

SB FINANCIAL GROUP, INC.
Form 10-K
March 03, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark
One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
For the fiscal year ended December 31, 2013

OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the transition period from _____ to _____

Commission File Number 0-13507

SB FINANCIAL GROUP, INC.
(Exact name of Registrant as specified in its charter)

Ohio 34-1395608
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

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

Registrant's telephone number, including area code: (419) 783-8950

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, Without Par Value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:
Not Applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the common shares of the registrant held by non-affiliates computed by reference to the price at which the common shares were last sold as of the last business day of the registrant's most recently completed second fiscal quarter was \$37.1 million.

The number of common shares of the registrant outstanding at February 26, 2014 was 4,872,729.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 23, 2014 are incorporated by reference into Part III of this Annual Report on Form 10-K.

SB FINANCIAL GROUP, INC.

2013 ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. Business.

Certain statements contained in this Annual Report on Form 10-K which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See “Cautionary Statement Regarding Forward-Looking Information” under Item 1A. Risk Factors on page 11 of this Annual Report on Form 10-K.

General

SB Financial Group, Inc., an Ohio corporation (the “Company”), is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to regulation by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). The Company was organized in 1983. The executive offices of the Company are located at 401 Clinton Street, Defiance, Ohio 43512. The name of the Company was changed to SB Financial Group, Inc. from Rurban Financial Corp. effective April 18, 2013.

Through its direct and indirect subsidiaries, the Company is engaged in a variety of activities, including commercial banking, item processing, and wealth management services, as explained in more detail below.

State Bank

The State Bank and Trust Company (“State Bank”) is an Ohio state-chartered bank and wholly owned subsidiary of the Company, which offers a full range of commercial banking services, including checking accounts, savings accounts, money market accounts and time certificates of deposit; automatic teller machines; commercial, consumer, agricultural and residential mortgage loans; personal and corporate trust services; commercial leasing; bank credit card services; safe deposit box rentals; Internet and telephone banking; and other personalized banking services. The trust and financial services division of State Bank offers various trust and financial services, including asset management services for individuals and corporate employee benefit plans, as well as brokerage services through Cetera Financial Group. State Bank presently operates seventeen banking centers, all located within the Ohio counties of Allen, Defiance, Fulton, Lucas, Paulding, Wood and Williams, and one banking center located in Allen County, Indiana. State Bank also presently operates three Loan Production Offices, two in Franklin County, Ohio and one in Steuben County, Indiana. At December 31, 2013, State Bank had 192 full-time equivalent employees.

RFCBC

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. At December 31, 2013, RFCBC had no employees.

RDSI

Rurbanc Data Services, Inc. dba RDSI Banking Systems (“RDSI”) has been in operation since 1964 and became an Ohio corporation in June 1976. RDSI has one operating location in Defiance, Ohio. In September 2006, RDSI acquired Diverse Computer Marketers, Inc. (“DCM”) which was merged into RDSI effective December 31, 2007 and now operates as a division of RDSI doing business as “DCM”. DCM has one operating location in Lansing, Michigan providing item processing and related services to community banks located primarily in the Midwest. At December 31, 2013, RDSI had 8 full-time equivalent employees.

RMC

Rurban Mortgage Company (“RMC”) is an Ohio corporation and wholly owned subsidiary of State Bank. RMC is a mortgage company; however, it is presently inactive. At December 31, 2013, RMC had no employees.

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RII

Rurban Investments, Inc. (“RII”) is a Delaware corporation and wholly owned subsidiary of State Bank. RII is an investment company that engages in the purchases and sale of investment securities. At December 31, 2013, RII had no employees.

SBI

SBT Insurance, LLC (“SBI”) is an Ohio corporation and wholly owned subsidiary of State Bank. SBI is an insurance company that engages in the sale of insurance products to retail and commercial customers of State Bank. At December 31, 2013, SBI had no employees.

RST I

Rurban Statutory Trust I (“RST I”) is a trust that was organized in August 2000. In September 2000, RST I closed a pooled private offering of 10,000 Capital 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 with terms similar to the Capital Securities. The sole assets of RST I are the junior subordinated debentures and the back-up obligations, which in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST I under the Capital Securities.

