowance methodology driven by risk ratings, historical losses, specific loan loss allocations, and qualitative factors. 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. Consistent with Bancorp’s methodology, in the first quarter of 2018, Bancorp extended the historical period used to capture Bancorp’s historical loss ratios from 28 quarters to 32 quarters in order to capture the effects of a full economic cycle. This extension of the historical period was applied to all classes and segments of our portfolio. Management believes the extension of the look-back period more accurately represents the current level of risk inherent in the loan portfolio.

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Stock Yards Bancorp, inc. and subsidiary

By extending the look-back period to 32 quarters to capture historical loss data for a full economic cycle, the allowance level increased approximately $1.3 million compared with a 28 quarter look-back period as of March 31, 2018. The change in look-back period was consistent with management's judgment regarding the risk in the loan portfolio and consistent with internal analysis showing continued strong asset quality related not only in the Company's loan portfolio, but the Bank's peer group as well, validating the continuation of the current economic cycle and thus the reasoning to extend the look-back period. Management will continue to evaluate the appropriateness of the look-back period based on the status of the economic cycle. To the extent that management's assumptions prove incorrect, 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. The impact and any associated risks related to this policy on Bancorp's business operations are discussed in the "Allowance for Loan Losses" section below.

Bancorp's allowance calculation includes allocations to loan portfolio segments at September 30, 2018 for qualitative factors including, among other factors, local economic and business conditions in each of our primary markets, quality and experience of lending staff and management, exceptions to lending policies, levels of and trends in past due loans and loan classifications, concentrations of credit such as collateral type, trends in portfolio growth, trends in value of underlying collateral for collateral-dependent loans, effect of other external factors such as the national economic and business trends, quality and depth of the loan review function, and management's judgement of current trends and potential risks. Bancorp utilizes the sum of all allowance amounts derived as described above as the appropriate level of allowance for loan and lease losses. Changes in criteria used in this evaluation or availability of new information could cause the allowance to be increased or decreased in future periods. In addition, bank regulatory agencies, as part of their examination process, may require adjustments to the allowance for loan and lease losses based on their judgments and estimates.

(2) Securities

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

(In thousands) **September 30, 2018**	**Amortized cost**	**Unrealized Gains**	**Losses**	**Fair value**
Government sponsored enterprise obligations	$ 388,488	$-	$(5,366)	$383,122
Mortgage-backed securities - government agencies	141,239	95	(5,813)	135,521
Obligations of states and political subdivisions	31,638	116	(306)	31,448
Total securities available for sale	$ 561,365	$211	$(11,485)	$550,091

December 31, 2017				
U.S. Treasury and other U.S. Government obligations	$ 149,996	$ -	$ (12)	$ 149,984
Government sponsored enterprise obligations	214,852	474	(1,482)	213,844
Mortgage-backed securities - government agencies	163,571	383	(2,447)	161,507
Obligations of states and political subdivisions	48,987	365	(163)	49,189
Total securities available for sale	$ 577,406	$ 1,222	$ (4,104)	$ 574,524

There were no securities classified as held-to-maturity as of September 30, 2018 or December 31, 2017.

Bancorp sold no securities during the three or nine month periods ending September 30, 2018 or 2017. One security was called prior to maturity in the third quarter of 2017 resulting in the receipt of a pre-payment penalty. The penalty income was classified as a realized gain on the call of available-for-sale securities.

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A summary of the available-for-sale investment securities by contractual maturity groupings as of September 30, 2018 is shown below.

(In thousands) **Securities available-for-sale**	**Amortized cost**	**Fair value**
Due within 1 year	$ 221,032	$ 220,981
Due after 1 but within 5 years	86,055	84,200
Due after 5 but within 10 years	8,077	7,766
Due after 10 years	104,962	101,623
Mortgage-backed securities – government agencies	141,239	135,521
Total securities available-for-sale	$ 561,365	$ 550,091

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 pledges portions of its investment securities portfolio to secure public fund deposits, cash balances of uninsured portions of wealth management and trust accounts, and securities sold under agreements to repurchase. The carrying value of these pledged securities was approximately $309.6 million at September 30, 2018 and $384.7 million at December 31, 2017.

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Stock Yards Bancorp, inc. and subsidiary

Securities with unrealized losses at September 30, 2018 and December 31, 2017, not recognized in the statements of income are as follows:

(In thousands)	Less than 12 months		12 months or more		Total	
September 30, 2018	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Government sponsored enterprise obligations	$298,962	$ (2,264)	$84,036	$ (3,102)	$382,998	$ (5,366)
Mortgage-backed securities - government agencies	39,953	(1,020)	91,256	(4,793)	131,209	(5,813)
Obligations of states and political subdivisions	14,136	(170)	5,580	(136)	19,716	(306)
Total temporarily impaired securities	$353,051	$ (3,454)	$180,872	$ (8,031)	$533,923	$ (11,485)
December 31, 2017						
U.S. Treasury and U.S. obligations	$149,984	$ (12)	$-	$ -	$149,984	$ (12)
Government sponsored enterprise obligations	95,139	(586)	49,870	(896)	145,009	(1,482)
Mortgage-backed securities - government agencies	69,290	(440)	67,047	(2,007)	136,337	(2,447)
Obligations of states and political subdivisions	22,366	(107)	5,064	(56)	27,430	(163)
Total temporarily impaired securities	$336,779	$ (1,145)	$121,981	$ (2,959)	$458,760	$ (4,104)

Applicable dates for determining when securities are in an unrealized loss position are September 30, 2018 and December 31, 2017. As such, it is possible that a security had a market value lower than its amortized cost on other days during the past twelve months, but is not in the “Investments with an Unrealized Loss of less than 12 months” category above.

