

SB FINANCIAL GROUP, INC.
Form 10-Q
November 07, 2013

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, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-13507

SB FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

34-1395608
(I.R.S. Employer
Identification No.)

401 Clinton Street, Defiance, Ohio 43512
(Address of principal executive offices)
(Zip Code)

(419) 783-8950

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

Edgar Filing: SB FINANCIAL GROUP, INC. - Form 10-Q

to submit and post such files). Yes No

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

Large Accelerate Filer Accelerated Filer Non-Accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Common Shares, without par value	4,869,629 shares
(class)	(Outstanding at November 7, 2013)

SB FINANCIAL GROUP, INC.

FORM 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements</u>	3
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	33
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	42
<u>Item 4.</u>	<u>Controls and Procedures</u>	42

PART II – OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	43
<u>Item 1A.</u>	<u>Risk Factors</u>	43
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	44
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	44
<u>Item 5.</u>	<u>Other Information</u>	44
<u>Item 6.</u>	<u>Exhibits</u>	44
<u>Signatures</u>		45

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

SB Financial Group, Inc.
Condensed Consolidated Balance Sheets
September 30, 2013 and December 31, 2012

(\$ in Thousands)	September 2013 (unaudited)	December 2012
ASSETS		
Cash and due from banks	\$ 19,016	\$ 19,144
Securities available for sale, at fair value	86,620	98,702
Other securities - FRB and FHLB Stock	3,748	3,748
Total investment securities	90,368	102,450
Loans held for sale	2,407	6,147
Loans, net of unearned income	475,233	463,389
Allowance for loan losses	(7,120)	(6,811)
Net loans	468,113	456,578
Premises and equipment, net	12,399	12,633
Purchased software	320	330
Cash surrender value of life insurance	12,826	12,577
Goodwill	16,353	16,353
Core deposits and other intangibles	784	1,219
Foreclosed assets held for sale, net	1,430	2,367
Mortgage servicing rights	5,076	3,775
Accrued interest receivable	1,694	1,235
Other assets	2,626	3,426
Total assets	\$ 633,412	\$ 638,234
LIABILITIES AND EQUITY		
Deposits		
Non interest bearing demand	\$ 78,217	77,799
Interest bearing demand	124,860	117,289
Savings	61,899	57,461
Money market	78,406	80,381
Time deposits	178,161	194,071
Total deposits	521,543	527,001
Notes payable	680	1,702
Advances from Federal Home Loan Bank	16,000	21,000
Repurchase agreements	14,836	10,333
Trust preferred securities	20,620	20,620
Accrued interest payable	448	138

Edgar Filing: SB FINANCIAL GROUP, INC. - Form 10-Q

Other liabilities	3,748	4,156
Total liabilities	577,875	584,950
Equity		
Preferred stock	-	-
Common stock	12,569	12,569
Additional paid-in capital	15,399	15,374
Retained earnings	28,846	25,280
Accumulated other comprehensive income	415	1,830
Treasury stock	(1,692)	(1,769)
Total equity	55,537	53,284
Total liabilities and equity	\$ 633,412	\$ 638,234

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements at that date

SB FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME - (Unaudited)

(\$ in thousands, except share data)	Three Months Ended		Nine Months Ended	
	September 2013	September 2012	September 2013	September 2012
Interest income				
Loans				
Taxable	\$ 5,649	\$ 6,106	\$ 17,406	\$ 18,071
Nontaxable	14	21	54	68
Securities				
Taxable	305	383	931	1,185
Nontaxable	178	156	522	449
Total interest income	6,146	6,666	18,913	19,773
Interest expense				
Deposits	539	694	1,718	2,316
Other borrowings	11	17	37	49
Repurchase Agreements	2	11	7	139
Federal Home Loan Bank advances	83	92	257	241
Trust preferred securities	336	418	1,077	1,451
Total interest expense	971	1,232	3,096	4,196
Net interest income	5,175	5,434	15,817	15,577
Provision for loan losses	401	300	900	950
Net interest income after provision for loan losses	4,774	5,134	14,917	14,627
Noninterest income				
Trust fees	669	646	1,964	1,895
Customer service fees	659	677	1,914	1,976
Gain on sale of mtg. loans & OMSR's	1,356	1,572	4,290	4,148
Mortgage loan servicing fees, net	432	(192)	1,029	(28)
Gain on sale of non-mortgage loans	44	170	282	170
Data service fees	333	485	1,205	1,704
Net gain on sales of securities	28	-	48	-
Gain/(loss) on sale/disposal of assets	15	(151)	(219)	(257)
Other income	174	201	584	589
Total non-interest income	3,710	3,408	11,097	10,197
Noninterest expense				
Salaries and employee benefits	3,343	3,597	10,470	10,693
Net occupancy expense	507	515	1,561	1,591
Equipment expense	701	722	2,159	2,145
FDIC insurance expense	98	91	301	528
Data processing fees	189	103	460	337
Professional fees	456	451	1,384	1,226
Marketing expense	135	85	335	278

Edgar Filing: SB FINANCIAL GROUP, INC. - Form 10-Q

Printing and office supplies	49	39	246	184
Telephone and communication	156	151	472	434
Postage and delivery expense	199	223	623	652
State, local and other taxes	140	128	412	366
Employee expense	125	118	403	343
Other intangible amortization expense	129	157	435	472
OREO Impairment	-	-	33	58
Other expenses	335	345	1,018	965
Total non-interest expense	6,562	6,725	20,312	20,272
Income before income tax expense	1,922	1,817	5,702	4,552
Income tax expense	578	513	1,721	1,262
Net income	\$ 1,344	\$ 1,304	\$ 3,981	\$ 3,290
Common share data:				
Basic earnings per common share	\$ 0.28	\$ 0.27	\$ 0.82	\$ 0.68
Diluted earnings per common share	\$ 0.28	\$ 0.27	\$ 0.82	\$ 0.68

See notes to condensed consolidated financial statements (unaudited)

SB Financial Group, Inc.
Consolidated Statements of Comprehensive Income (unaudited)

(\$'s in thousands)	Three Months Ended Sep. 30,		Nine Months Ended Sep. 30,	
	2013	2012	2013	2012
Net income	\$1,344	\$1,304	\$3,981	\$3,290
Other comprehensive (loss)/income:				
Available-for-sale investment securities:				
Gross unrealized holding (loss) gain arising in the period	(95)	515	(2,096)	1,014
Related tax benefit (expense)	33	(175)	713	(345)
Less: reclassification adjustment for (loss) realized in income	(28)	-	(48)	-
Related tax benefit	9	-	16	-
Net effect on other comprehensive (loss) income	(81)	340	(1,415)	669
Total comprehensive income	\$(1,263)	\$1,644	\$2,566	\$3,959

See notes to condensed consolidated financial statements (unaudited)

SB Financial Group, Inc.
Condensed Consolidated Statements of Changes in Stockholders Equity (Unaudited)

(\$'s in thousands)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2013	\$-	\$12,569	\$ 15,374	\$25,280	\$ 1,830	\$(1,769)	\$53,284
Net Income				3,981			3,981
Other Comprehensive Loss					(1,415)		(1,415)
Dividends on Common Stk., \$0.85 per share				(415)			(415)
Stock options exercised			(27)			77	51
Expense of stock option plan			52				52
Balance, September 30, 2013	\$-	\$12,569	\$ 15,399	\$28,846	\$ 415	\$(1,692)	\$55,537
Balance, January 1, 2012	\$-	\$12,569	\$ 15,323	\$20,466	\$ 1,343	\$(1,769)	\$47,932
Net Income				3,290			3,290
Other Comprehensive Income					669		669
Expense of stock option plan			39				39
Balance, September 30, 2012	\$-	\$12,569	\$ 15,362	\$23,756	\$ 2,012	\$(1,769)	\$51,930

See notes to condensed consolidated financial statements (unaudited)

SB Financial Group, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)

(\$'s in thousands)	Nine Months Ended Sep. 30,	
	2013	2012
Operating Activities		
Net Income	\$3,981	\$3,290
Items (using)/providing cash		
Depreciation & amortization	813	941
Provision for loan losses	900	950
Expense of share-based compensation plan	52	39
Amortization of premiums and discounts on securities	755	970
Amortization of intangible assets	435	472
Amortization of originated mortgage servicing rights	699	973
Recapture of originated mortgage servicing rights impairment	(649)	(419)
Impairment of mortgage servicing rights	-	305
Proceeds from sale of loans held for sale	221,444	238,894
Originations of loans held for sale	(209,104)	(242,306)
Gain from sale of loans	(4,572)	(4,318)
Gain on sales of available for sale securities	(48)	-
Loss on sale of foreclosed assets	121	254
Income from bank owned life insurance	(249)	(267)
OREO impairment	33	58
Changes in		
Interest receivable	(459)	(196)
Other assets	(3,694)	1,783
Interest payable and other liabilities	(98)	1,190
Net cash provided by operating activities	10,360	2,613
Investing Activities		
Purchase of available-for-sale securities	(21,494)	(23,956)
Purchase of Federal Home Loan Bank stock	-	(63)
Proceeds from maturities of available-for-sale securities	23,278	34,730
Proceeds from sales of available-for-sale-securities	7,390	-
Net change in loans	(13,350)	(14,255)
Purchase of premises and equipment and software	(918)	(942)
Proceeds from sales or disposal of premises and equipment	315	701
Proceeds from sale of foreclosed assets	1,657	261
Net cash used in investing activities	(3,122)	(3,524)
Financing Activities		
Net increase in demand deposits, money market, interest checking and savings accounts	10,452	15,673
Net decrease in certificates of deposit	(15,910)	(19,187)
Net increase/(decrease) in securities sold under agreements to repurchase	4,503	(5,044)
Proceeds from Federal Home Loan Bank advances	9,000	41,500
Repayment of Federal Home Loan Bank advances	(14,000)	(35,776)

Edgar Filing: SB FINANCIAL GROUP, INC. - Form 10-Q

Proceeds from stock options exercised	26	-
Dividends on common stock	(415)	-
Repayment of notes payable	(1,022)	(813)
Net cash used in financing activities	(7,366)	(3,647)
Decrease in Cash and Cash Equivalents	(128)	(4,558)
Cash and Cash Equivalents, Beginning of Year	19,144	14,846
Cash and Cash Equivalents, End of Period	\$19,016	\$10,289
Supplemental Cash Flows Information		
Interest paid	\$2,786	\$2,927
Income taxes paid	\$550	\$70
Transfer of loans to foreclosed assets	\$915	\$983

See notes to condensed consolidated financial statements (unaudited)

SB FINANCIAL GROUP, INC.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A—BASIS OF PRESENTATION

SB Financial Group, Inc. (the “Company”) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, The State Bank and Trust Company (“State Bank”), RFCBC, Inc. (“RFCBC”), Rurbanc Data Services, Inc. dba RDSI Banking Systems (“RDSI”), Rurban Statutory Trust I (“RST I”), and Rurban Statutory Trust II (“RST II”). State Bank owns all the outstanding stock of Rurban Mortgage Company (“RMC”), Rurban Investments, Inc. (“RII”) and State Bank Insurance, LLC (“SBI”). Effective April 18, 2013, the Company changed its name from Rurban Financial Corp. to SB Financial Group, Inc.

