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Stock Yards Bancorp, Inc.

February 22, 2015

Stock Yards Bank & Trust

Sector: Financial Services

Industry: Regional US Banks

Ticker: SYBT

Price: $32.61 (February 20th)

Recommendation: HOLD

Price Target: $30.74- $35.85

Highlights

Market Profile	
52-Week Price Range	**27.14 - 34.63**
Average Volume (3 mo.)	**24,493**
P/E	**13.82**
Dividend Yield	**2.70%**
Institutional Holdings	**37.19%**
Book Value Per Share	**17.63**
Return on Equity	**13.46%**
Net Interest Margin	**3.67%**
Efficiency Ratio	**61.08%**

Recommendation

Based on the consensus of several valuation methods, we issue a HOLD recommendation for Stock Yards Bancorp, Inc. (SYBT) with a fair value estimate range of $30.74-$35.85. As of February 22nd, SYBT's share price is in our target price range. We are not comfortable issuing a BUY or SELL at this time considering SYBT is appropriately priced, but continued success in firm expansionary projects leaves room for long-term estimate appreciation.

Conservative Business Practices Result in Financial Stability

SYBT has historically operated as a conservative bank. This is demonstrated by the bank's thick capital ratios and 'well capitalized' rating. The strength of SYBT's conservative lending practices were exemplified during the financial crisis as the stock price experienced gains despite a poor performance by the industry as a whole. Loan loss provisions, experienced a bump during the crisis, but remained lower than the levels seen throughout the industry. SYBT's loan loss provision has now stabilized, signaling management's expectations of strong credit performance moving forward.

Market Diversification Raises Concerns

SYBT's Louisville operations account for roughly 90% of deposits and 80% of the loan portfolio. Louisville's relatively unimpressive metropolitan product (GMP) growth rate coupled with SYBT's concentration in the city means the firm must look elsewhere if it plans on achieving competitive earnings growth. SYBT has traditionally advertised itself as a local bank, capitalizing on its headquartered position in Louisville to win over customers. The firm is currently expanding into the Cincinnati and Indianapolis markets to spur growth, but there is a considerable uncertainty regarding the firm's ability to penetrate these new territories. SYBT will have to change its strategy in order to gain market share and continue achieving organic growth.

Credit Unions Provide Customer Switching Competition

SYBT has achieved steady organic growth by taking advantage of the growing distrust of the nation's largest banking institutions. The firm takes pride in its ability to reel in customers who have become disenchanted by larger banks and has been targeting individuals who want to bank locally. However, industry customer switching is only 8.5% per year leading to modest but unimpressive growth for SYBT. Credit unions use a very similar strategy in order to tempt potential customers and have a tax-based advantage which will prove problematic for SYBT's growth moving forward. Credit unions are capable of offering the same local appeal but also generally offer less fees, lower loan rates, and members are boasted as partial owners.

Business Description

Stock Yards Bancorp Incorporated (SYBT) is a bank holding company headquartered in Louisville, Kentucky. It is a publicly traded entity that consolidates the earnings of its fully owned subsidiary Stock Yards Bank & Trust. SYBT was founded in 1904, and originally served the livestock industry in Louisville. Since its founding the bank has drifted away from this industry and now functions primarily as a community bank and small business lender. SYBT relies on relationship-based banking, high customer retention, and non-traditional banking services such as wealth management to drive firm growth.

The company currently operates 28 full service banking locations in the Louisville market, earning the company a 9% market share, and is currently expanding into the Indianapolis and Cincinnati markets. Each of these cities have 3 operating locations earning SYBT less than 1% market share in both markets. SYBT plans to open more in the near future.

SYBT has two key business segments, wealth management and community banking services. The company's personal and commercial banking activities are the main revenue stream, providing 69% of the company's total earnings on the interest rate gap between firm assets and liabilities. The company's assets consist largely of commercial and industrial (C&I) loans, and real estate mortgages. Counterbalancing these loans are a sustainable source of capital, its loyal depositors.

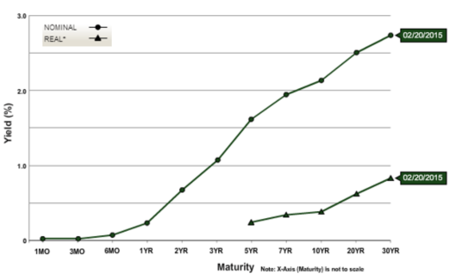
SYBT differentiates itself from other community banks through its Wealth Management Services. Trust and Investment (T&I) services, the keystone of this business segment make up 13.5% of net income and ensure a steady revenue stream from recurring fees. In addition to T&I services SYBT collects non-interest income from transaction revenue, brokerage fees, and deposit account charges such as overdraft fines.

The company's ability to attain 9% market share in Louisville is a testament to its sound financial practices and the long term effectiveness of the firm's relationship-focused banking.

Industry Overview & Competitive Positioning

Financial state of banking following the 2008 recession

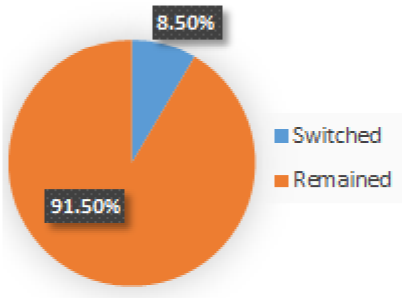
Following the 2008 recession, banks in the U.S. held nearly $410 Billion in non-performing assets & real estate owned properties on their balance sheets by Q1 2010, an all-time high. Five years later national loan loss allowances have been halved, and banks are moving forward with less toxic assets and leaner balance sheets. The decreased loan loss provisions resulting from domestic credit improvements have boosted earnings in the industry over the past 3-4 years, but as provisions return to normal banks must again rely on selling products and growing their services to fuel earnings growth.



Interest Rate Environment & Banking Profitability

Net Interest Income has traditionally been the primary driver of earnings for depository institutions in the United States. Banks make money on the net interest spread between firm deposits and loans. As national interest rates move, the interest rate spread shifts. Changes in interest rates can affect a bank's bottom line depending on the institution's exposure. Rates have been near all-time lows following since the 2008 recession, but forward guidance from Janet Yellen suggests the "normalization of financial policy" is approaching. The Federal Open Market Committee (FOMC) ended its quantitative easing program in late 2014 leading market participants to believe interest rates may finally begin to rise as early as mid-2015; which is demonstrated by the current upward-sloping treasury yield curve.