RST II

Rurban Statutory Trust II (“RST II”) is a trust that was organized in August 2005. In September 2005, RST II closed a pooled private offering of 10,000 Capital 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 with terms similar to the Capital Securities. The sole assets of RST II are the junior subordinated debentures and the back-up obligations, which in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST II under the Capital Securities.

Competition

The Company experiences significant competition in attracting depositors and borrowers. Competition in lending activities comes principally from other commercial banks in the lending areas of State Bank, and to a lesser extent, from savings associations, insurance companies, governmental agencies, credit unions, securities brokerage firms and pension funds. The primary factors in competing for loans are interest rates charged and overall banking services.

State Bank’s competition for deposits comes from other commercial banks, savings associations, money market funds and credit unions as well as from insurance companies and securities brokerage firms. The primary factors in competing for deposits are interest rates paid on deposits, account liquidity and convenience of office location. State Bank operates in the highly competitive trust services field and its competition consists primarily of other bank trust departments.

RDSI operates in the highly competitive check and statement processing service business, which consists primarily of data processing providers and commercial printers. The primary factors in competition are price and printing capability.

Supervision and Regulation

The following is a description of the significant statutes and regulations applicable to the Company and its subsidiaries. The description is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by the U.S. Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to the Company or its subsidiaries could have a material effect on our business.

Regulation of Bank Holding Companies and Their Subsidiaries in General

The Company is a bank holding company and, as such, is subject to regulation under the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). The Bank Holding Company Act requires the prior approval of the Federal Reserve Board (FRB) before a bank holding company may acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank (unless the bank is already majority owned by the bank holding company), acquire all or substantially all of the assets of another bank or bank holding company, or merge or consolidate with any other bank holding company. Subject to certain exceptions, the Bank Holding Company Act also prohibits a bank holding company from acquiring 5% of the voting shares of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks. The primary exception to this prohibition allows a bank holding company to own shares in any company the activities of which the FRB had determined, as of November 19, 1999, to be so closely related to banking as to be a proper incident thereto.

The Company is subject to the reporting requirements of, and examination and regulation by, the FRB. The FRB has extensive enforcement authority over bank holding companies, including, without limitation, the ability to assess civil money penalties, issue cease and desist or removal orders, and require that a bank holding company divest subsidiaries, including its subsidiary banks. In general, the FRB may initiate enforcement actions for violations of laws and regulations and for unsafe or unsound practices. A bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with extensions of credit and/or the provision of other property or services to a customer by the bank holding company or its subsidiaries.

Various requirements and restrictions under the laws of the United States and the State of Ohio affect the operations of State Bank, including requirements to maintain reserves against deposits, restrictions on the nature and amount of loans which may be made and the interest that may be charged thereon, restrictions relating to investments and other activities, limitations on credit exposure to correspondent banks, limitations on activities based on capital and surplus, limitations on payment of dividends, and limitations on branching. Various consumer laws and regulations also affect the operations of State Bank.

The Federal Home Loan Banks (“FHLBs”) provide credit to their members in the form of advances. As a member of the FHLB of Cincinnati, State Bank must maintain certain minimum investments in the capital stock of the FHLB of Cincinnati. State Bank was in compliance with these requirements at December 31, 2013.

Dividends

There can be no assurance as to the amount of dividends which may be declared in future periods with respect to the common shares of the Company, since such dividends are subject to the discretion of the Company’s Board of Directors, cash needs, general business conditions, dividends from the Company’s subsidiaries and applicable governmental regulations and policies.

The ability of the Company to obtain funds for the payment of dividends and for other cash requirements is largely dependent on the amount of dividends that may be declared by its subsidiaries. State Bank may not pay dividends to the Company if, after paying such dividends, it would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. State Bank must obtain the approval of the FRB and the Ohio Division of Financial Institutions (ODFI) if a dividend in any year would cause the total dividends for that year to exceed the sum of the current year’s net profits and the retained net profits for the preceding two years, less required transfers to surplus. At December 31, 2013, State Bank had \$7.8 million of excess earnings over the preceding three years.

Payment of dividends by State Bank may be restricted at any time at the discretion of the regulatory authorities, if they deem such dividends to constitute an unsafe and/or unsound banking practice. Moreover, the FRB expects the Company to serve as a source of strength to its subsidiary banks, which may require it to retain capital for further investment in the subsidiary, rather than for dividends to shareholders of the Company.