The consolidated financial statements include the accounts of the Company, State Bank, RFCBC, RDSI, RMC, RII, and SBI. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows of the Company. Those adjustments consist only of normal recurring adjustments. Results of operations for the three and nine months ended September 30, 2013, are not necessarily indicative of results for the complete year.

The condensed consolidated balance sheet of the Company as of December 31, 2012 has been derived from the audited consolidated balance sheet of the Company as of that date.

For further information, refer to the consolidated financial statements and footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012.

NOTE B—EARNINGS PER SHARE

Earnings per share (EPS) have been computed based on the weighted average number of shares outstanding during the periods presented. For the period ended September 30, 2013, share based awards totaling 95,070 common shares were not considered in computing diluted EPS as they were anti-dilutive. For the period ended September 30, 2012, share based awards totaling 302,474 common shares were not considered in computing diluted EPS as they were anti-dilutive. The average number of shares used in the computation of basic and diluted earnings per share were:

(shares in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Basic earnings per share	4,867	4,862	4,865	4,862
Diluted earnings per share	4,881	4,862	4,877	4,862

NOTE C - SECURITIES

The amortized cost and appropriate fair values, together with gross unrealized gains and losses, of securities at September 30, 2013 and December 31, 2012 were as follows:

(\$'s in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-Sale Securities:				
September 30, 2013:				
U.S. Treasury and Government agencies	\$ 12,610	\$ 128	\$ (117)	\$ 12,621
Mortgage-backed securities	53,026	573	(327)	53,272
State and political subdivisions	18,966	660	(299)	19,327
Money Market Mutual Funds	1,377	-	-	1,377
Equity securities	23	-	-	23
	\$ 86,002	\$ 1,361	\$ (743)	\$ 86,620

(\$'s in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
December 31, 2012:				
U.S. Treasury and Government agencies	\$ 14,301	\$ 210	\$ -	\$ 14,511
Mortgage-backed securities	62,661	1,136	(33)	63,764
State and political subdivisions	16,789	1,462	(2)	18,249
Money Market Mutual Funds	2,155	-	-	2,155
Equity securities	23	-	-	23
	\$ 95,929	\$ 2,808	\$ (35)	\$ 98,702

The amortized cost and fair value of securities available for sale at September 30, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(\$'s in thousands)	Amortized Cost	Available for Sale Fair Value
September 30, 2013:		
Within one year		\$ 1,022
Due after one year through five years		1,387
Due after five years through ten years		10,950
Due after ten years		18,217
		31,576
Mortgage-backed securities, money market mutual funds & equity securities		54,426
Totals		\$ 86,002
		\$ 86,620

The fair value of securities pledged as collateral, to secure public deposits and for other purposes, was \$67.2 million at September 30, 2013 and \$49.8 million at December 31, 2012. The fair value of securities delivered for repurchase agreements was \$16.6 million at September 30, 2013 and \$16.2 million at December 31, 2012.

Gross gains of \$0.03 million and \$0.05 million resulting from sales of available-for-sale securities, were realized during the three and nine month periods ending September 30, 2013, respectively. The \$0.05 million gain on sale was a reclassification from accumulated other comprehensive income and is included in the net gain on sales of securities. The related \$0.02 million tax benefit is a reclassification from accumulated other comprehensive income and is included in the income tax expense line item in the income statement. There were no realized gains or losses from sales of available-for-sale securities for the three or nine month periods ending September 30, 2012.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments was \$25.9 million at September 30, 2013, and \$6.0 million at December 31, 2012, which was approximately 29.9 and 6.1 percent, respectively, of the Company's available-for-sale investment portfolio at such dates. Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

Securities with unrealized losses, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2013 and December 31, 2012 are as follows:

(\$ in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2013						
Available-for-Sale Securities:						
US Treasury and Government Agencies	\$3,995	\$ (117)	\$-	\$ -	\$3,995	\$ (117)
Mortgage-backed securities	17,027	(327)	-	-	17,027	(327)
State and political subdivisions	4,909	(299)	-	-	4,909	(299)
	\$25,931	\$ (743)	\$-	\$ -	\$25,931	\$ (743)

(\$ in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2012						
Available-for-Sale Securities:						
Mortgage-backed securities	\$5,202	\$ (33)	\$342	\$ -	\$5,544	\$ (33)
State and political subdivisions	229	(1)	251	(1)	480	(2)
	\$5,431	\$ (34)	\$593	\$ (1)	\$6,024	\$ (35)

During the quarter ended September 30, 2013, interest rates remained level from the quarter ended June 30, 2013. The increase in rates from December 31, 2012 resulted in higher unrealized losses in the investment portfolio. Specifically, at September 30, 2013, 29 bonds in the portfolio (25%) have an unrealized loss. The investment portfolio duration for the Company is in line with peer banks and the percentage decrease in value was in line with our estimates for this level of interest rate increase. In addition, management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concern warrants such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent of the Company to not sell the investment and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost. Management has determined there is no other-than-temporary-impairment on these

securities.

10

NOTE D – LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoffs, are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Generally, all loan classes are placed on non-accrual status not later than 90 days past due, unless the loan is well-secured and in the process of collection. All interest accrued, but not collected for loans that are placed on non-accrual or charged-off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the non-collectability of a loan balance is probable. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as new information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected on the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that State Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration each of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial, agricultural, and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

When State Bank moves a loan to non-accrual status, total unpaid interest accrued to date is reversed from income. Subsequent payments are applied to the outstanding principal balance with the interest portion of the payment recorded on the balance sheet as a contra-loan. Interest received on impaired loans may be realized once all contractual principal amounts are received or when a borrower establishes a history of six consecutive timely principal and interest payments. It is at the discretion of management to determine when a loan is placed back on accrual status upon receipt of six consecutive timely payments.

Edgar Filing: SB FINANCIAL GROUP, INC. - Form 10-Q

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, State Bank does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Categories of loans at September 30, 2013 and December 31, 2012 include:

(\$ in thousands)	Total Loans		Non-Accrual Loans		Non-Accrual Percentage				
	Sep.	Dec.	Sep.	Dec.	Sep.	Dec.			
	2013	2012	2013	2012	2013	2012			
Commercial & Industrial	\$81,859	\$81,767	2,738	1,246	3.34 %	1.52 %			
Commercial RE & Construction	209,739	201,392	642	782	0.31 %	0.39 %			
Agricultural & Farmland	39,636	42,276	-	-	0.00 %	0.00 %			
Residential Real Estate	96,477	87,859	1,837	2,631	1.90 %	2.99 %			
Home Equity & Consumer	47,677	50,223	363	646	0.76 %	1.29 %			
Other	133	148	-	-	0.00 %	0.00 %			
Total loans	475,521	463,665	\$5,580	\$5,305	1.17 %	1.14 %			
Less									
Net deferred loan fees, premiums and discounts	(288)	(276)							
Loans, net of unearned income	\$475,233	\$463,389							
Allowance for loan losses	\$(7,120)	\$(6,811)							

The following tables present the activity in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of September 30, 2013, December 31, 2012 and September 30, 2012.

(\$'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
For the Three Months Ended September 30, 2013							
Beginning balance	\$ 1,547	\$ 3,059	\$ 180	\$ 1,183	\$ 947	\$ 97	\$ 7,013
Charge Offs	-	(53)	-	(69)	(185)	-	(307)
Recoveries	2	1	1	-	9	-	13
Provision	183	86	(4)	22	114	-	401
Ending Balance	\$ 1,732	\$ 3,093	\$ 177	\$ 1,136	\$ 885	\$ 97	\$ 7,120

For the Nine Months Ended September 30, 2013

	\$ 1,561	\$ 3,034	\$ 186	\$ 1,088	\$ 839	\$ 103	\$ 6,811
--	----------	----------	--------	----------	--------	--------	----------

Edgar Filing: SB FINANCIAL GROUP, INC. - Form 10-Q

Beginning balance							
Charge Offs	(1)	(58)	-	(167)	(421)	(9)	(656)
Recoveries	16	16	3	19	11	-	65
Provision	156	101	(12)	196	456	3	900
Ending Balance	\$ 1,732	\$ 3,093	\$ 177	\$ 1,136	\$ 885	\$ 97	\$ 7,120

12

Loans Receivable at September 30, 2013

(\$'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
Allowance:							
Ending balance:							
individually evaluated for impairment	\$ 521	\$ 40	\$ -	\$ 219	\$ 178		\$ 958
Ending balance:							
collectively evaluated for impairment	\$ 1,211	\$ 3,053	\$ 177	\$ 917	\$ 707	\$ 97	\$ 6,162
Loans:							
Ending balance:							
individually evaluated for impairment	\$ 2,463	\$ 829	\$ -	\$ 2,125	\$ 604		\$ 6,021
Ending balance:							
collectively evaluated for impairment	\$ 79,396	\$ 208,910	\$ 39,636	\$ 94,352	\$ 47,073	\$ 133	\$ 469,500

ALLOWANCE FOR LOAN AND LEASE LOSSES

(\$'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
For the Three Months Ended							
September							
30, 2012							
Beginning balance	\$ 1,517	\$ 3,020	\$ 95	\$ 1,047	\$ 802	\$ 137	\$ 6,618
Charge Offs	(79)	(180)	(10)	-	(25)	(7)	(301)
Recoveries	11	5	2	(2)	61	2	79
Provision	152	57	107	(18)	12	(10)	300
Ending Balance	\$ 1,601	\$ 2,902	\$ 194	\$ 1,027	\$ 850	\$ 122	\$ 6,696

For the Nine Months Ended
September
30, 2012

Beginning							
balance	\$ 1,914	\$ 2,880	\$ 51	\$ 956	\$ 599	\$ 129	\$ 6,529
Charge Offs	(284)	(279)	(10)	(65)	(366)	(24)	(1,028)
Recoveries	39	47	4	80	69	6	245
Provision	(68)	254	149	56	548	11	950
Ending							
Balance	\$ 1,601	\$ 2,902	\$ 194	\$ 1,027	\$ 850	\$ 122	\$ 6,696

Loans Receivable at December 31, 2012

(\$'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
Allowance:							
Ending balance:							
individually evaluated for impairment	\$ 485	\$ 55	\$ -	\$ 386	\$ 195		\$ 1,121
Ending balance:							
collectively evaluated for impairment	\$ 1,076	\$ 2,979	\$ 186	\$ 702	\$ 644	\$ 102	\$ 5,690
Loans:							
Ending balance:							
individually evaluated for impairment	\$ 1,232	\$ 725	\$ -	\$ 2,683	\$ 682		\$ 5,322
Ending balance:							
collectively evaluated for impairment	\$ 80,535	\$ 200,667	\$ 42,276	\$ 85,176	\$ 49,541	\$ 148	\$ 458,343

The risk characteristics of each loan portfolio segment are as follows:

Commercial and Agricultural

Commercial and agricultural loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial Real Estate including Construction

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial real estate portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus non-owner-occupied loans.

Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Residential and Consumer

Residential and consumer loans consist of two segments – residential mortgage loans and personal loans. Residential mortgage loans are secured by 1-4 family residences and are generally owner-occupied, and the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer personal loans are secured by consumer personal assets, such as automobiles or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that these loans are of smaller individual amounts and spread over a large number of borrowers.

Edgar Filing: SB FINANCIAL GROUP, INC. - Form 10-Q

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of September 30, 2013 and December 31, 2012.

September 30, 2013	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
Loan Grade (\$ in thousands)							
1-2	\$ 1,919	\$ 86	\$ 101	\$ -	\$ 1	\$ -	\$ 2,107
3	21,317	44,955	6,651	87,069	43,506	17	203,515
4	51,427	149,168	32,884	5,892	3,641	116	243,128
Total Pass	74,663	194,209	39,636	92,961	47,148	133	448,750
Special Mention	3,551	13,007	-	1,435	80	-	18,073
Substandard	1,081	1,883	-	292	114	-	3,370
Doubtful	2,564	640	-	1,789	335	-	5,328
Loss	-	-	-	-	-	-	-
Total Loans	\$ 81,859	\$ 209,739	\$ 39,636	\$ 96,477	\$ 47,677	\$ 133	\$ 475,521
December 31, 2012	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
Loan Grade (\$ in thousands)							
1-2	\$ 1,108	\$ 101	\$ 109	\$ -	\$ -	\$ -	\$ 1,318
3	23,028	55,175	7,938	77,221	45,063	17	208,442
4	54,871	129,846	34,195	6,285	4,223	131	229,551
Total Pass	79,007	185,122	42,242	83,506	49,286	148	439,311
Special Mention	88	12,370	-	1,186	190	-	13,834
Substandard	1,429	3,024	34	699	144	-	5,330
Doubtful	1,243	876	-	2,468	603	-	5,190
Loss	-	-	-	-	-	-	-
Total Loans	\$ 81,767	\$ 201,392	\$ 42,276	\$ 87,859	\$ 50,223	\$ 148	\$ 463,665

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis.

Credit Risk Profile

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than \$100 thousand and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention (5): Assets have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (6): Loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful (7): Loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

Loss (8): Loans are considered uncollectable and of such little value that continuing to carry them as assets on the Company's financial statement is not feasible. Loans will be classified Loss when it is neither practical nor desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass (1-4) rated loans. Pass ratings are assigned to those borrowers that do not have identified potential or well-defined weaknesses and for which there is a high likelihood of orderly repayment. All other categories are updated on a quarterly basis.

The following tables present the Company's loan portfolio aging analysis as of September 30, 2013 and December 31, 2012.

September 30, 2013 (\$ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Commercial & Industrial	\$26	\$-	\$622	\$648	\$81,211	\$ 81,859
Commercial RE & Construction	193	-	278	471	209,268	209,739
Agricultural & Farmland	-	-	-	-	39,636	39,636
Residential Real Estate	106	63	795	964	95,513	96,477
Home Equity & Consumer	29	22	119	170	47,507	47,677
Other	-	-	-	-	133	133
Total Loans	\$354	\$85	\$1,814	\$2,253	\$473,268	\$ 475,521

December 31, 2012 (\$ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Commercial & Industrial	\$26	\$2	\$497	\$525	\$81,242	\$ 81,767
Commercial RE & Construction	1,623	320	264	2,207	199,185	201,392
Agricultural & Farmland	-	-	-	-	42,276	42,276
Residential Real Estate	90	139	1,467	1,696	86,163	87,859
Home Equity & Consumer	319	76	280	675	49,548	50,223
Other	-	-	-	-	148	148
Total Loans	\$2,058	\$537	\$2,508	\$5,103	\$458,562	\$ 463,665

All loans past due 90 days are systematically placed on nonaccrual status.

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable State Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

Edgar Filing: SB FINANCIAL GROUP, INC. - Form 10-Q

The following tables present impaired loan information as of and for the three and nine months ended September 30, 2013 and 2012, and for the twelve months ended December 31, 2012:

Three Months Ended
September 30, 2013

(\$'s in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial & Industrial	\$ 663	\$ 2,549	\$ -	\$ 870	\$ 4
Commercial RE & Construction	624	624	-	805	5
Agricultural & Farmland	-	-	-	-	-
Residential Real Estate	1,020	1,074	-	1,156	12
Home Equity & Consumer	189	189	-	199	3
All Impaired Loans < \$100,000	1,065	1,065	-	1,065	-
With a specific allowance recorded:					
Commercial & Industrial	1,800	1,800	521	1,800	12
Commercial RE & Construction	205	258	40	259	3
Agricultural & Farmland	-	-	-	-	-
Residential Real Estate	1,105	1,105	219	978	12
Home Equity & Consumer	415	415	178	438	7
All Impaired Loans < \$100,000	-	-	-	-	-
Totals:					
Commercial & Industrial	\$ 2,463	\$ 4,349	\$ 521	\$ 2,670	\$ 16
Commercial RE & Construction	\$ 829	\$ 882	\$ 40	\$ 1,064	\$ 8
Agricultural & Farmland	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Real Estate	\$ 2,125	\$ 2,179	\$ 219	\$ 2,134	\$ 24
Home Equity & Consumer	\$ 604	\$ 604	\$ 178	\$ 637	\$ 10
All Impaired Loans < \$100,000	\$ 1,065	\$ 1,065	\$ -	\$ 1,065	\$ -

Nine Months Ended
September 30, 2013

(\$'s in thousands)	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:		
Commercial & Industrial	\$ 2,341	\$ 13
Commercial RE & Construction	820	19
Agricultural & Farmland	-	-
Residential Real Estate	1,160	35
Home Equity & Consumer	203	8
All Impaired Loans < \$100,000	1,065	-

With a specific allowance recorded:		
Commercial & Industrial	1,773	44
Commercial RE & Construction	261	8
Agricultural & Farmland	-	-
Residential Real Estate	983	36
Home Equity & Consumer	445	22
All Impaired Loans < \$100,000	-	-
Totals:		
Commercial & Industrial	\$ 4,114	\$ 57
Commercial RE & Construction	\$ 1,081	\$ 27
Agricultural & Farmland	\$ -	\$ -
Residential Real Estate	\$ 2,143	\$ 71
Home Equity & Consumer	\$ 648	\$ 30
All Impaired Loans < \$100,000	\$ 1,065	\$ -

Twelve Months Ended

December 31, 2012

(\$'s in thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial & Industrial	\$ 394	\$ 2,280	\$ -
Commercial RE & Construction	527	1,529	-
Agricultural & Farmland	-	-	-
Residential Real Estate	1,122	1,204	-
Home Equity & Consumer	228	260	-
All Impaired Loans < \$100,000	1,336	1,336	-
With a specific allowance recorded:			
Commercial & Industrial	838	944	485
Commercial RE & Construction	198	198	55
Agricultural & Farmland	-	-	-
Residential Real Estate	1,561	1,561	386
Home Equity & Consumer	454	454	195
All Impaired Loans < \$100,000	-	-	-
Totals:			
Commercial & Industrial	\$ 1,232	\$ 3,224	\$ 485
Commercial RE & Construction	\$ 725	\$ 1,727	\$ 55
Agricultural & Farmland	\$ -	\$ -	\$ -
Residential Real Estate	\$ 2,683	\$ 2,765	\$ 386
Home Equity & Consumer	\$ 682	\$ 714	\$ 195
All Impaired Loans < \$100,000	\$ 1,336	\$ 1,336	\$ -

(\$'s in thousands)	Nine Months Ended Sep. 30, 2012		Three Months Ended Sep. 30, 2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial & Industrial	\$ 2,568	\$ -	\$ 2,071	\$ -
Commercial RE & Construction	2,078	18	2,013	6
Agricultural & Farmland	-	-	-	-
Residential Real Estate	1,359	57	1,351	16
Home Equity & Consumer	393	11	388	4
All Impaired Loans < \$100,000	1,441	-	1,441	-
With a specific allowance recorded:				
Commercial & Industrial	949	6	947	3
Commercial RE & Construction	-	-	-	-
Agricultural & Farmland	3	-	3	-
Residential Real Estate	1,480	38	1,475	12
Home Equity & Consumer	365	13	362	5
Totals:				
Commercial & Industrial	\$ 3,517	\$ 6	\$ 3,018	\$ 3
Commercial RE & Construction	\$ 2,078	\$ 18	\$ 2,013	\$ 6
Agricultural & Farmland	\$ 3	\$ -	\$ 3	\$ -
Residential Real Estate	\$ 2,839	\$ 95	\$ 2,826	\$ 28
Home Equity & Consumer	\$ 758	\$ 24	\$ 750	\$ 9
All Impaired Loans < \$100,000	\$ 1,441	\$ -	\$ 1,441	\$ -

Impaired loans less than \$100,000 are included in groups of homogenous loans. These loans are evaluated based on delinquency status.

Interest income recognized on a cash basis does not materially differ from interest income recognized on an accrual basis.

Troubled Debt Restructured (TDR) Loans

TDRs are modified loans where a concession was provided to a borrower experiencing financial difficulties. Loan modifications are considered TDRs when the concessions provided are not available to the borrower through either normal channels or other sources. However, not all loan modifications are TDRs.

TDR Concession Types

The Company's standards relating to loan modifications consider, among other factors, minimum verified income requirements, cash flow analysis, and collateral valuations. Each potential loan modification is reviewed individually and the terms of the loan are modified to meet a borrower's specific circumstances at a point in time. All loan modifications, including those classified as TDRs, are reviewed and approved. The types of concessions provided to borrowers include:

- Interest rate reduction: A reduction of the stated interest rate to a nonmarket rate for the remaining original life of the debt. The Company also may grant interest rate concessions for a limited timeframe on a case by case basis.
 - Amortization or maturity date change beyond what the collateral supports, including any of the following:

- (1) Lengthens the amortization period of the amortized principal beyond market terms. This concession reduces the minimum monthly payment and increases the amount of the balloon payment at the end of the term of the loan. Principal is generally not forgiven.
- (2) Reduces the amount of loan principal to be amortized. This concession also reduces the minimum monthly payment and increases the amount of the balloon payment at the end of the term of the loan. Principal is generally not forgiven.