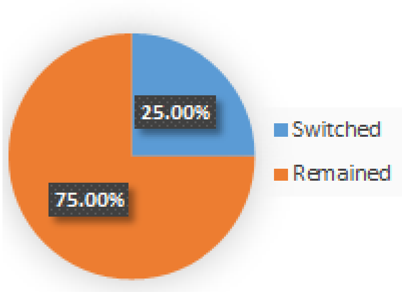
Banking Customer Switching



Minimal Product Differentiation & Customer Switching

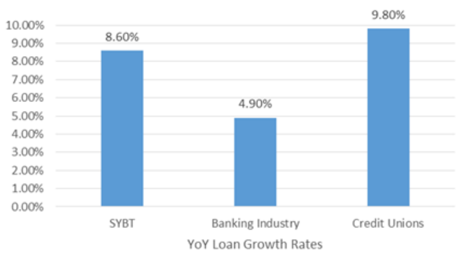
Banks struggle to distinguish themselves from their peers through the traditional means of product differentiation. While most banks differ by fee structure or interest rate offerings, these differences are perceived to be marginal when a customer is weighing the costs and benefits of using a particular bank. While a reported 42% of banking customers feel they are burdened by fees, only roughly 8.5% of customers switch banks each year. In contrast, nearly 25% of telecom customers change providers each year. This "stickiness" is indicative of homogeneity within the industry and as a result we expect most banks to struggle achieving meaningful organic growth through product differentiation.

Telecom Customer Switching



Credit Unions Threaten Community Banking

While larger banks are focusing on convenience factors such as ATM/branch density and mobile application accessibility to satisfy customers; local depository institutions are relying more heavily on reputation, proximity, and relationships to attract and maintain customers. Community banks have traditionally targeted individuals who value local companies or have been disenchanted by larger competitors. SYBT has used this strategy successfully to achieve respectable organic growth in Louisville, but the rise of legally-advantaged credit unions calls into question how viable this approach will be moving forward.



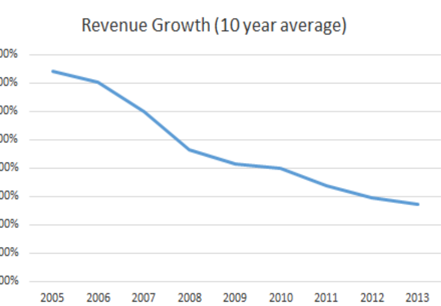
Credit unions are technically not-for-profit entities and thus do not pay income taxes. This has allowed credit unions to offer more competitive rates on loans, leading to a recent 9.8% YoY increase in credit union loan growth. Doubling the 4.9% growth rate exhibited by for-profit banks. Although the cost difference varies by loan type, credit unions have offered nearly half the rate in some instances. In 2014, the average credit union customer paid 2.74% on a 60-month new car loan, while bank customers paid 4.89% for the same type of loan. Credit unions can offer more competitive rates on loans, and charge lower account fees than banks due to their nonprofit status. Credit unions do not pay income taxes and pass on the savings to their customers, who are advertised as partial owners.

Most credit union executives see their members coming from larger banking institutions and not from their peers. While large banks will likely continue holding a competitive advantage over the smaller credit unions, community banks are now dealing with an increasingly popular competitor.

Growth Strategy

SYBT's business attainment strategy requires customer retention failure by larger banks in SYBT's market. The scale of larger banking operations enable these competitors to generate revenue efficiently, but efficiency can result in mismanaged accounts and disgruntled customers. When regional and national banks lose these accounts, SYBT comes in to capitalize.

Relationship-based banking practices establish goodwill and trust with customers and help the company net new business. Relationship-based banking also creates customer loyalty. This is great for further growth in a given market, but customer loyalty does not catalyze growth in new MSAs. To remain growing and, SYBT must implement a growth strategy that will result in more than 28 full service locations in 95 years. As of now management has not described any non-traditional growth strategies for the new markets.

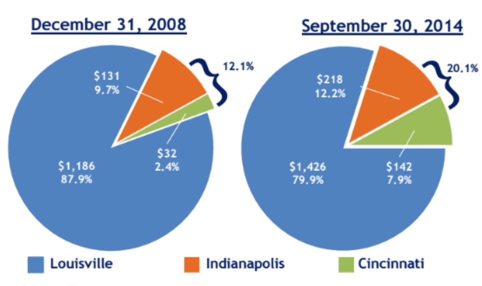


Louisville MSA

SYBT's relationship-orientation growth strategy has been successful in the company's home market, Louisville. Between 2008 and 2014 Louisville's loan portfolio grew by only 3.3% per year, which is concerning given that 80% of SYBT's loan portfolio originated from this MSA. We view the overall growth trends of the Louisville MSA as unfavorable. Louisville is the 48th largest MSA in the U.S. and has been experiencing Gross Metropolitan Product (GMP) growth at a rate less than the national GMP average. Louisville has also seen a decline in entrepreneurship. Since 2000 the MSA has seen an average YOY decline (-2.5%) in new firm creation. This does not bode well for a firm reliant on new loans and highly exposed to the Louisville MSA.

Indianapolis MSA

In 2004 SYBT expanded into Indianapolis and currently has 3 full service locations in the city with plans to open an additional location this year. Annual deposit growth in Indianapolis has averaged 21.3% for the past six years and these deposits are helping the company finance new loans in the Louisville and Cincinnati markets. Since 2008, the Indianapolis loan portfolio has grown at an average annual rate of 9.3%. This loan growth is beneficial but only represents 20% of the total increase in the loan portfolio over the past six years. Louisville still bears the heaviest load in terms of loan growth, making up 55% of the total loan portfolio increase since 2008.

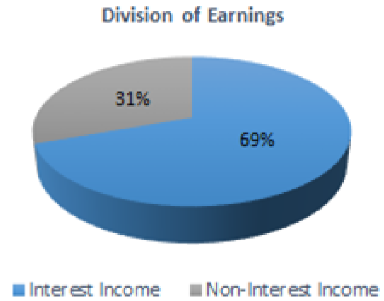


The Indianapolis MSA has recently experienced consistent GMP growth. The MSA averaged a 4.06% YoY increase in GMP between 2001 and 2012, making it the only market SYBT operates in with GMP growth above the national average. Despite the overall health of the MSA, SYBT has barely penetrated this market in its decade of local operations. Deposits from Indianapolis bank branches only make up 4.5% of total deposits, and loans make up only 12.2% of the loan portfolio, up from 9.7% in 2008. In conclusion, the company needs better market penetration in Indianapolis for this geographic expansion to materially improve revenue growth.