Affiliate Transactions

The Company and the Bank are legal entities separate and distinct. Various legal limitations restrict the Bank from lending or otherwise supplying funds to the Company (or any other affiliate), generally limiting such transactions with the affiliate to 10% of the Bank’s capital and surplus and limiting all such transactions with all affiliates to 20% of the Bank’s capital and surplus. Such transactions, including extensions of credit, sales of securities or assets and provision of services, also must be on terms and conditions consistent with safe and sound banking practices, including credit standards, that are substantially the same or at least as favorable to the Bank as those prevailing at the time for transactions with unaffiliated companies.

Federally insured banks are subject, with certain exceptions, to certain additional restrictions (including collateralization) on extensions of credit to their parent holding companies or other affiliates, on investments in the stock or other securities of affiliates and on the taking of such stock or securities as collateral from any borrower. In addition, such banks are prohibited from engaging in certain tying arrangements in connection with any extension of credit or the providing of any property or service.

Regulatory Capital

The FRB has adopted risk-based capital guidelines for bank holding companies and for state member banks, such as State Bank. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk weighted assets by assigning assets and off-balance-sheet items to broad risk categories. The minimum ratio of total capital to risk weighted assets (including certain off-balance-sheet items, such as standby letters of credit) is 8%. Of that 8%, at least 4% must be comprised of common shareholders' equity (including retained earnings but excluding treasury stock), non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets ("Tier 1 capital"). The remainder of total risk-based capital ("Tier 2 capital") may consist, among other things, of certain amounts of mandatory convertible debt securities, subordinated debt, preferred stock not qualifying as Tier 1 capital, allowance for loan and lease losses and net unrealized gains, after applicable taxes, on available-for-sale equity securities with readily determinable fair values, all subject to limitations established by the guidelines. Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, one of four risk weights (0%, 20%, 50%, and 100%) is applied to different balance sheet and off-balance sheet assets, primarily based on the relative credit risk of the counterparty. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

In July 2013, the FRB and the federal banking agencies published final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and State Bank. These rules implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. "Basel III" refers to various documents released by the Basel Committee on Banking Supervision.

Effective in 2015, State Bank and the Company will be subject to new capital regulations (with some provisions transitioned into full effectiveness over two to four years). The new requirements create a new required ratio for common equity Tier 1 ("CET1") capital, increases the leverage and Tier 1 capital ratios, changes the risk-weights of certain assets for purposes of the risk-based capital ratios, creates an additional capital conservation buffer over the required capital ratios and changes what qualifies as capital for purposes of meeting these various capital requirements. Beginning in 2016, failure to maintain the required capital conservation buffer will limit the ability of the Company to pay dividends, repurchase shares or pay discretionary bonuses.

When these new requirements become effective, certain of the minimum capital requirements for State Bank will change. The minimum leverage ratio of 4% of adjusted total assets and total capital ratio of 8% of risk-weighted assets will remain the same; however, the Tier 1 capital ratio will increase from 4.0% to 6.5% of risk-weighted assets. In addition, the Company will have to meet the new minimum CET1 capital ratio of 4.5% of risk-weighted assets. CET1 consists generally of common stock, retained earnings and accumulated other comprehensive income (AOCI), subject to certain adjustments.

Mortgage servicing rights, certain deferred tax assets and investments in unconsolidated subsidiaries over designated percentages of common stock will be deducted from capital, subject to a two-year transition period. In addition, Tier 1 capital will include AOCI, which includes all unrealized gains and losses on available for sale debt and equity securities, subject to a two-year transition period. Because of its asset size, State Bank has the one-time option of

deciding in the first quarter of 2015 whether to permanently opt-out of the inclusion of AOCI in its capital calculations. State Bank is considering whether to take advantage of this opt-out to reduce the impact of market volatility on its regulatory capital levels.

The new requirements also include changes in the risk-weights of certain assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days past due or otherwise in nonaccrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less; a 250% risk weight (up from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital; and increased risk-weights (0% to 600%) for equity exposures.

In addition to the minimum CET1, Tier 1 and total capital ratios, State Bank will have to maintain a capital conservation buffer consisting of additional CET1 capital equal to 2.5% of risk-weighted assets above each of the required minimum capital levels in order to avoid limitations on paying dividends, engaging in share repurchases and paying certain discretionary bonuses. This new capital conservation buffer requirement is phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019.