(3) Extends the maturity date or dates of the debt beyond what the collateral supports. This concession generally applies to loans without a balloon payment at the end of the term of the loan. In addition, there may be instances where renewing loans potentially require non-market terms and would then be reclassified as TDRs.

- Other: A concession that is not categorized as one of the concessions described above. These concessions include, but are not limited to: principal forgiveness, collateral concessions, covenant concessions, and reduction of accrued interest. Principal forgiveness may result from any TDR modification of any concession type.

The table below presents the newly restructured loans by type of modification during the nine months ended September 30, 2013, and September 30, 2012.

(\$ in thousands)	Interest Only	September 30, 2013		Total Modification
		Term	Combination	
Residential Real Estate	\$-	\$13	\$ -	\$ 13
Consumer	-	11	-	11
Total Modifications	\$-	\$24	\$ -	\$ 24

The loans described above increased the ALLL by \$11,000 in the nine month period ending September 30, 2013.

(\$ in thousands)	Interest Only	September 30, 2012		Total Modification
		Term	Combination	
Residential Real Estate	\$-	\$142	\$ 192	\$ 334
Consumer	-	-	-	-
Total Modifications	\$-	\$142	\$ 192	\$ 334

The loans described above increased the ALLL by \$71,000 in the nine month period ending September 30, 2012.

Troubled debt restructurings modified in the past 12 months that subsequently defaulted:

(\$ in thousands)	Number of Contracts	Recorded Balance
Residential Real Estate	4	\$194
Consumer	-	-
	4	\$194

NOTE E - NEW ACCOUNTING PRONOUNCEMENTS

ASC No. 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date.

The objective of the amendments in this Update is to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. generally accepted accounting principles (GAAP). Examples of obligations within the scope of this Update include debt arrangement, other contractual obligations, and settled litigation and judicial rulings. U.S. GAAP does not include specific guidance on accounting for such obligations with joint and several liability, which has resulted in diversity in practice. Some entities record the entire amount under the joint and several liability arrangement on the basis of the concept of a liability and the guidance that must be met to extinguish a liability. Other entities record less than the total amount of the obligation, such as an amount allocated, an amount corresponding to the proceeds received, or the portion of the amount the entity agreed to pay among its co-obligors, on the basis of the guidance for contingent liabilities.

ASU No. 2013-02, Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income.

The objective of this ASU is to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments require an entity to report the effect of significant reclassifications on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income.

The amendments in this update are effective prospectively for reporting periods beginning after December 15, 2012. The Company has adopted these amendments and they have not had a material impact on the Company's Condensed Consolidated Financial Statements.

ASU No. 2012-02, Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment.

This ASU amends Topic 350 to allow the Company to first assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if the Company concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform a quantitative impairment test by comparing the fair value with the carrying amount in accordance with Codification Subtopic 350-30, Intangibles-Goodwill and Other, General Intangibles Other than Goodwill.

The Company also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period.

The amendments in this update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012. Management has determined that the adoption of ASU 2012-02 have not had a material impact on the Company's Condensed Consolidated Financial Statements.

ASU 2011-05, Other Comprehensive Income (Topic 220): Presentation of Comprehensive Income.

This ASU amends Topic 220 to give an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income (OCI) either in a single continuous statement of comprehensive income or in two separate but consecutive statements. An entity is also required to present on the face of the financial statement reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and the components of OCI are presented. The amendments do not change items that must be reported in OCI or when an item of OCI must be reclassified to net income, only the format for presentation. The updated guidance and requirements are effective for financial statements issued for the fiscal years, and the interim periods within those years, beginning after December 15, 2011.

NOTE F – SEGMENT INFORMATION

The reportable segments are determined by the products and services offered, primarily distinguished between banking and data processing operations. “Other” segment information includes the accounts of the holding company, SB Financial Group, which provides management and operational services to its subsidiaries. Information reported internally for performance assessment follows.

As of and for the three months ended September 30, 2013

Income statement information (\$'s in thousands)	Data			Total Segments	Intersegment Elimination	Consolidated Totals
	Banking	Processing	Other			
Net interest income (expense)	\$5,521	\$ (11)	\$(335)	\$5,175	\$ -	\$ 5,175
Other revenue - external customers	3,413	333	-	3,746	-	3,746
Other revenue - other segments	62	174	-	236	(272)	(36)
Total revenue	8,996	496	(335)	9,157	(272)	8,885
Non-interest expense	5,957	632	210	6,799	(237)	6,562
Significant non-cash items:						
Depreciation and amortization	286	26	-	312	-	312
Provision for loan losses	404	-	(3)	401	-	401
Income tax expense (benefit)	809	(46)	(185)	578	-	578
Segment profit (loss)	\$1,826	\$ (90)	\$(357)	\$1,379	\$ (35)	\$ 1,344
Balance sheet information						
Total assets	\$629,632	\$ 1,847	\$1,452	\$632,931	\$ 481	\$ 633,412
Goodwill and intangibles	\$17,137	\$ -	\$-	\$17,137	\$ -	\$ 17,137
Premises and equipment expenditures	\$329	\$ 8	\$28	\$365	\$ -	\$ 365

As of and for the three months ended September 30, 2012

Income statement information (\$'s in thousands)	Data			Total Segments	Intersegment Elimination	Consolidated Totals
	Banking	Processing	Other			
Net interest income (expense)	\$5,869	\$ (17)	\$(418)	\$5,434	\$ -	\$ 5,434
Other revenue - external customers	2,951	484	15	3,450	-	3,450
Other revenue - other segments	67	233	68	368	(410)	(42)

Edgar Filing: SB FINANCIAL GROUP, INC. - Form 10-Q

Total revenue	8,887	700	(335)	9,252	(410)	8,842
Non-interest expense	6,068	735	290	7,093	(368)	6,725
Significant non-cash items:						
Depreciation and amortization	239	59	1	299	-	299
Provision for loan losses	300	-	-	300	-	300
Income tax expense (benefit)	743	(11)	(218)	514	-	513
Segment profit (loss)	\$1,776	\$ (24)	\$ (407)	\$1,345	\$ (41)	\$ 1,304
Balance sheet information						
Total assets	\$624,840	\$ 2,518	\$4,920	\$632,278	\$ (2,073)	\$ 630,205
Goodwill and intangibles	\$17,729	\$ -	\$-	\$17,729	\$ -	\$ 17,729
Premises and equipment expenditures	\$(12)	\$ -	\$-	\$(12)	\$ -	\$ (12)

Edgar Filing: SB FINANCIAL GROUP, INC. - Form 10-Q

As of and for the nine months ended September 30,
2013

Income statement information (\$'s in thousands)	Data			Total Segments	Intersegment Elimination	Consolidated Totals
	Banking	Processing	Other			
Net interest income (expense)	\$16,930	\$ (37)	\$(1,076)	\$15,817	\$ -	\$ 15,817
Non-interest income - external customers	9,973	1,205	-	11,178		11,178
Non-interest income - other segments	230	756	20	1,006	(1,087)	(81)
Total revenue	27,133	1,924	(1,056)	28,001	(1,087)	26,914
Non-interest expense	18,534	2,038	726	21,298	(986)	20,312
Significant non-cash items:						
Depreciation and amortization	720	90	3	813	-	813
Provision for loan losses	903	-	(3)	900	-	900
Income tax expense (benefit)	2,365	(39)	(605)	1,721	-	1,721
Segment profit (loss)	\$5,331	\$ (75)	\$(1,174)	\$4,082	\$ (101)	\$ 3,981
Balance sheet information						
Total assets	\$629,632	\$ 1,847	\$1,452	\$632,931	\$ 481	\$ 633,412
Goodwill and intangibles	\$17,137	\$ -	\$-	\$17,137	\$ -	\$ 17,137
Premises and equipment expenditures	\$882	\$ 8	\$28	\$918	\$ -	\$ 918

As of and for the nine months ended September 30,
2012

Income statement information (\$'s in thousands)	Data			Total Segments	Intersegment Elimination	Consolidated Totals
	Banking	Processing	Other			
Net interest income (expense)	\$17,160	\$ (99)	\$(1,450)	\$15,611	\$ (34)	\$ 15,577
Non-interest income - external customers	8,576	1,682	41	10,299		10,299
Non-interest income - other segments	227	1,298	182	1,707	(1,809)	(102)
Total revenue	25,963	2,881	(1,227)	27,617	(1,843)	25,774

Edgar Filing: SB FINANCIAL GROUP, INC. - Form 10-Q

Non-interest expense	18,598	2,461	954	22,012	(1,740)	20,272
Significant non-cash items:						
Depreciation and amortization	701	233	7	941	-	941
Provision for loan losses	950	-	-	950	-	950
Income tax expense (benefit)	1,875	143	(756)	1,262	-	1,262
Segment profit (loss)	\$4,540	\$ 277	\$(1,425)	\$3,393	\$ (102)	\$ 3,290
Balance sheet information						
Total assets	\$624,840	\$ 2,518	\$4,920	\$632,278	\$ (2,073)	\$ 630,205
Goodwill and intangibles	\$17,729	\$ -	\$-	\$17,729	\$ -	\$ 17,729
Premises and equipment expenditures	\$940	\$ 2	\$-	\$942	\$ -	\$ 942

NOTE G – DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Objective of Using Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company manages its exposures to a wide variety of business and operational risks primarily through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its assets and liabilities and through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash payments principally related to certain variable-rate assets.

Non-designated Hedges

The Company does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of September 30, 2013, the notional amount of customer-facing swaps was approximately \$13.7 million. This amount is offset with third party counterparties, as described above.

The Company has minimum collateral posting thresholds with its derivative counterparties. As of September 30, 2013, the Company had posted cash as collateral in the amount of \$0.1 million.

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments, as well as their classification on the Balance Sheet, as of September 30, 2013 and December 31, 2012.

(\$ in thousands)	Asset Derivatives September 30, 2013		Liability Derivatives September 30, 2013	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments:				
Interest rate contracts	Other Assets	\$279	Other Liabilities	\$279

Derivatives not designated as hedging instruments:	Asset Derivatives December 31, 2012		Liability Derivatives December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate contracts	Other Assets	\$254	Other Liabilities	\$254

Effect of Derivative Instruments on the Income Statement

The Company's derivative financial instruments had no net effect on the Income Statements for the three and nine months ended September 30, 2013 and September 30, 2012.

NOTE H – FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis, recognized in the accompanying balance sheets, as well as the general classifications of such assets pursuant to the valuation hierarchy.