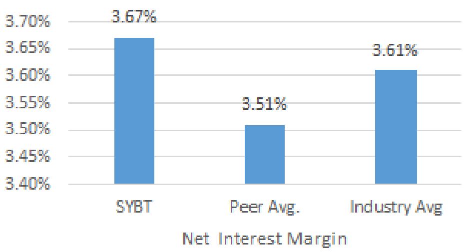
Cincinnati MSA

Similar to Indianapolis, SYBT has less than 1% market share in Cincinnati. Although the company entered Cincinnati after it began operations in Indianapolis, deposits from Cincinnati represent a greater portion of total deposits (4.9%) than those from Indianapolis (4.5%). Loans from Cincinnati bank branches represent 7.95% of the loan portfolio, up from 2.37% six years earlier. If Cincinnati branches can continue to expand at this rate (2 additional locations are expected in 2015) then SYBT cam qualm many of the fears we have about its long term growth prospects.

SYBT Peer Group
SYBT's primary competitors in the Louisville, KY market are: PNC, Chase, and Fifth Third. Compared to these competitors, SYBT has a significantly smaller asset base and has a much less diverse risk profile. Because of these conditions, we have compiled a list of peers who have comparable operation sizes, risk exposures, and are situated in similar geographic regions of the United States: Republic Bancorp Inc. (RBCAA), First Financial Bancorp (FFBC), Farmers Capital Bank Corp. (FFKT), NewBridge Bancorp (NBBC), MainSource Financial Group (MSFG), 1st Source Corp. (SRCE), and First Busey Corp. (BUSE).[1]



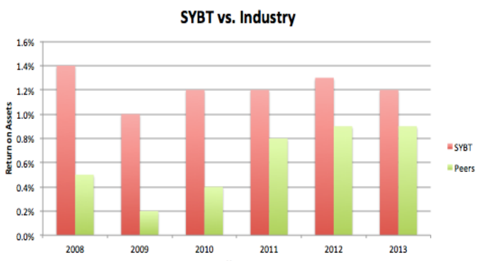
Profitability vs Peers
SYBT's ROA is significantly greater than the averages of both our peer group and the broader industry. This is due to the firms highly profitable investment management, brokerage, and trust services which make up roughly 52% of all non-interest income for the bank. Non-Interest Income, which makes up 30% of total earnings for SYBT, gives the firm an attractive hedge against interest rate fluctuations that many of its peers cannot match.



SYBT's Net Interest Margin (NIM) and is also higher than our peer group and we expect this to continue so long as interest rates remain at current levels. SYBT's in house sensitivity analysis projects a NII decrease of 3.84% should interest rates rise by 100 bp and a NII decrease of 5.48% should rates rise by 200 bp. Stock Yards Efficiency Ratio as of 12/31/14 was 61.08%; superior to our peer average (70.34%) and only slightly above average of the industry as a whole (59.91%).

Discussion of Management

SBYT's management team has been in place for an average of 9 years per person. This means that all members of management weathered the 2008 recession. SYBT's earnings and stock price remained stable throughout the industry downturn, proving the strength of management and their investing practices. CEO David Heintzman has been with the company for 30 years and acted as CEO for the past 10 years. James Hillebrand, the president, joined SYBT in 1996, in 2008 he was promoted to president. We assess that there is little risk of any chief officers retiring soon. Management's strengths can be quantified by their ability consistently provide investors with a higher ROA than publicly traded banks with $1.5 to $3 billion in assets.



Investment Summary and Recommendation

Valuation
We recommend a HOLD for SYBT with a target price range of $30.74-$35.85. The price target represents a consensus among a dividend discount model and a relative valuation model. The stock price on February 22, 2015 was $32.61 which falls into our range and signals that SYBT is efficiently priced.

Economic Perspective
SYBT's operational concentration in Louisville leaves the company vulnerable to shifts in economic conditions within the city. Decreasing revenue and loan growth from Louisville operations indicate an increasingly saturated market. This, coupled with decreasing entrepreneurship and below average GMP growth, result in pessimistic growth expectations for SYBT in this MSA.

Competition and Regulation
SYBT operates in an increasingly competitive industry. Intensified competition from credit unions and direct banks will impede on SYBT's ability to attract new lines of credit. Moreover, industry regulation raises concerns about SYBT's growth going forward, as new legislation will eventually increase the cost of doing business.

Financial Positioning
SYBT's historically prudent business practices have built the company a strong financial foundation. The merits of these practices were proved as the company came out of the 2008 recession unscathed, but conservative credit requirements and risk aversion have their tradeoffs. Consequently, our team expects SYBT's financial discipline to hinder the company's upside potential during our current economic expansion.

Growth Potential

The company's time intensive growth strategy is expected to inhibit upside potential. SYBT's growth strategy relies on customer switching and emphasizes customer relationships. Although this strategy results in firm stability and greater customer retention, it also requires significant amounts of human capital and time. Overall these inputs yield reliable borrowers, loyal customers, and slow growth. This hypothesis is reinforced by SYBT's sluggish growth in Indianapolis.

On the contrary, the company's deposit and loan growth in Cincinnati hint at the potential upside from this market. If SYBT can maintain traction in this MSA, it will materially improve the company's NII, revenue growth, and fair value. If the company is to beat expectations, it will be a result of revenue growth in Cincinnati.

Valuation

Two approaches were used to value SYBT, a dividend discount model (DDM), and a relative valuation pricing method. By using multiple methods with varying inputs we determined a consistent one year target price range of $30.74 to $35.85 per share.

Dividend Discount Model

The key value drivers in the dividend discount model (DDM) are SYBT's risk-weighted assets (RWA), return on tangible common equity, net income, cost of equity, and the historical growth trends of these inputs.

Risk-Weighted Assets: We backed out the company's RWA from the tier 1 risk based capital ratio. This ratio can be found in the company's SEC filings and describes tier 1 capital as a portion of RWA. Risk weighted assets are determined by applying weights to the bank's interest bearing assets. Each weight is determined by the riskiness of the assets. The RWA was projected out by applying a growth rate we calculated using the historic 10 year average of asset growth. By utilizing a portion of their RWA, called the Total Tier One Capital, the company is able to generate income. 12.2% was used as the Minimum Tier 1 Ratio because that is approximately what SYBT has maintained over the past 3 years. We also calculated short-term asset growth projections by averaging the past three years of asset growth. This time frame is appropriate due to the exclusion of the financial crisis and any lingering effects in the economy giving us a more appropriate representation of the future. Additionally, given the more conservative nature of SYBT, the firm will likely maintain high capital ratios and experience similar short term asset growth

Comparable Companies - Levered Beta Calc.