The FRB's prompt corrective action standards will change when these new capital ratios become effective. Under the new standards, in order to be considered well-capitalized, State Bank will be required to have at least a CET1 ratio of 6.5% (new), a Tier 1 ratio of 8% (increased from 6%), a total capital ratio of 10% (unchanged) and a leverage ratio of 5% (unchanged) and not be subject to specified requirements to meet and maintain a specific capital ratio for a capital measure.

State Bank conducted a proforma analysis of the application of these new capital requirements as of September 30, 2013. Based on that analysis, State Bank determined that it meets all these new requirements, including the full 2.5% capital conservation buffer, and would remain well capitalized if these new requirements had been in effect on that date.

In addition, as noted above, beginning in 2016, if State Bank does not have the required capital conservation buffer, its ability to pay dividends to the Company would be limited.

Federal Deposit Insurance Corporation ("FDIC")

The FDIC is an independent federal agency which insures the deposits of federally-insured banks and savings associations up to certain prescribed limits and safeguards the safety and soundness of financial institutions. State Bank's deposits are subject to the deposit insurance assessments of the FDIC. Under the FDIC's deposit insurance assessment system, the assessment rate for any insured institution may vary according to regulatory capital levels of the institution and other factors such as supervisory evaluations.

The FDIC is authorized to prohibit any insured institution from engaging in any activity that poses a serious threat to the insurance fund and may initiate enforcement actions against a bank, after first giving the institution's primary regulatory authority an opportunity to take such action. The FDIC may also terminate the deposit insurance of any institution that has engaged in or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, order or condition imposed by the FDIC.

SEC and NASDAQ Regulation

The Company is subject to the jurisdiction of the Securities and Exchange Commission (the "SEC") and certain state securities authorities relating to the offering and sale of its securities. The Company is subject to the registration, reporting and other regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules adopted by the SEC under those acts. The Company's common shares are listed on The NASDAQ Global Market under the symbol "SBFG", and the Company is subject to the rules and regulations of The NASDAQ Stock Market, Inc. ("NASDAQ") applicable to listed companies.

Sarbanes-Oxley Act of 2002 and Related Rules Affecting Corporate Governance

As mandated by the Sarbanes-Oxley Act of 2002 (“SOX”), the SEC has adopted rules and regulations governing, among other matters, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. The SEC has also approved corporate governance rules promulgated by NASDAQ. The Board of Directors of the Company has taken a series of actions to comply with the NASDAQ and SEC rules and to further strengthen its corporate governance practices. The Company has adopted and implemented a Code of Conduct and Ethics and a copy of that policy can be found on the Company’s website at www.yourSBFinancial.com by first clicking “Corporate Governance” and then “Code of Conduct”. The Company has also adopted charters of the Audit Committee, the Compensation Committee and the Governance and Nominating Committee, which charters are available on the Company’s website at www.yourSBFinancial.com by first clicking “Corporate Governance” and then “Supplementary Info”.

USA Patriot Act

The Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “Patriot Act”) gives the United States Government greater powers over financial institutions to combat money laundering and terrorist access to the financial system in our country. The Patriot Act requires regulated financial institutions to establish programs for obtaining identifying information from customers seeking to open new accounts and establish enhanced due diligence policies, procedures and controls designed to detect and report suspicious activity.

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;
- public companies in all industries are or will be required to provide shareholders the opportunity to cast a non-binding advisory vote on executive compensation;
- new capital regulations for bank holding companies have been adopted, which will 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 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.

The Volcker Rule

In December 2013, five federal agencies adopted a final regulation implementing the Volcker Rule provision of the Dodd-Frank Act (the “Volcker Rule”). The Volcker Rule places limits on the trading activity of insured depository institutions and entities affiliated with a depository institution, subject to certain exceptions. The trading activity includes a purchase or sale as principal of a security, derivative, commodity future or option on any such instrument in order to benefit from short-term price movements or to realize short-term profits. The Volcker Rule exempts specified U.S. Government, agency and/or municipal obligations, and it excepts trading conducted in certain capacities, including as a broker or other agent, through a deferred compensation or pension plan, as a fiduciary on behalf of customers, to satisfy a debt previously contracted, repurchase and securities lending agreements and risk-mitigating hedging activities.