Available-for-Sale Securities

The fair values of available-for-sale securities are determined by various valuation methodologies. Level 1 securities include money market mutual funds. Level 1 inputs include quoted prices in an active market. Level 2 securities include U.S. treasury and government agencies, mortgage-backed securities, obligations of political and state subdivisions and equity securities. Level 2 inputs do not include quoted prices for individual securities in active markets; however, they do include inputs that are either directly or indirectly observable for the individual security being valued. Such observable inputs include interest rates and yield curves at commonly quoted intervals, volatilities, prepayment speeds, credit risks and default rates. Also included are inputs derived principally from or corroborated by observable market data by correlation or other means.

Interest Rate Contracts

The fair values of interest rate contracts are based upon the estimated amount the Company would receive or pay to terminate the contracts or agreements, taking into account underlying interest rates, creditworthiness of underlying customers for credit derivatives and, when appropriate, the creditworthiness of the counterparties.

The following table presents the fair value measurements of assets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2013 and December 31, 2012.

(\$'s in thousands) Description	Fair			
	Values at 9/30/2013	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Available-for-Sale Securities:				
U.S. Treasury and Government Agencies	\$ 12,621	\$-	\$12,621	\$-
Mortgage-backed securities	53,272	-	53,272	-
State and political subdivisions	19,327	-	19,327	-
Money Market Mutual Funds	1,377	1,377	-	-
Equity securities	23	-	23	-
Interest rate contracts	279	-	279	-

(\$'s in thousands) Description	Fair			
	Values at 12/31/2012	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Available-for-Sale Securities:				
U.S. Treasury and Government Agencies	\$ 14,511	\$-	\$14,511	\$-
Mortgage-backed securities	63,764	-	63,764	-
State and political subdivisions	18,249	-	18,249	-
Money Market Mutual Funds	2,155	2,155	-	-
Equity securities	23	-	23	-
Interest rate contracts	254	-	254	-

Level 1 – Quoted Prices in Active Markets for Identical Assets

Level 2 – Significant Other Observable Inputs

Level 3 – Significant Unobservable Inputs

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Collateral-dependent Impaired Loans, Net of ALLL

Loans for which it is probable the Company will not collect all principal and interest due according to contractual terms are measured for impairment. The estimated fair value of collateral-dependent impaired loans is based on the appraised value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy. This method requires obtaining independent appraisals of the collateral, which are reviewed for accuracy and consistency by Credit Administration. These appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by applying a discount factor to the value based on the Company's loan review policy. All impaired loans held by the Company were collateral dependent at September 30, 2013 and December 31, 2012.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models associated with the servicing rights and discounting the cash flows using discount market rates, prepayment speeds and default rates. The servicing portfolio has been valued using all relevant positive and negative cash flows including servicing fees, miscellaneous income and float; marginal costs of servicing; the cost of carry of advances; and foreclosure losses; and applying certain prevailing assumptions used in the marketplace. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy. These mortgage servicing rights are tested for impairment on a quarterly basis.

Foreclosed Assets Held For Sale

Foreclosed assets held for sale are carried at the lower of fair value at acquisition date or current estimated fair value, less estimated cost to sell when the real estate is acquired. Estimated fair value of foreclosed assets held for sale is based on appraisals or evaluations. Foreclosed assets held for sale are classified within Level 3 of the fair value hierarchy.

Appraisals of foreclosed assets held for sale are obtained when the real estate is acquired and subsequently as deemed necessary by Credit Administration. These independent appraisals of the collateral are reviewed for accuracy and consistency by Credit Administration. The appraisers are selected from the list of approved appraisers maintained by management.

The following table presents the fair value measurements of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fell at September 30, 2013 and December 31, 2012:

(\$'s in thousands) Description	Fair	Fair Value Measurements Using:		
	Values at 9/30/2013	Level 1	Level 2	Level 3
Impaired loans	\$ 1,632	\$-	\$-	\$1,632
Mortgage servicing rights	2,112	-	-	2,112
Foreclosed assets	84	-	-	84

(\$'s in thousands)

Fair Value Measurements Using:

Description	Fair			
	Values at 12/31/2012	Level 1	Level 2	Level 3
Impaired loans	\$ 2,227	\$-	\$-	\$2,227
Mortgage servicing rights	2,667	-	-	2,667
Foreclosed assets	950	-	-	950

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements.

(\$'s in thousands)	Fair Value at 9/30/2013	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	\$ 1,632	Market comparable properties	Comparability adjustments (%)	Not available
Mortgage servicing rights	2,112	Discounted cash flow	Discount Rate	9.75 %
			Constant prepayment rate	8.50 %
			P&I earnings credit	0.18 %
			T&I earnings credit	1.67 %
			Inflation for cost of servicing	1.50 %
Foreclosed assets	84	Market comparable properties	Marketability discount	10.00 %
(\$'s in thousands)	Fair Value at 12/31/2012	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	\$ 2,227	Market comparable properties	Comparability adjustments (%)	Not available
Mortgage servicing rights	2,667	Discounted cash flow	Discount Rate	8.50 %
			Constant prepayment rate	15.60 %
			P&I earnings credit	0.21 %
			T&I earnings credit	0.81 %
			Inflation for cost of servicing	1.50 %
Foreclosed assets	950	Market comparable properties	Marketability discount	10.00 %

There were no changes in the inputs or methodologies used to determine fair value at September 30, 2013 as compared to December 31, 2012.

The following table presents estimated fair values of the Company's other financial instruments carried at other than fair value. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments, and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Federal Reserve and Federal Home Loan Bank Stock and Accrued Interest Payable and Receivable

Fair value is determined to be the carrying amount for these items (which include cash on hand, due from banks, and federal funds sold) because they represent cash or mature in 90 days or less, and do not represent unanticipated credit concerns.

Loans Held For Sale

The fair value of loans held for sale is based upon quoted market prices, where available, or is determined by discounting estimated cash flows using interest rates approximating the Company's current origination rates for similar loans and adjusted to reflect the inherent credit risk.

Loans

The estimated fair value for loans receivable, including loans held for sale, net, is based on estimates of the rate State Bank would charge for similar loans at September 30, 2013 and December 31, 2012, applied for the time period until the loans are assumed to re-price or be paid.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models associated with the servicing rights and discounting the cash flows using discount market rates, prepayment speeds and default rates. The servicing portfolio has been valued using all relevant positive and negative cash flows including servicing fees, miscellaneous income and float; marginal costs of servicing; the cost of carry of advances; and foreclosure losses; and applying certain prevailing assumptions used in the marketplace. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy. These mortgage servicing rights are tested for impairment on a quarterly basis.

Deposits, Short-term borrowings, Notes payable & FHLB advances

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates the fair value. The estimated fair value for fixed-maturity time deposits, as well as borrowings, is based on estimates of the rate State Bank could pay on similar instruments with similar terms and maturities at September 30, 2013 and December 31, 2012.

Loan Commitments

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The estimated fair values for other financial instruments and off-balance-sheet loan commitments approximate cost at September 30, 2013 and December 31, 2012 and are not considered significant to this presentation.

Trust Preferred Securities

The fair value for Trust Preferred Securities is estimated by discounting the cash flows using an appropriate discount rate.

Edgar Filing: SB FINANCIAL GROUP, INC. - Form 10-Q

September 30, 2013 (\$'s in thousands)	Carrying Amount	Fair Value (Level 1)	Measurements Using (Level 2)	(Level 3)
Financial assets				
Cash and cash equivalents	\$19,016	\$19,016	\$-	\$-
Loans held for sale	2,407	-	2,471	-
Loans, net of allowance for loan losses	468,113	-	-	470,329
Federal Reserve and FHLB Bank stock	3,748	-	3,748	-
Mortgage Servicing Rights	5,076	-	-	6,215
Accrued interest receivable	1,694	-	1,694	-
Financial liabilities				
Deposits	\$521,543	\$-	\$524,226	\$-
Notes payable	680	-	695	-
FHLB advances	16,000	-	15,991	-
Short-term borrowings	14,836	-	14,836	-
Trust preferred securities	20,620	-	13,737	-
Accrued interest payable	448	-	448	-
December 31, 2012 (\$'s in thousands)				
Financial assets				
Cash and cash equivalents	\$19,144	\$19,144	\$-	\$-
Loans held for sale	6,147	-	6,350	-
Loans, net of allowance for loan losses	456,578	-	-	462,773
Federal Reserve and FHLB Bank stock	3,748	-	3,748	-
Mortgage Servicing Rights	3,775	-	-	4,329
Accrued interest receivable	1,235	-	1,235	-
Financial liabilities				
Deposits	\$527,001	\$-	\$530,097	\$-
Notes payable	1,702	-	1,731	-
FHLB advances	21,000	-	21,274	-
Short-term borrowings	10,333	-	10,333	-
Trust preferred securities	20,620	-	7,353	-
Accrued interest payable	138	-	138	-

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

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains certain forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance. Examples of forward-looking statements include: (a) projections of income or expense, earnings per share, the payments or non-payments of dividends, capital structure and other financial items; (b) statements of plans and objectives of the Company or our management or Board of Directors, including those relating to products or services; (c) statements of future economic performance; and (d) statements of assumptions underlying such statements. Words such as "anticipates", "believes", "plans", "intends", "expects", "projects", "estimates", "should", "may", "would be", "will allow", "will likely result", "will continue", "will remain", or other expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying those statements. Forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation, changes in interest rates, changes in the competitive environment, and changes in banking regulations or other regulatory or legislative requirements affecting bank holding companies. Additional detailed information concerning a number of important factors which could cause actual results to differ materially from the forward-looking statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations is available in the Company's filings with the Securities and Exchange Commission, including the disclosure under the heading "Item 1A. Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as updated by the disclosure under the heading "Item 1A. Risk Factors" 32 of Part II of this Quarterly Report on Form 10-Q. Undue reliance should not be placed on the forward-looking statements, which speak only as of the date hereof. Except as may be required by law, the Company undertakes no obligation to update any forward-looking statement to reflect unanticipated events or circumstances after the date on which the statement is made.

Overview of SB Financial

SB Financial Group, Inc. ("SB Financial" or the "Company") is a bank holding company registered with the Federal Reserve Board. The name of the Company was changed to SB Financial Group, Inc. from Rurban Financial Corp. effective April 18, 2013. SB Financial's wholly-owned subsidiary, The State Bank and Trust Company ("State Bank"), is engaged in commercial banking. SB Financial's technology subsidiary, Rurbanc Data Services, Inc. ("RDSI"), provides item processing services to community banks and businesses.

Rurban Statutory Trust I ("RST") was established in August 2000. In September 2000, RST completed a pooled private offering of 10,000 Trust Preferred Securities with a liquidation amount of \$1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures of the Company with terms substantially similar to the Trust Preferred Securities. The sole assets of RST are the junior subordinated debentures, and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST.

Rurban Statutory Trust II ("RST II") was established in August 2005. In September 2005, RST II completed a pooled private offering of 10,000 Trust Preferred Securities with a liquidation amount of \$1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures of the Company with terms substantially similar to the Trust Preferred Securities. The sole assets of RST II are the junior subordinated debentures, and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the

obligations of RST II.