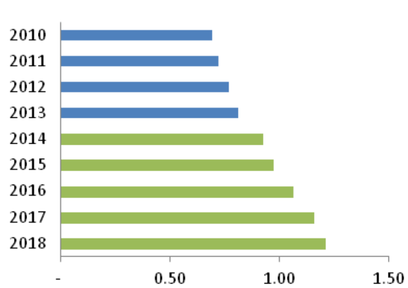
Ticker	Levered Beta	D/E	Tax Rate	Unlev-Beta
RBCAA	0.93	1.3	0.391	0.5191
NBBC	1.91	1.6	0.391	0.9674
FFBC	1.32	0.1	0.391	1.2442
FFKT	0.63	0.3	0.391	0.5327
SRCE	1.33	0.2	0.391	1.1856
MSFG	1.45	0.9	0.391	0.9366
BUSE	0.90	0.2	0.391	0.8023
Median	**1.32**			**0.936632**
Relevered Beta				**0.993673**

Source:FactSet

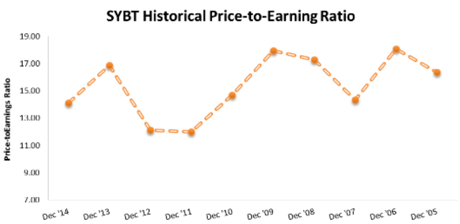
Net Income: Net Income was calculated by multiplying the average of the Total Tier One capital by the return on tangible common equity; which is calculated by averaging the past five years' historical return (12.7%). It should be noted that SYBT's return on equity far exceeds any other company on our peer list primarily due to their ability to generate high-margin, non-interest earnings as discussed in other sections. Although SYBT has increased their payout ratio to return profits to shareholders, we assumed a payout ratio of 39%. We selected this number as a conservative estimate of the future payout ratios, allowing SYBT to maintain enough capital for potential future needs.

Cost of Equity: SYBT's cost of equity is another significant value driver in our DDM model. Cost of equity was used instead of the weighted average cost of capital (WACC) because of the unique way in which banks use debt when compared to a conventional firm. We used the Capital Asset Pricing Model to calculate the cost of equity, which states that cost of equity is the risk premium over the risk-free government bond. The 10-year Treasury rate, currently around 2% at the time of this analysis, is used to symbolize the risk-free rate. The risk premium reflects the relative risk of a bank's share price to the market – a stock's beta – times the market price of risk known as the equity risk premium. To calculate the firm's true beta we took the comparable companies and delivered their betas. The average of these values was then taken and levered the beta using SYBT's debt profile. The historical equity risk premium from 1928 to 2014 is currently estimated at 6.25%.

Dividend Paid Per Share: Historical and Estimated



Fair Value Range: After projecting the company's dividends, they were then discounted using the estimated cost of equity and summed together. A comparable company analysis was then used to find a terminal book value multiple range of 1.13-1.38 by looking at the peer group's price to book values. 1.38 is the most appropriate number as it represents the 75th percentile of our comparable companies. After adding the discounted dividends and terminal value, a price range of $30.74-$35.85 was established.



Relative Valuation Method

Our relative valuation compared SYBT to its peer group based on asset size, location, loan compensation, stock style, and services offered. The forward P/E can be used to derive the market consensus growth rate of a company. This methodology sets the forward P/E equal to the payout ratio divided by the discount rate less the market consensus growth rate. A discount rate of 8.52% was used for SYBT, which is 1.96% below the average discount rate of its peer group and is intuitive given SYBT's historically conservative business practices.

From this we estimate SYBT's FY 2015 growth rate to be 5.59%. If the current price is grown at this rate we find a target price of $33.56 – including an assumed dividend of $0.92. SYBT's growth rate forecasts for 2015 are 211 basis points below the projected average growth rate for the comparable firms.

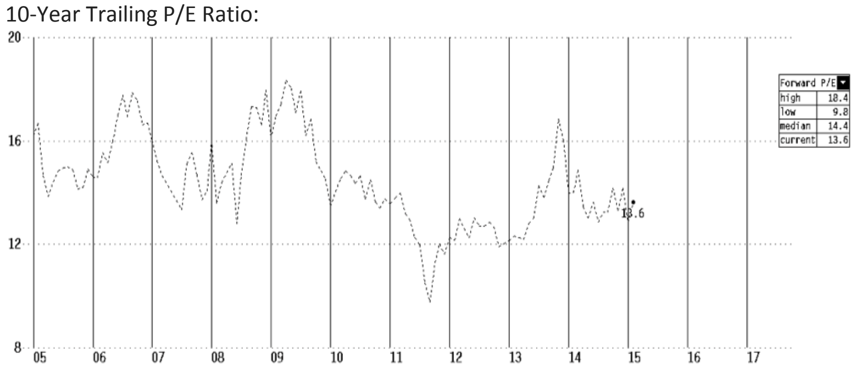
Using the estimated FY15 growth rate and SYBT's trailing twelve month P/E of 15 (based on the 10-Year Trailing P/E Ratio graph below), we determined the upper bound for our target price, $35.85 and represents total gains of 9.94%. Our lower bound is determined by using FY14 EPS of $2.51 and a forward P/E ratio of 13.6 (determined from the 10-Year Forward P/E Ratio graph below), resulting in a target price of $34.14. We also project earnings per share (EPS) for FY15, and expect them to fall between $2.45 and $2.51.

Percent Change in Real GDP (2013)

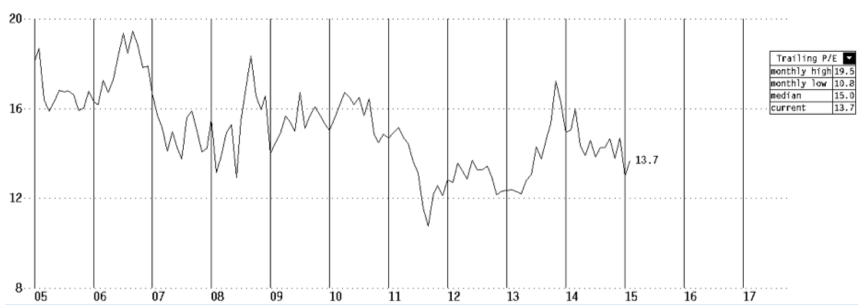
Cincinnati	2.10%
Louisville	-0.10%
Indianapolis	3.40%
U.S. Metropolitan Average	1.70%

Source: U.S Department of Commerce

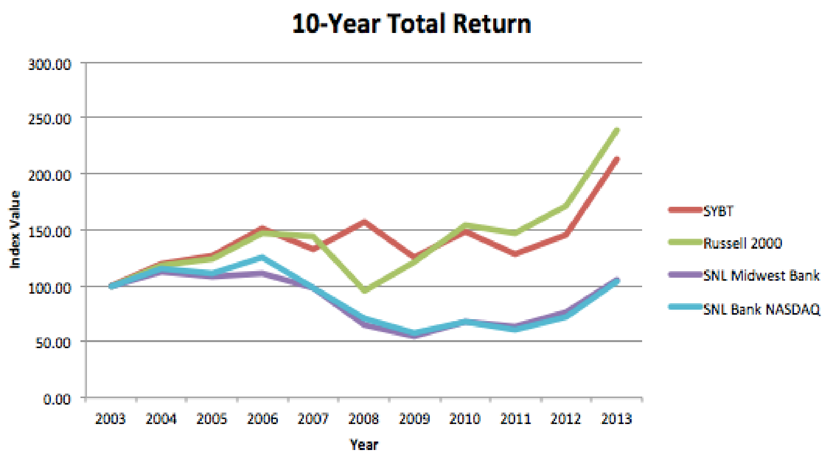
10-Year Trailing P/E Ratio:



10-Year Forward P/E Ratio:



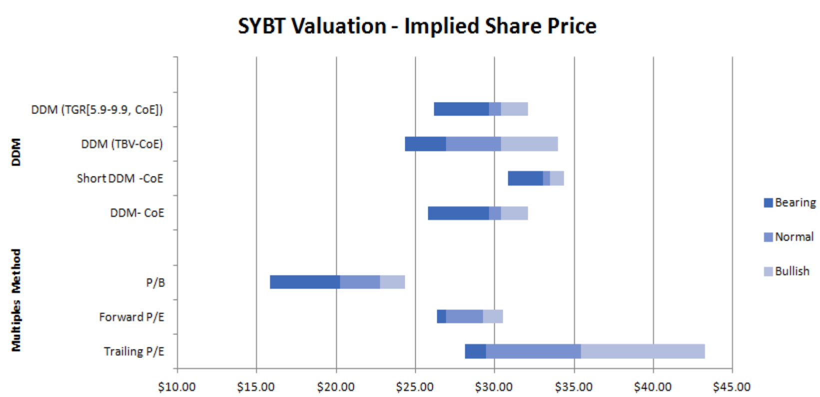
By averaging the three estimated prices we determine a one year target price range of 30.74-$35.85. Even with a low expected return, SYBT is a hold due to its recent performance relative to these banking indexes.



Combining Methods

It is important note that several of the bank's value drivers (price-to-book, cost of equity, return on tangible equity) are currently far above the median for their comparable companies. Median estimates were preferred due to the difficulty of maintaining long-term growth in the banking industry, a byproduct of the commodity-like nature of the products and services the industry offers. Additionally, due to the nature of the DDM, the company's projected price is greatly affected by alterations to key assumptions. With these two points in mind, it was appropriate to include a varying sensitivity analysis.

The corresponding graph shows the range of value across various valuation methods with varying degrees of sensitivity under key assumptions. DDM (Terminal Growth Rate [5.9-9.9, Cost of Equity]) represents a variation from our terminal growth rate of 7.9% to 5.9%-9.9%, while also manipulating the cost of equity to vary from the higher cost, 25th percentile, to the lower cost, 75th percentile. DDM (Terminal Book Value-Cost of Equity) represents our changing the Terminal Book Value multiple from the 25th percentile to the 75th percentile, while also changing the cost of equity calculation in the same manner, from the higher cost, 25th percentile, to the lower cost, 75th percentile. The "Short DDM CoE" represents the valuation using a cost of equity calculated with the market risk premium over the past ten years. As the visual below demonstrates, this compresses the spread of values due to the short time frame.



Financial Analysis

Net interest Income growth

Net interest income (NII) is the largest source of revenue for SYBT, accounting for roughly 69% of total earnings for FY 2014. Over the past 10 years the YoY growth in NII for the peer group has been inconsistent, making it hard to project. However, relative to its peers SYBT has been much more consistent over the same period of time and has avoided the significant NII declines many of its peers experienced following the financial crisis. SYBT's peers had an average YoY NII growth of 5.9% with a standard deviation of 13.92%. In contrast, SYBT had an average growth of 6.48% with a standard deviation of 4.37%. Concerns for future growth are primarily based on an oversaturated and a slow growing Louisville MSA and uncertainty around auxiliary market penetration.

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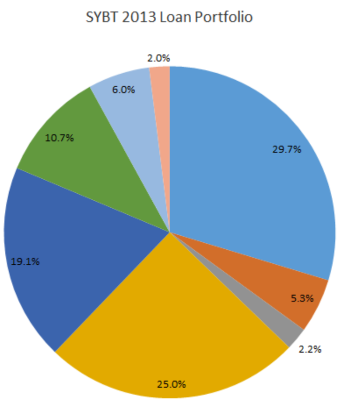
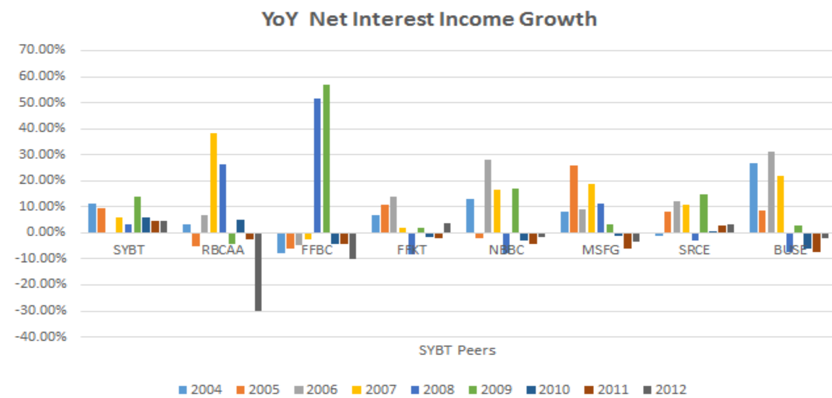
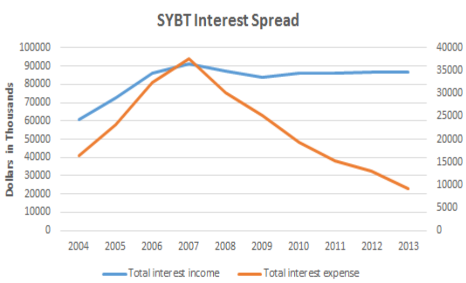
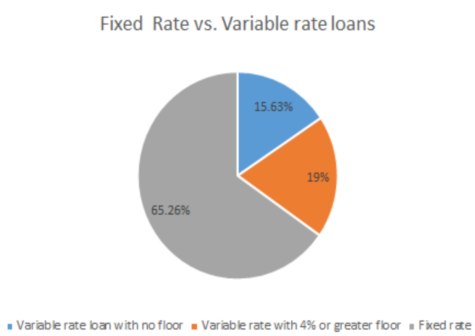


Year	2013	2012
Commercial and Industrial Loans	29.7%	26.9%
Construction and Development	5.3%	5.4%
Undeveloped Land	2.2%	2.9%
Commercial Investment (Real Estate Mortgage)	25.0%	26.1%
Owner Occupied Commercial (Real Estate Mortgage)	19.1%	19.2%
1 to 4 Family residential (Real Estate Mortgage)	10.7%	10.5%
Home Equity Liens	6.0%	6.6%
Consumer Loans	2.0%	2.3%







Loan Portfolio

SYBT's asset base is primarily comprised of its loan portfolio which makes up 72% of total firm assets. Commercial and Industrial (C&I) loans and commercial mortgages make up roughly 54.7% of the loan portfolio with residential and consumer loans only consisting of 12.7%. Due to SYBTs geographic concentration in the Louisville MSA, firm credit risk is closely tied to the overall economy of the region and the performance of companies operating in the area.