The Volcker Rule also prohibits a banking entity from having an ownership interest in, or certain relationships with, a hedge fund or private equity fund, with a number of exceptions. The Company does not engage in any of the trading activities or have any ownership interest in or relationship with any of the types of funds regulated by the Volcker Rule.

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.

Effect of Environmental Regulation

Compliance with federal, state and local provisions regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect upon the capital expenditures, earnings or competitive position of the Company and its subsidiaries. The Company believes that the nature of the operations of its subsidiaries has little, if any, environmental impact. The Company, therefore, anticipates no material capital expenditures for environmental control facilities for its current fiscal year or for the foreseeable future. The Company’s subsidiaries may be required to make capital expenditures for environmental control facilities related to properties which they may acquire through foreclosure proceedings in the future; however, the amount of such capital expenditures, if any, is not currently determinable.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

The following are the condensed average balance sheets for the years ending December 31 and the interest earned or paid on such amounts and the average interest rate thereon:

(\$ in thousands)	2013			2012			2011		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:									
Taxable securities	\$ 78,520	\$ 1,244	1.58 %	\$ 90,182	\$ 1,515	1.68 %	\$ 97,528	\$ 2,010	2.06 %
Non-taxable securities (1)	17,267	1,065	6.17 %	15,160	919	6.06 %	21,892	1,483	6.77 %
Federal funds sold	-	-	N/A	-	-	N/A	219	1	0.25 %
Loans, net (2)(3)	469,603	22,936	4.88 %	455,516	24,047	5.28 %	438,383	24,558	5.60 %
Total earning assets	565,390	25,245	4.47 %	560,858	26,481	4.72 %	558,022	28,052	5.03 %
Cash and due from banks	20,827			20,728			26,477		
Allowance for loan losses	(6,962)			(6,591)			(6,534)		
Premises and equipment	14,635			15,360			16,797		
Other assets	46,030			47,680			48,766		
Total assets	\$ 639,920			\$ 638,035			\$ 643,528		
Liabilities									
Savings and interest-bearing demand deposits	\$ 262,954	\$ 136	0.05 %	\$ 245,528	\$ 210	0.09 %	\$ 234,497	\$ 368	0.16 %
Time deposits	180,154	2,095	1.16 %	206,135	2,759	1.34 %	217,546	3,614	1.66 %
Repurchase agreements	12,011	11	0.09 %	15,180	142	0.94 %	31,307	912	2.91 %
Advances from FHLB	18,551	339	1.83 %	15,547	333	2.14 %	15,674	402	2.57 %
Trust preferred securities	20,620	1,407	6.82 %	20,620	1,882	9.13 %	20,620	1,406	6.82 %
Notes payable & other borrowed funds	1,074	47	4.38 %	2,058	64	3.11 %	3,085	96	3.12 %
Total interest-bearing liabilities	495,364	4,035	0.81 %	505,068	5,390	1.07 %	522,728	6,798	1.30 %
Demand deposits	78,540			70,749			64,239		
Other liabilities	11,316			11,918			9,526		

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Total liabilities	585,220	587,735	596,493
Shareholders' equity	54,700	50,300	47,035
Total liabilities and shareholders' equity	\$ 639,920	\$ 638,035	\$ 643,528
Net interest income (tax equivalent basis)	\$ 21,210	\$ 21,091	\$ 21,254
Net interest income as a percent of average interest-earning assets	3.75 %	3.76 %	3.81 %

- (1) Security interest is computed on a tax equivalent basis using a 34% statutory tax rate. The tax equivalent adjustment was \$0.4 million, \$0.3 million and \$0.50 million in 2013, 2012 and 2011, respectively.
- (2) Nonaccruing loans and loans held for sale are included in the average balances.
- (3) Loan interest is computed on a tax equivalent basis using a 34% statutory tax rate. The tax equivalent adjustment was \$0.04 million, \$0.05 million and \$0.04 million in 2013, 2012 and 2011, respectively.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

(Continued)

The following tables set forth the effect of volume and rate changes on interest income and expense for the periods indicated. For purposes of these tables, changes in interest due to volume and rate were determined as follows:

- Volume Variance - change in volume multiplied by the previous year's rate.
- Rate Variance - change in rate multiplied by the previous year's volume.
- Rate/Volume Variance - change in volume multiplied by the change in rate. This variance was allocated to volume variance and rate variance in proportion to the relationship of the absolute dollar amount of the change in each.
- Interest on non-taxable securities has been adjusted to a fully tax equivalent basis using a statutory tax rate of 34% in 2013 and 2012.