RFCBC, Inc. ("RFCBC") is an Ohio corporation and wholly-owned subsidiary of the Company that was incorporated in August 2004. RFCBC operates as a loan subsidiary in servicing and working out problem loans.

33

Rurban Investments, Inc. (“RII”) is a Delaware corporation and a wholly-owned subsidiary of State Bank that was incorporated in January 2009. RII holds agency, mortgage backed and municipal securities.

State Bank Insurance, LLC (“SBI”) is an Ohio corporation and a wholly-owned subsidiary of State Bank that was incorporated in June of 2010. SBI is an insurance company that engages in the sale of insurance products to retail and commercial customers of State Bank.

Unless the context indicates otherwise, all references herein to “SB Financial”, “we”, “us”, “our”, or the “Company” refer to Financial Group, Inc. and its consolidated subsidiaries.

Recent Regulatory Developments

Consumer Financial Protection Bureau

The Dodd-Frank Act established the Consumer Financial Protection Bureau (the “CFPB”), which regulates consumer financial products and services and certain financial services providers. The CFPB is authorized to prevent unfair, deceptive and abusive acts or practices and seeks to ensure consistent enforcement of laws so that consumers have access to fair, transparent and competitive markets for consumer financial products and services. The CFPB has rulemaking and interpretive authority.

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

The Dodd-Frank Act was enacted into law on July 21, 2010. The Dodd-Frank Act is significantly changing the regulation of financial institutions and the financial services industry. Because the Dodd-Frank Act requires various federal agencies to adopt a broad range of regulations with significant discretion, many of the details of the new law and the effects they will have on the Company will not be known for months and even years.

Among the provisions already implemented pursuant to the Dodd-Frank Act, the following provisions have or may have an effect on the business of the Company and its subsidiaries:

- the CFPB has been formed with broad powers to adopt and enforce consumer protection regulations;
- the federal law prohibiting the payment of interest on commercial demand deposit accounts was eliminated effective July 21, 2011;
- the standard maximum amount of deposit insurance per customer was permanently increased to \$250,000;
- the assessment base for determining deposit insurance premiums has been expanded from domestic deposits to average assets minus average tangible equity; and
- public companies in all industries are required to provide shareholders the opportunity to cast a non-binding advisory vote on executive compensation.

Additional provisions not yet implemented that may have an effect on the Company and its subsidiaries include the following:

- new capital regulations for bank holding companies will be adopted, which may impose stricter requirements, and any new trust preferred securities issued after May 19, 2010 will no longer constitute Tier I capital; and

- new corporate governance requirements applicable generally to all public companies in all industries will require new compensation practices and disclosure requirements, including requiring companies to “claw back” incentive compensation under certain circumstances, to consider the independence of compensation advisors and to make additional disclosures in proxy statements with respect to compensation matters.

Many provisions of the Dodd-Frank Act have not yet been implemented and will require interpretation and rule making by federal regulators. As a result, the ultimate effect of the Dodd-Frank Act on the Company cannot yet be determined. However, it is likely that the implementation of these provisions will increase compliance costs and fees paid to regulators, along with possibly restricting the operations of the Company and its subsidiaries.

Executive and Incentive Compensation

In June 2010, the Federal Reserve Board, the OCC and the FDIC issued joint interagency guidance on incentive compensation policies (the “Joint Guidance”) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. This principles-based guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization’s incentive compensation arrangements should (a) provide incentives that do not encourage risk-taking beyond the organization’s ability to effectively identify and manage risks, (b) be compatible with effective internal controls and risk management and (c) be supported by strong corporate governance, including active and effective oversight by the organization’s board of directors.

Pursuant to the Joint Guidance, the Federal Reserve Board will review as part of a regular, risk-focused examination process, the incentive compensation arrangements of financial institutions such as the Company. Such reviews will be tailored to each organization based on the scope and complexity of the organization’s activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination and deficiencies will be incorporated into the institution’s supervisory ratings, which can affect the institution’s ability to make acquisitions and take other actions. Enforcement actions may be taken against an institution if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization’s safety and soundness and prompt and effective measures are not being taken to correct the deficiencies.

On February 7, 2011, federal banking regulatory agencies jointly issued proposed rules on incentive-based compensation arrangements under applicable provisions of the Dodd-Frank Act (the “Proposed Rules”). The Proposed Rules generally apply to financial institutions with \$1.0 billion or more in assets that maintain incentive-based compensation arrangements for certain covered employees. The Proposed Rules (i) prohibit covered financial institutions from maintaining incentive-based compensation arrangements that encourage covered persons to expose the institution to inappropriate risk by providing the covered person with “excessive” compensation; (ii) prohibit covered financial institutions from establishing or maintaining incentive-based compensation arrangements for covered persons that encourage inappropriate risks that could lead to a material financial loss, (iii) require covered financial institutions to maintain policies and procedures appropriate to their size, complexity and use of incentive-based compensation to help ensure compliance with the Proposed Rules and (iv) require covered financial institutions to provide enhanced disclosure to regulators regarding their incentive-based compensation arrangements for covered person within 90 days following the end of the fiscal year.

Pursuant to rules adopted by the stock exchanges and approved by the SEC in January 2013 under the Dodd-Frank Act, public companies are required to implement “clawback” procedures for incentive compensation payments and to disclose the details of the procedures which allow recovery of incentive compensation that was paid on the basis of erroneous financial information necessitating a restatement due to material noncompliance with financial reporting requirements. This clawback policy is intended to apply to compensation paid within a three-year look-back window of the restatement and would cover all executives who received incentive awards. Public company compensation committee members are also required to meet heightened independence requirements and to consider the independence of compensation consultants, legal counsel and other advisors to the compensation committee. The compensation committees must have the authority to hire advisors and to have the company fund reasonable

compensation of such advisors.

BASEL III Capital Standards

In December 2010, the Basel Committee on Banking Supervision, an international forum for cooperation on banking supervisory matters, announced the “Basel III” capital standards, which proposed new capital requirements for banking organizations. On July 2, 2013, the Federal Reserve adopted a final rule implementing a revised capital framework based in part on the Basel III capital standards and, on July 9, 2013, the OCC also adopted a final rule and the FDIC adopted an interim final rule implementing a revised capital framework based in part on the Basel III capital standards. The rule will begin to phase in on January 1, 2014 for larger institutions and January 1, 2015 for smaller, less complex banking organizations such as the Company. The rule will be fully phased in by January 1, 2019.

The implementation of the final rule will lead to higher capital requirements and more restrictive leverage and liquidity ratios than those currently in place. Specifically, the rule imposes the following minimum capital requirements on federally insured financial institutions: (1) a new minimum common equity tier 1 capital to risk-weighted assets ratio of 4.5%; (2) a leverage capital ratio of 4%; (3) a tier 1 risk-based capital ratio of 6%; and (4) a total risk-based capital ratio of 8%. Under the rule, common equity generally consists of common stock, retained earnings and limited amounts of minority interests in the form of common stock. In addition, in order to avoid limitations on capital distributions, such as dividend payments and certain bonus payments to executive officers, the rule requires insured financial institutions to hold a capital conservation buffer of common equity tier 1 capital above its minimum risk-based capital requirements. The capital conservation buffer will be phased in over time, becoming effective on January 1, 2019, and will consist of an additional amount of common equity equal to 2.5% of risk-weighted assets. The rule will also revise the regulatory agencies' prompt corrective action framework by incorporating the new regulatory capital minimums and updating the definition of common equity. Until the rule is fully phased in, we cannot predict the ultimate impact it will have upon the financial condition or results of operations of the Company.

Critical Accounting Policies

Note 1 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 describes the significant accounting policies used in the development and presentation of the Company's financial statements. The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The Company's financial position and results of operations can be affected by these estimates and assumptions and are integral to the understanding of reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results, and they require management to make estimates that are difficult, subjective, or complex.

Allowance for Loan Losses - The allowance for loan losses provides coverage for probable losses inherent in the Company's loan portfolio. Management evaluates the adequacy of the allowance for loan losses each quarter based on changes, if any, in underwriting activities, loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, regulatory guidance and economic factors. This evaluation is inherently subjective, as it requires the use of significant management estimates. Many factors can affect management's estimates of specific and expected losses, including volatility of default probabilities, rating migrations, loss severity and economic and political conditions. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

The Company determines the amount of the allowance based on relative risk characteristics of the loan portfolio. The allowance recorded for commercial loans is based on reviews of individual credit relationships and an analysis of the migration of commercial loans and actual loss experience. The allowance recorded for homogeneous consumer loans is based on an analysis of loan mix, risk characteristics of the portfolio, fraud loss and bankruptcy experiences, and historical losses, adjusted for current trends, for each homogeneous category or group of loans. The allowance for credit losses relating to impaired loans is based on the loan's observable market price, the collateral for certain collateral-dependent loans, or the discounted cash flows using the loan's effective interest rate.

Regardless of the extent of the Company's analysis of customer performance, portfolio trends or risk management processes, certain inherent but undetected losses are probable within the loan portfolio. This is due to several factors, including inherent delays in obtaining information regarding a customer's financial condition or changes in their unique business conditions, the subjective nature of individual loan evaluations, collateral assessments and the interpretation of economic trends. Volatility of economic or customer-specific conditions affecting the identification and estimation of losses for larger non-homogeneous credits and the sensitivity of assumptions utilized to establish allowances for homogenous groups of loans are also factors. The Company estimates a range of inherent losses related to the existence of these exposures. The estimates are based upon the Company's evaluation of imprecise risk associated with the commercial and consumer allowance levels and the estimated impact of the current economic environment. To the extent that actual results differ from management's estimates, additional loan loss provisions may be required that could adversely impact earnings for future periods.

Goodwill and Other Intangibles - The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangibles, at fair value as required. Goodwill is subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using straight-line or accelerated methods, and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial goodwill and other intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired asset will perform in the future. Events and factors that may significantly affect the estimates include, among others, customer attrition, changes in

revenue growth trends, specific industry conditions and changes in competition. A decrease in earnings resulting from these or other factors could lead to an impairment of goodwill that could adversely impact earnings for future periods.

Three Months Ended September 30, 2013 compared to Three Months Ended September 30, 2012

Net Income: Net income for the third quarter of 2013 was \$1.34 million, or \$0.28 per diluted share, compared to net income of \$1.30 million, or \$0.27 per diluted share, for the third quarter of 2012. For the quarter, the Banking Group (consisting primarily of State Bank), had net income of \$1.83 million, which is up 2.8 percent compared to net income of \$1.78 million from the year ago third quarter. RDSI reported a net loss of \$90 thousand compared to a net loss of \$24 thousand from the year ago third quarter.