Rate Environment

Since the financial crisis interest rates have been at historic lows. This has benefited banks by reducing the cost of capital and interest expense. The low interest rate environment has improved SYBT's bottom line as NII expense has decreased every year since 2007 as can be seen on the interest spread graph. Considering the FOMC's guidance, our team expects SYBT's interest expense to increase in 2015. Consequently, the company's interest rate spread will narrow and NII growth will face resistance.

SYBT's greatest exposure to interest rate environment changes are its variable rate loans. 35% of the company's loan portfolio ($598 million) consists of variable rate loans indexed to the prime rate, and 19% of loans have a contractual rate floor of 4% or higher. Interest rate floors have enabled SYBT to generate higher net interest margins in the past, but will be a detriment to NII going forward. Given the current prime rate (3.25%), the interest rate spread on 19% of the portfolio will see significant reductions for the first 75 basis point increase in interest rates. Although uncertainty exist on the timing and magnitude of rate changes, interest rate increases will negatively affect SYBT's bottom line.

Price Stability & Credit Quality

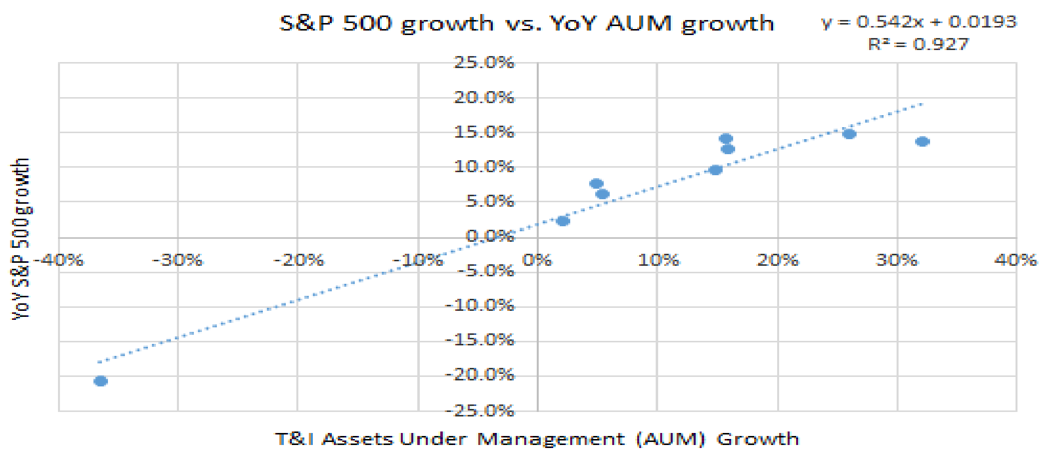
SYBT demonstrated its ability to act as a safe haven during the 2008 recession. Between 2008 and 2011 SYBTs stock price experienced volatility consistent with the market, but gained 5.71% relative to the S&P 500s -12.11% performance. This is attributed to SYBTs naturally conservative lending culture which kept interest income steady and provisions for credit losses low during the crisis.

Many U.S. banks, including SYBT, have recently experienced boosts from decreased loan loss provisions brought on by improvements to overall credit quality. Loan loss reserves for SYBT as of 4Q 2014 were 1.33% of the loan portfolio, down from 1.66% in the prior year. SYBT reported no provision for loan losses during the three months ended 12/31/14, down from $1,575,000 in the prior year, which helped boost YoY net income growth to 38% during this period.

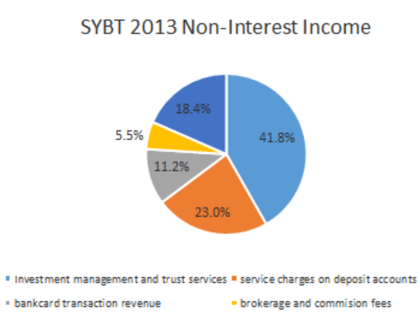
Non-Interest Income

SYBT's Wealth Management services help differentiate the company from other small financial institutions. These services also benefit SYBT's bottom line by creating a revenue stream independent of interest rates. SYBT's Trust and Investment (T&I) services provide the main non-interest revenue stream, making up 13.5% of net income. Growth in T&I revenue is correlated to the quantity of assets under management. When market conditions are favorable, the asset base and the company's revenue from it should continue to grow. Moreover, we expect that the banks history, reputation, and relationship focus will enable it to net new T&I business in the Louisville MSA. The income provided by T&I services bolster the company's margins and give SYBT a competitive edge over other community banks in Louisville. However, we expect slow growth in T&I service in the auxiliary markets as time is the main cost of acquiring relationships based business.

Service charges represent roughly 23% of non-interest income and increased 5.5% for FY 2013. A significant source of this revenue is from fees resulting from overdrawn checking accounts. This source of revenue is



expected to decline due to new regulation. Although these regulations do not pertain directly to SYBT and only to banks with more than $10 billion in assets, the regulations will set a new industry standard which all firms are likely to adopt.

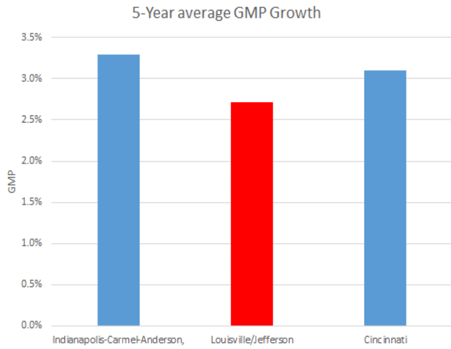


Capital Ratios

SYBT's has maintained capital ratios well above those required by regulatory agencies. At December 2013 SYBT had a total risk-based capital ratio of 12.90%, representing an 88 bp decrease from the previous year but still 2.9% above the required ratio. The reduction in tier one capital ratio was due to SYBT redeeming $30 million of 10% fixed rate trust preferred securities.

Investment Risks

The banking industry is a distinct field due to its unique risks that other industries do not experience. Some of these risks are industry-wide while some only apply to SYBT. Listed below are a few of the risks that SYBT faces both at the industry level and the firm level that we used in determining our recommendation. The fact that Louisville's economy is not growing competitively, combined with the potential failure of SYBT's entrance into new markets, are high enough for us to feel that a BUY recommendation is not appropriate. On the other hand, the chance that SYBT continues to meet financial expectations, given its past success, is high enough for us to not issue a SELL. With these risks in mind, we feel very confident in our HOLD suggestion at SYBT's current price.