(\$ in thousands)	Total Variance 2013/2012	Variance Attributable To	
		Volume	Rate
Interest income			
Taxable securities	\$ (271)	\$ 124	\$ (395)
Non-taxable securities	146	128	18
Federal funds sold	-	-	-
Loans, net of unearned income and deferred fees	(1,111)	744	(1,855)
	(1,236)	996	(2,232)
Interest expense			
Savings and interest-bearing demand deposits	(135)	16	(151)
Time deposits	(603)	(348)	(255)
Repurchase agreements	(131)	(30)	(101)
Advances from FHLB	6	64	(58)
Trust preferred securities	(408)	-	(408)
Other borrowed funds	(84)	(63)	(21)
	(1,355)	(361)	(994)
Net interest income	\$ 119	\$ 1,357	\$ (1,238)

II. INVESTMENT PORTFOLIO

A. The fair value of securities available for sale as of December 31 in each of the following years are summarized as follows:

(\$ in thousands)	2013	2012	2011
U.S. Treasury and government agencies	\$ 11,300	\$ 14,511	\$ 25,424
Mortgage-backed securities	57,223	63,764	67,699
State and political subdivisions	18,155	18,249	16,792
Money Market Mutual Fund	3,092	2,155	2,040
Marketable equity securities	23	23	23
Total	\$ 89,793	\$ 98,702	\$ 111,978

B. The maturity distribution and weighted average interest rates of securities available for sale at December 31, 2013 are set forth in the table below. The weighted average interest rates are based on coupon rates for securities purchased at par value and on effective interest rates considering amortization or accretion if the securities were purchased at a premium or discount:

(\$ in thousands)	Maturing			
	Within One Year	After One Year but within Five Years	After Five Years but within Ten Years	After Ten Years
U.S. Treasury and government agencies	\$ -	\$ 102	\$ 7,183	\$ 4,015
Mortgage-backed securities	-	3,758	15,953	37,512
State and political subdivisions	-	1,358	3,859	12,938
Total Securities with maturity	\$ -	\$ 5,218	\$ 26,995	\$ 54,465
Weighted average yield by maturity (1)	0.00 %	2.87 %	2.24 %	2.99 %
Money Market Mutual Fund with no maturity	\$ 3,092	-	-	-
Marketable equity securities with no maturity	23	-	-	-
Total Securities with no stated maturity	\$ 3,115	\$ -	\$ -	\$ -
Weighted average yield no maturity (1)	< 0.01%	-	-	-

(1) Yields are presented on a tax-equivalent basis. Money market funds represent the payments received on mortgage-backed securities or funds received from the maturity or calls of U.S Treasury, government agency and municipal securities. These funds are then reinvested back into these securities.

C. Excluding those holdings of the investment portfolio in U.S. Treasury securities and other agencies of the U.S. Government, there were no other securities of any one issuer which exceeded 10% of the shareholders' equity of

the Company at December 31, 2013.

III. LOAN PORTFOLIO

A. Types of Loans - Total loans on the balance sheet are comprised of the following classifications at December 31 for the years indicated:

Types of Loans

(\$ in thousands)	2013	2012	2011	2010	2009
Commercial business and agricultural	\$ 124,578	\$ 124,043	\$ 116,473	\$ 113,251	\$ 126,128
Commercial real estate	205,301	201,392	187,829	177,890	179,909
Residential real estate mortgage	99,620	87,859	87,656	84,775	92,972
Consumer loans to individuals and other	47,804	50,371	50,897	51,904	53,876
Total	477,303	463,665	442,855	427,820	452,885
Residential Loans held for sale	3,366	6,147	5,238	9,055	16,858
Total Loans	\$469,536	\$469,536	\$447,792	\$436,599	\$469,743