Provision for Loan Losses: The third quarter provision for loan losses was \$0.4 million compared to \$0.3 million for the year-ago quarter. Net charge-offs for the quarter were \$0.3 million compared to \$0.2 million for the year-ago quarter. Total delinquent loans ended the quarter at \$2.3 million, which is down \$1.4 million, or 39.1 percent, from the prior year.

Asset Quality Review – For the Period Ended (\$'s in Thousands)	September 30, 2013	December 31, 2012	September 30, 2012
Net charge-offs	\$ 294	\$ 1,068	\$ 223
Nonaccruing loans	5,580	5,305	5,249
Accruing Trouble Debt Restructures	1,756	1,258	1,735
Nonaccruing and restructured loans	5,456	6,563	6,984
OREO / OAO	1,430	2,367	2,415
Nonperforming assets	8,766	8,930	9,399
Nonperforming assets/Total assets	1.38 %	1.40 %	1.49 %
Allowance for loan losses/Total loans	1.50 %	1.47 %	1.47 %
Allowance for loan losses/Nonperforming loans	97.1 %	103.8 %	95.9 %

Consolidated Revenue: Total revenue, consisting of net interest income fully taxable equivalent (FTE) and noninterest income, was \$9.0 million for the third quarter of 2013, an increase of \$0.5 million, or 0.6 percent, from the \$8.9 million generated during the 2012 third quarter.

Net interest income (FTE) was \$5.3 million, which is down \$0.2 million from the prior year third quarter's \$5.5 million. The Company's earning assets increased \$2.6 million, but this was offset by a 38 basis point decrease in the yield on earning assets. The net interest margin for the third quarter of 2013 was 3.72 percent compared to 3.91 percent for the third quarter of 2012.

Noninterest income was \$3.7 million for the 2013 third quarter compared to \$3.4 million for the prior year period. Excluding data service fees, which are contributed by RDSI, the remaining noninterest income is generated by the Banking Group. RDSI fees continue to trail the prior year due to client losses.

State Bank originated \$55.2 million of mortgage loans compared to \$90.7 million for the third quarter of 2012. These third quarter 2013 originations and subsequent sales resulted in \$1.4 million of gains, which compares to gains of \$1.6 million for the third quarter of 2012. Compared to the prior year third quarter, total sales into the secondary market have decreased by \$23.7 million. Net mortgage banking revenue was \$1.8 million due to the recapture of OMSR impairment and higher margin on loan sales in the current year.

Consolidated Noninterest Expense: Noninterest expense for the third quarter of 2013 was \$6.6 million, compared to \$6.7 million in the prior-year third quarter. The Company experienced lower commission expenses during the quarter due to lower mortgage volumes.

Income Taxes: Income taxes for the third quarter of 2013 were \$0.6 million compared to \$0.5 million for the third quarter of 2012. The increase was due primarily to the increase in pre-tax income compared to the prior year.

Nine Months Ended September 30, 2013 compared to Nine Months Ended September 30, 2012

Net Income: Net income for the nine months ended September 30, 2013 was \$4.0 million, or \$0.82 per diluted share, compared to net income of \$3.29 million, or \$0.68 per diluted share, for the nine months ended September 30, 2012. For the year, the Banking Group (consisting primarily of State Bank), had net income of \$5.33 million, which is up 17.4 percent compared to net income of \$4.54 million the prior year. RDSI reported a net loss of \$75 thousand for the nine month period compared to net income of \$277 thousand from the first nine months of the prior year.

Provision for Loan Losses: The provision for loan losses for the nine months ended September 30, 2013 was \$0.9 million compared to \$1.0 million for the nine months ended June 30, 2012. Net charge-offs for the first nine months were \$0.6 million compared to \$0.8 million for the first nine months of the prior year.

Consolidated Revenue: Total revenue, consisting of net interest income fully taxable equivalent (FTE) and noninterest income, was \$27.2 million for the nine months ended September 30, 2013, an increase of \$1.2 million, or 4.5 percent, from the \$26.0 million generated during the first nine months of 2012.

Net interest income (FTE) was \$16.1 million, which is up \$0.3 million from the \$15.8 million for the prior year first nine months. The Company's earning assets increased \$3.9 million, but this was offset by a 23 basis point decrease in the yield on earning assets. The net interest margin for the nine months ended September 20, 2013 was 3.81 percent compared to 3.77 percent for the nine months ended September 30, 2012.

Noninterest income was \$11.1 million for the nine months ended September 30, 2013 compared to \$10.2 million for the prior year nine months ended. Gain on sale of loans was higher in 2013 compared to 2012 due to higher sales in residential mortgage and FSA/SBA loans. In addition, recapture of OMSR impairment increased mortgage servicing fees compared to the prior year nine month period.

Consolidated Noninterest Expense: Noninterest expense for the nine months ended September 30, 2013 was \$20.3 million, compared to \$20.3 million in the nine months ended September 30, 2012. Expenses related to our rebranding project increased costs compared to the prior year nine month period. These higher costs were offset by lower FDIC premiums.

Income Taxes: Income taxes for the nine months ended September 30, 2013 were \$1.7 million compared to \$1.3 million for the nine months ended September 30, 2012. The increase was due primarily to the increase in pre-tax income compared to the prior year.

Changes in Financial Condition

Total assets at September 30, 2013 were \$633.4 million, a decrease of \$4.8 million, or 0.8 percent, since 2012 year end. Total loans, net of unearned income, were \$475.2 million as of September 30, 2013, up \$11.8 million from year end, an increase of 2.6 percent.

Total deposits at September 30, 2013 were \$521.5 million, a decrease of \$5.5 million as compared to December 2012 balances. Borrowed funds (consisting of notes payable, FHLB advances, and REPOs) totaled \$31.5 million at September 30, 2013. This is down 4.6 percent from year end when borrowed funds totaled \$33.0 million. Total equity for the Company of \$55.5 million now stands at 8.8 percent of total assets, which is up slightly from the December 31, 2012 level of 8.4 percent.

Capital Resources

At September 30, 2013, actual capital levels and minimum required levels were as follows (\$'s in thousands):

	Actual		Minimum Required For Capital Adequacy Purposes				Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)								
Consolidated	\$63,665	13.2 %	\$38,632	8.0 %	\$-		N/A	
State Bank	\$59,942	12.4 %	38,556	8.0 %	\$48,196	10.0 %		

Both the Company and State Bank were categorized as well capitalized at September 30, 2013.

LIQUIDITY

Liquidity relates primarily to the Company's ability to fund loan demand, meet deposit customers' withdrawal requirements and provide for operating expenses. Assets used to satisfy these needs consist of cash and due from banks, federal funds sold, interest-earning deposits in other financial institutions, securities available-for-sale and loans held for sale. These assets are commonly referred to as liquid assets. Liquid assets were \$108.0 million at June 30, 2013, compared to \$124.0 million at December 31, 2012.

Liquidity risk arises from the possibility that the Company may not be able to meet the Company's financial obligations and operating cash needs or may become overly reliant upon external funding sources. In order to manage this risk, the Board of Directors of the Company has established a Liquidity Policy that identifies primary sources of liquidity, establishes procedures for monitoring and measuring liquidity and quantifies minimum liquidity requirements. This policy designates the Asset/Liability Committee ("ALCO") as the body responsible for meeting these objectives. The ALCO reviews liquidity regularly and evaluates significant changes in strategies that affect balance sheet or cash flow positions. Liquidity is centrally managed on a daily basis by the Company's Chief Financial Officer and Asset Liability Manager.

The Company's commercial real estate, first mortgage residential and multi-family mortgage portfolio of \$306.2 million at September 30, 2013 and \$289.3 million at December 31, 2012, which can and has been used to collateralize borrowings, is an additional source of liquidity. Management believes the Company's current liquidity level, without these borrowings, is sufficient to meet its liquidity needs. At September 30, 2013, all eligible commercial real estate, first mortgage residential and multi-family mortgage loans were pledged under an FHLB blanket lien.

The cash flow statements for the periods presented provide an indication of the Company's sources and uses of cash, as well as an indication of the ability of the Company to maintain an adequate level of liquidity. A discussion of the cash flow statements for the nine months ended September 30, 2013 and 2012 follows.

The Company experienced positive cash flows from operating activities for the nine months ended September 30, 2013 and September 30, 2012. Net cash provided by operating activities was \$10.4 million for the nine months ended September 30, 2013 and \$2.6 million for the nine months ended September 30, 2012. Highlights for the current year include \$221.4 million in proceeds from the sale of loans, which is down \$17.5 million from the prior

year. Originations of loans held for sale was a use of cash of \$209.1 million, which is also down from the prior year, by \$33.2 million. For the nine months ended September 30, 2013, there was a net recapture of Origination Mortgage Servicing Rights (OMSR) impairment of \$0.7 million, and gain on sale of loans of \$4.6 million.

The Company experienced negative cash flows from investing activities for the nine months ended September 30, 2013 and for the nine months ended September 30, 2012. Net cash flows used in investing activities was \$3.1 million for the nine months ended September 30, 2013 and \$3.5 million for the nine months ended September 30, 2012. Highlights for the nine months ended September 30, 2013 include \$21.5 million in purchases of available-for-sale securities. These cash payments were offset by \$23.3 million in proceeds from maturities and sales of securities, which is down \$11.4 million from the prior nine month period. The Company used cash of \$13.4 million to fund loan growth for the current nine month period compared to \$14.3 million to fund loan growth for the prior year nine month period. Sales of foreclosed assets provided cash of \$1.7 million for the nine months ended September 30, 2013.

The Company experienced negative cash flows from financing activities for the nine months ended September 30, 2013 and for the nine months ended September 30, 2012. Net cash flows used in financing activities was \$7.4 million for the nine months ended September 30, 2013 and \$3.6 million for the nine months ended September 30, 2012. Highlights for the current period include a \$10.5 million increase in transaction deposits for the nine months ended September 30, 2013, which is down from the \$15.7 million increase in transaction deposits for the nine months ended September 30, 2012. Certificates of deposit declined by \$15.9 million in the current year compared to a decline of \$19.2 million for the prior year.

ALCO uses an economic value of equity (“EVE”) analysis to measure risk in the balance sheet incorporating all cash flows over the estimated remaining life of all balance sheet positions. The EVE analysis calculates the net present value of the Company’s assets and liabilities in rate shock environments that range from -100 basis points to +400 basis points. The results of this analysis are reflected in the following tables for September 30, 2013 and December 31, 2012.