Unrealized losses on Bancorp’s investment securities portfolio have not been recognized as an expense because the securities are of high credit quality, and the decline in fair values is due to changes in the prevailing interest rate environment since the purchase date. Fair value is expected to recover as securities reach their maturity date and/or the interest rate environment returns to conditions similar to when these securities were purchased. These investments consisted of 131 and 117 separate investment positions as of September 30, 2018 and December 31, 2017, respectively. Because management does not intend to sell the investments, and it is not likely that Bancorp will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, Bancorp does not consider these securities to be other-than-temporarily impaired at September 30, 2018.

FHLB stock is an investment held by Bancorp which is not readily marketable and is carried at cost adjusted for identified impairment. No impairment was indicated as of September 30, 2018. Holdings of Federal Home Loan Bank of Cincinnati (FHLB) stock are required for access to FHLB borrowing.

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Stock Yards Bancorp, inc. and subsidiary

(3) Loans

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

(In thousands)	September 30, 2018	December 31, 2017
Commercial and industrial	$816,252	$779,014
Construction and development, excluding undeveloped land	211,415	195,912
Undeveloped land	21,692	18,988
Real estate mortgage:		
Commercial investment	630,000	594,902
Owner occupied commercial	420,098	398,685
1-4 family residential	274,409	262,110
Home equity - first lien	46,062	57,110
Home equity - junior lien	67,105	63,981
Subtotal: Real estate mortgage	1,437,674	1,376,788
Consumer	47,450	38,868
Total loans	$2,534,483	$2,409,570

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Stock Yards Bancorp, inc. and subsidiary

The following table presents the balance in the recorded investment in loans and allowance for loan losses by portfolio segment and based on impairment evaluation method as of September 30, 2018 and December 31, 2017.

(In thousands)	Type of loan					
September 30, 2018	**Commercial and industrial**	**Construction and development excluding undeveloped land**	**Undeveloped land**	**Real estate mortgage**	**Consumer**	**Total**
Loans	$816,252	$ 211,415	$ 21,692	$1,437,674	$ 47,450	$2,534,483
Loans collectively evaluated for impairment	$815,024	$ 211,035	$ 21,218	$1,434,982	$ 47,450	$2,529,709
Loans individually evaluated for impairment	$1,228	$ 380	$ 474	$2,692	$ -	$4,774
Loans acquired with deteriorated credit quality	$-	$ -	$ -	$-	$ -	$-

	Commercial and industrial	**Construction and development excluding undeveloped land**	**Undeveloped land**	**Real estate mortgage**	**Consumer**	**Total**
Allowance for loan losses	$ 11,101	$ 1,969	$ 582	$ 11,162	$ 408	$25,222
Allowance for loans collectively evaluated for impairment	$ 10,955	$ 1,969	$ 582	$ 11,093	$ 408	$25,007
Allowance for loans individually evaluated for impairment	$ 146	$ -	$ -	$ 69	$ -	$215
	$ -	$ -	$ -	$-	$ -	$-

Allowance for loans acquired with deteriorated credit quality

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Stock Yards Bancorp, inc. and subsidiary

(In thousands)	Type of loan					
December 31, 2017	**Commercial and industrial**	**Construction and development excluding undeveloped land**	**Undeveloped land**	**Real estate mortgage**	**Consumer**	**Total**
Loans	$779,014	$ 195,912	$ 18,988	$1,376,788	$ 38,868	$2,409,570
Loans collectively evaluated for impairment	$777,838	$ 195,248	$ 18,514	$1,371,246	$ 38,868	$2,401,714
Loans individually evaluated for impairment	$1,176	$ 664	$ 474	$5,066	$ -	$7,380
Loans acquired with deteriorated credit quality	$-	$ -	$ -	$476	$ -	$476

	Commercial and industrial	**Construction and development excluding undeveloped land**	**Undeveloped land**	**Real estate mortgage**	**Consumer**	**Total**
Allowance for loan losses	$ 11,276	$ 1,724	$ 521	$ 11,012	$ 352	$24,885
Allowance for loans collectively evaluated for impairment	$ 11,242	$ 1,724	$ 521	$ 10,998	$ 352	$24,837
Allowance for loans individually evaluated for impairment	$ 34	$ -	$ -	$ 14	$ -	$48
Allowance for loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$-

The considerations by Bancorp in computing its allowance for loan losses are determined based on the various risk characteristics of each loan segment. Relevant risk characteristics are as follows:

Commercial and industrial loans: Loans in this category are made to businesses. Generally these loans are secured by assets of the business and repayment is expected from cash flows of the business. A decline in the strength of the business or a weakened economy and resultant decreased consumer and/or business spending may have an effect on the credit quality in this loan category.