Concentrations of Credit Risk: The Company grants commercial, real estate and installment loans to customers mainly in Northwest Ohio. Commercial loans include loans collateralized by commercial real estate, business assets and, in the case of agricultural loans, crops and farm equipment and the loans are expected to be repaid from cash flow from operations of businesses. As of December 31, 2013, commercial business and agricultural loans made up approximately 26.1 percent of the loan portfolio while commercial real estate loans accounted for approximately 43.0 percent of the loan portfolio. As of December 31, 2013, residential first mortgage loans made up approximately 20.9 percent of the loan portfolio and are secured by first mortgages on residential real estate. As of December 31, 2013, consumer loans to individuals made up approximately 10.0 percent of the loan portfolio and are primarily secured by consumer assets.

B. Maturities and Sensitivities of Loans to Changes in Interest Rates - The following table shows the amounts of commercial and agricultural loans outstanding as of December 31, 2013 which, based on remaining scheduled repayments of principal, are due in the periods indicated. Also, the amounts have been classified according to sensitivity to changes in interest rates for commercial and agricultural loans due after one year. (Variable-rate loans are those loans with floating or adjustable interest rates.)

(\$ in thousands)	Maturing	Commercial Business & Agricultural	Commercial Real Estate	Total
Within one year		\$ 17,079	\$ 22,734	\$ 39,813
After one year but within five years		38,756	63,624	102,380
After five years		68,743	118,943	187,686
Total commercial business, commercial real estate and agricultural loans		\$ 124,578	\$ 205,301	\$ 329,879

III. LOAN PORTFOLIO (Continued)

(\$ in thousands)	Interest Sensitivity		Total
	Fixed Rate	Variable Rate	
Commercial Business and Agricultural			
Due after one year but within five years	\$20,514	\$18,242	\$38,756
Due after five years	14,214	54,528	68,742
Total	\$34,728	\$72,770	\$107,498
Commercial Real Estate			
Due after one year but within five years	25,647	37,977	63,624
Due after five years	36,327	82,616	118,943
Total	\$61,974	\$120,593	\$182,567
Commercial Business, Commercial Real Estate and Agricultural			
Due after one year but within five years	46,161	56,219	102,380
Due after five years	50,542	137,144	187,686
Total	\$96,703	\$193,363	\$290,066

C. Risk Elements

1. Non-accrual, Past Due, Restructured and Impaired Loans – The following schedule summarizes non-accrual, past due, and restructured loans at December 31 for the years indicated:

Risk Elements

(\$ in thousands)	2013	2012	2011	2010	2009
(a) Loans accounted for on a non-accrual basis	\$4,844	\$5,305	\$6,900	\$12,283	\$18,543
(b) Accruing loans which are contractually past due 90 days or more as to interest or principal payments	-	-	-	-	-
(c) Loans not included in (a) which are "Troubled Debt Restructurings" as defined by Accounting Standards Codification 310-40	1,739	1,258	1,334	1,107	1,364
Total non-performing loans and TDRs	\$6,583	\$6,563	\$8,234	\$13,390	\$19,907

(\$ in thousands)	2013	2012
Cash basis interest income recognized on impaired loans outstanding	\$228	\$190
Interest income actually recorded on impaired loans and included in net income for the period	232	170

Unrecorded interest income on non-accrual loans	95	362
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III. LOAN PORTFOLIO (Continued)

Management believes the allowance for loan losses at December 31, 2013 was adequate to absorb any losses on non-performing loans, as the allowance balance is maintained by management at a level considered adequate to cover losses that are probable based on past loss experience, general economic conditions, information about specific borrower situations, including their financial position and collateral values, and other factors and estimates which are subject to change over time.

1. Discussion of the Non-accrual Policy

The accrual of interest income is discontinued when the collection of a loan or interest, in whole or in part, is doubtful. When interest accruals are discontinued, interest income accrued in the current period is reversed. Loans which are past due 90 days or more as to interest or principal payments are considered for non-accrual status.

2. Potential Problem Loans

As of December 31, 2013, in addition to the \$4.8 million of non-performing loans reported under Item III.C.1. above (which amount includes all loans classified by management as doubtful or loss), there were approximately \$5.2 million in other outstanding loans where known information about possible credit problems of the borrowers caused management to have concerns as to the ability of such borrowers to comply with the present loan repayment terms (loans classified as substandard by management) and which may result in disclosure of such loans pursuant to Item III.C.1. at some future date. In regard to loans classified as substandard, management believes that such potential problem loans have been adequately evaluated in the allowance of loan losses.