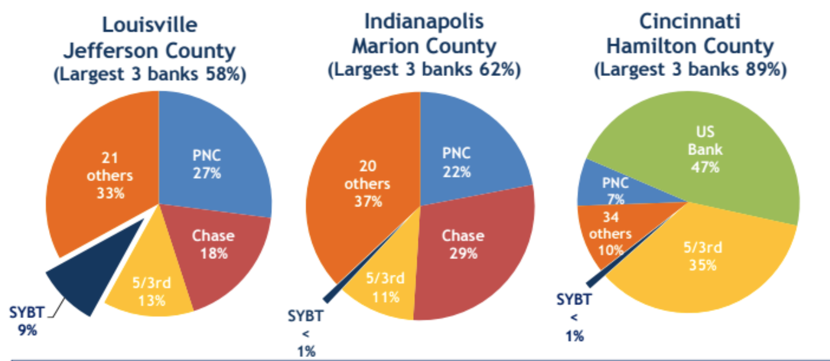


Unattractive Louisville Economy

According to management, 90.6% of deposits are currently from the Louisville area. With such a large percentage of deposits being held in one city, the Louisville economy has major implications on how well SYBT performs. If the Louisville economy were to decline, SYBT would be left in a vulnerable financial position. According to our research, the Louisville MSA has been underperforming GMP growth relative to other cities in the region. The Louisville MSA GMP has averaged 2.7% growth over the past five years whereas the Cincinnati and Indianapolis MSA have averaged 3.1% and 3.3% respectively. Due to SYBT's large concentration within the Louisville area, the slower growth of this region could have a material impact on the firm's performance going forward.

Difficult Entry into New Markets

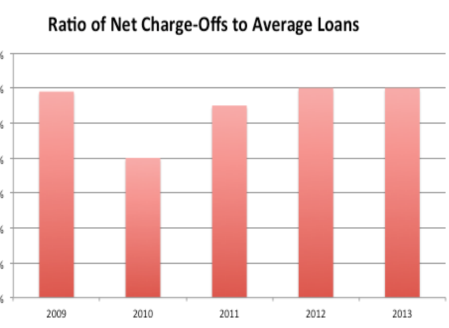
SYBT currently has 34 total offices: 28 in Louisville, 3 in Cincinnati, and 3 in Indianapolis. Indianapolis and Cincinnati only make up a combined 9.4% of total firm deposits, but SYBT is making an active effort to tap into these markets in order to fuel organic growth into the distant future. With Louisville's slowing growth, there is an increasing emphasis on the success of these market entries. Currently SYBT has less than 1% market share in both of these cities but the firm expects to take advantage of the large quantities of regional banking customers. The firm believes Cincinnati in particular, with the 3 largest banks capturing an 89% market share, is ripe for growth opportunities.



County deposits	$16.7B	$26.1B	$62.2B
County branches	255	236	308
Total MSA	$23.0B	$38.8B	$79.0B

Loan Losses Higher Than Expected

SYBT makes assumptions about the collectability of their loan portfolio every year. If SYBT is unable to collect on these loans and the loan losses become higher than expected, SYBT's operating income could be negatively affected. These losses could be a result of weak economic conditions or poor judgment on customer collectability. Regardless, if the current allowance for doubtful accounts cannot cover the losses, an adjustment would be necessary. These adjustments could have a material effect on the financial statements and should be monitored closely. At this point in time, SYBT has continuously met expectations and this has not been a problem in the past, but continued monitoring is suggested. Even as SYBT's loan portfolio has grown year to year, the amount of write-offs as a percentage of total loans has remained fairly consistent. This gives us confidence for SYBT's loan portfolio going forward and shows their diligence in collecting on these loans.



Interest Rate Fluctuations

SYBT's primary source of income is from interest rate spread on their loans versus their deposits. If these market interest rates move contrary to SYBT's position, this move would negatively affect their earnings. SYBT's simulation model found that net interest income will decrease 2.1% if interest rates decrease 100 basis points and net interest income will decrease 3.8% if rates increase 100 basis points. The Federal Reserve has maintained low rates since the recent recession but it is important to monitor rate changes as they can have a material effect on SYBT's financials.

New Regulations & Laws

Banking is a highly regulated industry and firms must remain flexible in order to meet legal obligations. New regulations could have a substantial impact on their operations and financial statements. If new legislation is passed that raises requirements for banks, SYBT's operations could be negatively impacted as a result. Current regulations exist that set standards on bank capital requirements by increasing bank liquidity and decreasing the amount of leverage banks may take on. When it comes to smaller banks, it is especially important to monitor these capital requirements to ensure SYBT is comfortably meeting these standards.

Appendix

S.Y. Bancorp Inc. - Dividend Discount Model

($ in Millions Except Per Share Data)

	Historical			Projected		
December 31,	**2014**	2015	2016	2017	2018	2019
Normalized Net Income:	$ 34,822	$ 34,391	$ 37,365	$ 40,578	$ 44,050	$ 47,802
% Growth:	28.2%	(1.2%)	8.6%	8.6%	8.6%	8.5%
Common Dividends:	12,651	13,412	14,572	15,826	17,180	18,643
% Growth:	6.2%	6.0%	8.6%	8.6%	8.6%	8.5%
Payout Ratio:	36.3%	39.0%	39.0%	39.0%	39.0%	39.0%
Beginning Common Equity:	$ 229,444	$ 259,895	$ 282,438	$ 306,796	$ 333,114	$ 361,550
Plus: Net Income to Common:		34,391	37,365	40,578	44,050	47,802
Plus: Stock Issuances:		1,565	1,565	1,565	1,565	1,565
Plus: Stock-Based Comp.:						
Plus: Exchange Rate Effect:						
Less: Stock Repurchases:		-	-	-	-	-
Less: Common Dividends:		(13,412)	(14,572)	(15,826)	(17,180)	(18,643)
Ending Common Equity:	$ 259,895	$ 282,438	$ 306,796	$ 333,114	$ 361,550	$ 392,274
Avg. Risk-Weighted Assets:	$ 1,959,463	2,098,979	2,248,428	2,408,518	2,580,006	2,763,705
Tier 1 Common Ratio:	12.7%	13.5%	13.6%	13.8%	14.0%	14.2%
Return on Tangible Common Equity:	12.3%	12.7%	12.7%	12.7%	12.7%	12.1%
Tangible Common Equity / Tier 1 Common Capital Calculation:						
Ending Common Equity:	**$ 259,895**	$ 282,438	$ 306,796	$ 333,114	$ 361,550	$ 392,274
Less: Disallowed Intangibles:						
Plus: Other Adjustments:		-	-	-	-	-
Total Tier 1 Common Capital:	**$ 259,895**	**$ 282,438**	**$ 306,796**	**$ 333,114**	**$ 361,550**	**$ 392,274**
Discount Period:	0.0	1.0	2.0	3.0	4.0	5.0
Mid-Year Discount Period:		0.5	1.5	2.5	3.5	4.5
PV of Dividends:		$ 13,088	$ 13,541	$ 14,003	$ 14,475	$ 14,958