Construction and development, excluding undeveloped land: Loans in this category primarily include owner-occupied and investment construction loans and commercial development projects. In most cases, construction loans require only interest to be paid during construction. Upon completion or stabilization, the construction loans generally convert to permanent financing in the real estate mortgage segment, requiring principal amortization. Repayment of development loans is derived from sale of lots or units. Credit risk is affected by construction delays, cost overruns, market conditions and availability of permanent financing, to the extent such permanent financing is not being provided by Bancorp.

Undeveloped land: Loans in this category are secured by land acquired for development by the borrower, but for which no development has yet taken place. Credit risk is primarily dependent upon the financial strength of the borrower, but can also be affected by market conditions and time to sell lots at an adequate price in the future. Credit risk is also affected by availability of permanent financing, including to the end user, to the extent such permanent financing is not being provided by Bancorp.

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Real estate mortgage: Loans in this category are made to and secured by owner-occupied residential real estate, owner-occupied real estate used for business purposes, and income-producing investment properties. For owner occupied residential and owner-occupied commercial real estate, repayment is dependent on financial strength of the borrower. For income-producing investment properties, repayment is dependent on financial strength of tenants, and to a lesser extent the borrowers' financial strength, once the project is stabilized. Underlying properties are generally located in Bancorp's primary market area. Cash flows of income producing investment properties may be adversely impacted by a downturn in the economy as reflected in increased vacancy rates, which in turn, will have an effect on credit quality and property values. Overall health of the economy, including unemployment rates and real estate prices, has an effect on credit quality in this loan category.

Consumer: Loans in this category may be either secured or unsecured and repayment is dependent on credit quality of the individual borrower and, if applicable, adequacy of collateral securing the loan. Therefore, overall health of the economy, including unemployment rates as well as home and securities prices, will have a significant effect on credit quality in this loan category.

The following tables present the activity in the allowance for loan losses for the three and nine month periods ended September 30, 2018, and 2017.

	Three months ended September 30,		**Nine months ended September 30,**	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Beginning balance	$24,873	$25,115	$24,885	$24,007
Loans charged-off				
Commerical and Industrial	(451)	(288)	(2,390)	(770)
Construction and development	-	-	-	-
Raw land	-	-	-	-
Real estate mortgage	(14)	(11)	(14)	(45)
Consumer	(96)	(161)	(332)	(418)
Total loans charged-off	(561)	(460)	(2,736)	(1,233)
Recoveries of loans previously charged-off				
Commerical and Industrial	62	8	74	128
Construction and development	-	-	-	-
Raw land	-	-	-	-
Real estate mortgage	51	34	57	98
Consumer	62	101	237	298

Total loan recoveries	175	143	368	524
Net loans charged-off	(386)	(317)	(2,368)	(709)
Provision (credit) for loan losses				
Commerical and Industrial	(627)	(205)	2,141	1,518
Construction and development	31	119	245	9
Raw land	81	(3)	61	(85)
Real estate mortgage	1,210	183	107	54
Consumer	40	56	151	154
Total provision expense	735	150	2,705	1,650
Ending balance	$25,222	$24,948	$25,222	$24,948

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The following tables present loans individually evaluated for impairment as of September 30, 2018 and December 31, 2017.

(In thousands)	As of September 30, 2018			For the three and nine months ended September 30, 2018	
(In thousands)	Recorded investment	Unpaid principal balance	Related allowance	Three month average recorded investment	Nine month average recorded investment
Loans with no related allowance recorded:					
Commercial and industrial	$ -	$ -	$ -	$ 119	$ 398
Construction and development, excluding undeveloped land	380	550	-	380	524
Undeveloped land	474	506	-	474	474
Real estate mortgage					
Commercial investment	-	-	-	-	13
Owner occupied commercial	759	1,217	-	996	2,190
1-4 family residential	1,507	1,527	-	1,307	1,461
Home equity - first lien	-	-	-	-	-
Home equity - junior lien	115	115	-	60	45
Subtotal: Real estate mortgage	2,381	2,859	-	2,363	3,709
Consumer	-	-	-	-	23
Subtotal	$ 3,235	$ 3,915	$ -	$ 3,336	$ 5,128
Loans with an allowance recorded:					
Commercial and industrial	$ 1,228	$ 2,203	$ 146	$ 1,720	$ 1,853
Construction and development, excluding undeveloped land	-	-	-	-	-
Undeveloped land	-	-	-	-	24
Real estate mortgage					
Commercial investment	-	-	-	-	-
Owner occupied commercial	297	297	55	937	897
1-4 family residential	14	14	14	14	14
Home equity - first lien	-	-	-	-	-
Home equity - junior lien	-				