September 30, 2013			
Economic Value of Equity			
(\$'s in thousands)			
Change in Rates	\$ Amount	\$ Change	% Change
+400 basis points	100,304	13,362	15.37
+300 basis points	98,656	11,714	13.47
+200 basis points	96,180	9,239	10.36
+100 basis points	92,436	5,495	6.32
Base Case	86,941	-	-
-100 basis points	80,419	(6,522)	(7.50)

December 31, 2012			
Economic Value of Equity			
(\$'s in thousands)			
Change in Rates	\$ Amount	\$ Change	% Change
+400 basis points	95,056	14,010	14.12
+300 basis points	92,811	12,648	12.75
+200 basis points	89,642	10,362	10.44
+100 basis points	84,980	6,583	6.63
Base Case	77,514	-	-
-100 basis points	68,231	(9,283)	(11.98)

Off-Balance-Sheet Borrowing Arrangements:

Significant additional off-balance-sheet liquidity is available in the form of FHLB advances and unused federal funds lines from correspondent banks. Management expects the risk of changes in off-balance-sheet arrangements to be immaterial to earnings.

The Company’s commercial real estate, first mortgage residential and multi-family mortgage portfolios of \$306.2 million have been pledged to meet FHLB collateralization requirements as of September 30, 2013. Based on the current collateralization requirements of the FHLB, the Company had approximately \$27.4 million of additional borrowing capacity at September 30, 2013. The Company also had \$17.9 million in unpledged securities that may be used to pledge for additional borrowings.

At September 30, 2013, the Company had unused federal funds lines totaling \$11.5 million, with a zero balance outstanding.

The Company's contractual obligations as of September 30, 2013 were comprised of long-term debt obligations, other debt obligations, operating lease obligations and other long-term liabilities. Long-term debt obligations are comprised of FHLB Advances of \$16.0 million. Other debt obligations are comprised of Trust Preferred securities of \$20.6 million and Notes Payable of \$.68 million. The operating lease obligations consist of a lease on the RDSI-North building of \$162 thousand per year and a lease on the DCM-Lansing facility of \$105 thousand per year. Total time deposits at June 30, 2013 were \$178.2 million, of which \$87.4 million matures beyond one year.

Also, as of September 30, 2013, the Company had commitments to sell mortgage loans totaling \$10.7 million. The Company believes that it has adequate resources to fund commitments as they arise and that it can adjust the rate on savings certificates to retain deposits in changing interest rate environments. If the Company requires funds beyond its internal funding capabilities, advances from the FHLB of Cincinnati and other financial institutions are available.

ASSET LIABILITY MANAGEMENT

Asset liability management involves developing, executing and monitoring strategies to maintain appropriate liquidity, maximize net interest income and minimize the impact that significant fluctuations in market interest rates would have on current and future earnings. The business of the Company and the composition of its balance sheet consist of investments in interest-earning assets (primarily loans, mortgage-backed securities, and securities available for sale) which are primarily funded by interest-bearing liabilities (deposits and borrowings). With the exception of specific loans which are originated and held for sale, all of the financial instruments of the Company are for other than trading purposes. All of the Company's transactions are denominated in U.S. dollars with no specific foreign exchange exposure. In addition, the Company has limited exposure to commodity prices related to agricultural loans. The impact of changes in foreign exchange rates and commodity prices on interest rates are assumed to be insignificant. The Company's financial instruments have varying levels of sensitivity to changes in market interest rates resulting in market risk. Interest rate risk is the Company's primary market risk exposure; to a lesser extent, liquidity risk also impacts market risk exposure.

Interest rate risk is the exposure of a banking institution's financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability and shareholder value; however, excessive levels of interest rate risk could pose a significant threat to the Company's earnings and capital base. Accordingly, effective risk management that maintains interest rate risks at prudent levels is essential to the Company's safety and soundness.

Evaluating a financial institution's exposure to changes in interest rates includes assessing both the adequacy of the management process used to control interest rate risk and the organization's quantitative level of exposure. When assessing the interest rate risk management process, the Company seeks to ensure that appropriate policies, procedures, management information systems and internal controls are in place to maintain interest rate risks at prudent levels of consistency and continuity. Evaluating the quantitative level of interest rate risk exposure requires the Company to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity and asset quality (when appropriate).

The Federal Reserve Board together with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Company adopted a Joint Agency Policy Statement on interest rate risk effective June 26, 1996. The policy statement provides guidance to examiners and bankers on sound practices for managing interest rate risk, which will form the basis for ongoing evaluation of the adequacy of interest rate risk management at supervised institutions. The policy statement also outlines fundamental elements of sound management that have been identified in prior Federal Reserve guidance and discusses the importance of these elements in the context of managing interest rate risk. Specifically, the guidance emphasizes the need for active board of director and senior management oversight and a comprehensive risk management process that effectively identifies, measures and controls interest rate risk.

Financial institutions derive their income primarily from the excess of interest collected over interest paid. The rates of interest an institution earns on its assets and owes on its liabilities generally are established contractually for a period of time. Since market interest rates change over time, an institution is exposed to lower profit margins (or losses) if it cannot adapt to interest rate changes. For example, assume that an institution's assets carry intermediate or long-term fixed rates and that those assets are funded with short-term liabilities. If market interest rates rise by the time the short-term liabilities must be refinanced, the increase in the institution's interest expense on its liabilities may not be sufficiently offset if assets continue to earn at the long-term fixed rates. Accordingly, an institution's profits could decrease on existing assets because the institution will either have lower net interest income or possibly, net interest expense. Similar risks exist when assets are subject to contractual interest rate ceilings, or rate-sensitive assets are funded by longer-term, fixed-rate liabilities in a declining rate environment.

There are several ways an institution can manage interest rate risk including: 1) matching repricing periods for new assets and liabilities, for example, by shortening or lengthening terms of new loans, investments, or liabilities; 2) selling existing assets or repaying certain liabilities; and 3) hedging existing assets, liabilities, or anticipated transactions. An institution might also invest in more complex financial instruments intended to hedge or otherwise change interest rate risk. Interest rate swaps, futures contracts, options on futures contracts, and other such derivative financial instruments can be used for this purpose. Because these instruments are sensitive to interest rate changes, they require management's expertise to be effective. The Company has not purchased derivative financial instruments in the past but may purchase such instruments in the future if market conditions are favorable.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management believes there has been no material change in the Company's market risk from the information contained in the Company's Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2012.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

With the participation of the President and Chief Executive Officer (the principal executive officer) and the Executive Vice President and Chief Financial Officer (the principal financial officer) of the Company, the Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Company's President and Chief Executive Officer and the Company's Executive Vice President and Chief Financial Officer have concluded that:

- information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and other reports which the Company files or submits under the Exchange Act would be accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure;
- information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and other reports which the Company files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and
- the Company's disclosure controls and procedures were effective as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of our business, the Company and its subsidiaries are parties to various legal actions which we believe are incidental to the operation of our business. Although the ultimate outcome and amount of liability, if any, with respect to these legal actions cannot presently be ascertained with certainty, in the opinion of management, based upon information currently available to us, any resulting liability is not likely to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

There are certain risks and uncertainties in our business that could cause our actual results to differ materially from those anticipated. A detailed discussion of our risk factors is included in “Item 1A. Risk Factors” of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (the "2012 Form 10-K").

The following information updates our risk factors and should be read in conjunction with the risk factors disclosed in the 2012 Form 10-K.

Legislative or regulatory changes could adversely impact our businesses.

The financial services industry is extensively regulated. We are subject to state and federal regulation, supervision and legislation that govern almost all aspects of our operations. Laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors, federal deposit insurance funds and the banking system as a whole, and not to benefit our shareholders. Changes to laws and regulations or other actions by regulatory agencies may negatively impact us, possibly limiting the services we provide, increasing the ability of non-banks to compete with us or requiring us to change the way we operate. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the ability to impose restrictions on the operation of an institution and the ability to determine the adequacy of an institution's allowance for loan losses. Failure to comply with applicable laws, regulations and policies could result in sanctions being imposed by the regulatory agencies, including the imposition of civil money penalties, which could have a material adverse effect on our operations and financial condition.

In light of current conditions in the global financial markets and the global economy, regulators have increased their focus on the regulation of the financial services industry. Most recently, the federal government has intervened on an unprecedented scale in responding to the stresses experienced in the global financial markets. Some of the laws enacted by Congress and regulations promulgated by the federal banking regulators subject us and other financial institutions to additional restrictions, oversight or costs that may have an impact on our business, results of operations or the price of our common shares. In addition to laws, regulations and supervisory and enforcement actions directed at the operations of banks, proposals to reform the housing finance market contemplate winding down Fannie Mae and Freddie Mac, which could negatively affect our sales of loans.

The Dodd-Frank Act was signed into law on July 21, 2010 and, although it became generally effective in July 2010, many of its provisions have extended implementation periods and delayed effective dates and have and will continue to require extensive rulemaking by regulatory authorities. In addition, we may be subjected to higher deposit insurance premiums to the FDIC. We may also be subject to additional regulations under the newly established Consumer Financial Protection Bureau, which was given broad authority to implement new consumer protection regulations. These and other provisions of the Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, may place significant additional costs on us, impede our growth opportunities and

place us at a competitive disadvantage.

In July 2013, our primary federal regulator, the Federal Reserve, published final rules establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The implementation of the final rules will lead to higher capital requirements and more restrictive leverage and liquidity ratios than those currently in place. In addition, in order to avoid limitations on capital distributions, such as dividend payments and certain bonus payments to executive officers, the rules require insured financial institutions to hold a capital conservation buffer of common equity tier 1 capital above the minimum risk-based capital requirements. The capital conservation buffer will be phased in over time, becoming effective on January 1, 2019, and will consist of an additional amount of common equity equal to 2.5% of risk-weighted assets. The rules will also revise the regulatory agencies' prompt corrective action framework by incorporating the new regulatory capital minimums and updating the definition of common equity. The rules will not begin to phase in until January 1, 2014 for larger institutions and January 1, 2015 for smaller, less complex banking organizations such as the Company, and will be fully phased in by January 1, 2019. Until the rules are fully phased in, we cannot predict the ultimate impact it will have upon the financial condition or results of operations of the Company.

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

(a) Not applicable

(b) Not applicable

(c) Repurchases of Common Shares: The Company did not repurchase any of the Company's common shares during the three or nine months ended September 30, 2013.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

Exhibits

31.1 – Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)

31.2 – Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)

32.1 – Section 1350 Certification (Principal Executive Officer)

32.2 – Section 1350 Certification (Principal Financial Officer)

101 – The following information from SB Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 formatted in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012; (ii) the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2013 and 2012 (unaudited); (iii) the Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012 (unaudited); (iv) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2013 and 2012 (unaudited); (v) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 (unaudited); and (vi) the Notes to Unaudited Condensed Consolidated Financial Statements (electronically submitted herewith).

SIGNATURES

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

SB FINANCIAL GROUP, INC.

Date: November 7, 2013

By /s/ Mark A. Klein
Mark A. Klein
President & Chief Executive Officer

By /s/ Anthony V. Cosentino
Anthony V. Cosentino
Executive Vice President &
Chief Financial Officer