DDM Assumptions

Use Multiples Method?	Yes
Mid-Year Convention:	0.50
Maturity Year Begins:	2019
Minimum Tier 1 Common Ratio:	12.2%
Terminal Earnings Growth Rate:	7.4%
Return on Tangible Common Equity:	
Development:	12.7%
Maturity:	12.1%
Risk-Weighted Assets Growth:	
Development:	7.1%
Maturity:	6.5%
Cost of Equity:	5.02%
Terminal Value:	
Sum of PV of Dividends:	$ 70,066
Terminal P / TBV:	1.38 x
Terminal Value (Growth):	(849,986)
Terminal Value (Multiple):	541,338
PV of Terminal Value:	423,842
Present Value of Equity:	**$ 493,907**
Diluted Shares:	14,823.0
Implied Share Price:	**$ 33.32**

Margin of Safety

Current Price		32.61
Implied Price	$	33.32
Difference	$	0.71
Margin of Safety		2.132%

	25%	Median	75%
Cost of Equity Based on Comparables (1928-2014) :	**5.02%**	**6.22%**	**6.85%**
Cost of Equity Based on Comparables(10 year):	**3.46%**	**4.05%**	**4.35%**

Tangible Common Equity (TCE)

(in thousands of Dollars)	**Dec '10**	**Dec '11**	**Dec '12**	**Dec '13**	**Dec '14**
Net income	$22,953.00	$23,604.00	$25,801.00	$27,170.00	$34,822.00
preferred dividends	$0.00	$0.00	$0.00	$0.00	$0.00
Tangible Common Equity (TCE)	$169,179.00	$187,004.00	$204,393.00	$226,611.00	$257,393.00
Return on TCE	13.6%	12.6%	12.6%	12.3%	12.3%
5 year Average Return on TCE					**12.68%**

RWA Calculation

	Dec '04	**Dec '05**	**Dec '06**	**Dec '07**	**Dec '08**	**Dec '09**	**Dec '10**	**Dec '11**	**Dec '12**	**Dec '13**	**Sept '14**
(Dollars in thousands)	TTM	TTM	TTM	TTM	TTM	TTM	TTM	TTM	TTM	TTM	Trailing 9 months
Tier 1 Risk Based Capital Rat	13.6%	13.4%	10.8%	9.8%	11.9%	11.7%	12.1%	12.8%	13.2%	12.3%	12.7%
Tier 1 capital	$ 135,217.00	$ 146,037.00	$ 137,776.00	$ 132,259.00	$ 171,527.00	$ 180,734.00	$ 196,040.00	$ 211,544.00	$ 228,972.00	$ 228,827.00	$ 248,264.00
Total Risk Based Capital Rat	14.9%	14.6%	11.8%	10.8%	13.7%	13.6%	13.9%	14.6%	14.4%	13.5%	0.1392
Tier 1 & 2 capital	$ 147,786.00	$ 158,222.00	$ 150,099.00	$ 145,799.00	$ 196,968.00	$ 210,064.00	$ 226,421.00	$ 242,365.00	$ 250,837.00	$ 252,171.00	$ 272,796.00
Tier 2 Capital	$ 12,569.00	$ 12,185.00	$ 12,323.00	$ 13,540.00	$ 25,441.00	$ 29,330.00	$ 30,381.00	$ 30,821.00	$ 21,865.00	$ 23,344.00	$ 24,532.00
Risk Weighted Assets	$ 991,326.98	$ 1,086,584.82	$ 1,274,523.59	$ 1,346,832.99	$ 1,441,403.36	$ 1,550,034.31	$ 1,625,538.97	$ 1,656,570.09	$ 1,738,587.70	$ 1,861,895.85	$ 1,959,463.30
YOY RWA Growth		9.61%	17.30%	5.67%	7.02%	7.54%	4.87%	1.91%	4.95%	7.09%	5.24%
10 year Average RWA Growth											7.12%
10 year Average Total Risk Based Capital Ratio											12.20%

	SYBT	RBCAA	NBBC	FFBC	FFKT	SRCE	MSFG	BUSE	Peer Average
ROE:	13.56%	4.51%	5.69%	6.85%	8.88%	9.62%	9.36%	7.60%	7.5%
ROA:	1.38%	0.72%	0.53%	0.74%	0.86%	1.20%	1.04%	0.91%	0.9%
Trailing P/E (ttm, intraday):	14.48	20.08	26.25	19.64	12.85	13.48	13.38	17.86	17.65
Forward P/E (fye Dec 31, 2015):	13.33	16.28	14.02	13.37	12.31	12.04	12.27	13.89	13.45
P/B:	1.87	0.9	1.35	1.35	1.08	1.23	1.17	1.47	1.22
Profit Margin (ttm):	27.00%	16.24%	12.44%	17.43%	18.87%	24.60%	22.69%	20.61%	19.0%
Operating Margin (ttm):	40.09%	30.01%	29.87%	27.10%	35.75%	38.27%	30.27%	34.42%	32.2%
Diluted EPS (ttm):	$ 2.19	$ 1.19	$ 0.32	$ 0.85	$ 1.78	$ 2.32	$ 1.45	$ 0.35	$ 1.18
Qtrly Earnings Growth (yoy):	28.70%	14.00%	70.60%	2.90%	35.30%	0.30%	10.80%	14.80%	21.2%
Payout Ratio	39.00%	61.00%	0.00%	70.00%	0.00%	30.00%	27.00%	51.00%	34.1%
E/A	10.44%	15.37%	9.35%	10.52%	10.07%	12.51%	11.48%	12.21%	11.6%
Net Interest Margin	3.67%	3.36%	3.70%	3.67%	3.30%	3.59%	3.81%	3.13%	3.51%
D/E	0.1	1.3	1.6	0.1	0.3	0.2	0.9	0.2	0.7
Efficiency Ratio (ttm):	61.08%	74.00%	69.07%	63.55%	75.50%	67.56%	74.25%	68.43%	70.34%
Beta	0.93	0.93	1.91	1.32	0.63	1.33	1.45	0.9	1.21

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[1]Our peers were derived from the SNL Midwest Bank Index & the Federal Reserve Statistical Release of chartered commercial banks with consolidated assets of $300 million or more.