3.	Foreign Outstandings
	None

4. Loan Concentrations

At December 31, 2013, loans outstanding related to agricultural operations or collateralized by agricultural real estate and equipment aggregated approximately \$39.2 million, or 8.2% of total loans.

D. Other Interest-Bearing Assets

There were no other interest-bearing assets as of December 31, 2013 which would be required to be disclosed under Item III.C.1 or Item III.C.2. if such assets were loans.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

A. The following schedule presents an analysis of the allowance for loan losses, average loan data and related ratios at December 31 for the years indicated:

Summary of Loan Loss Experience

(\$ in thousands)	2013	2012	2011	2010	2009
Loans					
Loans outstanding at end of period	\$477,303	\$463,389	\$442,855	\$427,820	\$452,885
Average loans outstanding during period	\$469,603	\$455,516	\$438,883	\$445,700	\$453,787
Allowance for loan losses					
Balance at beginning of period	\$6,811	\$6,529	\$6,715	\$7,030	\$5,020
Loans charged-off:					
Commercial business and agricultural loans					
	-	(400)	(642)	(4,739)	(1,248)
Commercial real estate	(111)	(287)	(2,057)	(4,748)	(918)
Residential real estate mortgage	(264)	(129)	(248)	(1,210)	(1,218)
Consumer loans and other	(444)	(512)	(460)	(637)	(491)
	(819)	(1,328)	(3,407)	(11,334)	(3,875)
Recoveries of loans previously charged-off					
Commercial business and agricultural loans					
	22	48	468	193	50
Commercial real estate	17	50	32	171	14
Residential real estate mortgage	21	86	700	53	54
Consumer loans and other	12	76	27	14	29
	72	260	1,227	431	147
Net loans charged-off	(747)	(1,068)	(2,180)	(10,903)	(3,728)
Provision for loan losses	900	1,350	1,994	10,588	5,738
Balance at end of period	\$6,964	\$6,811	\$6,529	\$6,715	\$7,030
Ratio of net charge-offs during the period to average loans outstanding during the period					
	0.16	% 0.24	% 0.49	% 2.45	% 0.84

The allowance for loan losses balance and the provision for loan losses are determined by management based upon periodic reviews of the loan portfolio. In addition, management considers the level of charge-offs on loans, as well as the fluctuations of charge-offs and recoveries on loans, in the factors which caused these changes. Estimating the risk of loss and the amount of loss is necessarily subjective. Accordingly, the allowance is maintained by management at a level considered adequate to cover losses that are currently anticipated based on past loss experience, economic conditions, information about specific borrower situations, including their financial position and collateral values, and other factors and estimates which are subject to change over time.

IV. SUMMARY OF LOAN LOSS EXPERIENCE (Continued)

B.The following schedule provides a breakdown of the allowance for loan losses allocated by type of loan and related ratios at December 31 for the years indicated:

Allocation of the Allowance for Loan Losses

	Percentage of Loans In Each Category to		Percentage of Loans In Each Category to		Percentage of Loans In Each Category to		Percentage of Loans In Each Category to		Percentage of Loans In Each Category to	
	Allowance Amount	Total Loans	Allowance Amount	Total Loans	Allowance Amount	Total Loans	Allowance Amount	Total Loans	Allowance Amount	Total Loans
(\$ in thousands)	2013		2012		2011		2010		2009	
Commercial and agricultural	\$ 2,334	26.1 %	\$ 1,747	26.7 %	\$ 1,965	26.3 %	\$ 1,739	26.5 %	\$ 2,685	27.8 %
Commercial real estate	2,708	43.0 %	3,034	43.5 %	2,880	42.4 %	3,774	41.6 %	2,804	39.7 %
Residential first mortgage	1,067	20.9 %	1,088	19.0 %	956	19.8 %	643	19.8 %	717	20.5 %
Consumer loans and other	855	10.0 %	942	10.9 %	728	11.5 %	559	12.1 %	824	11.9 %
	\$ 6,964	100.0 %	\$ 6,811	100.0 %	\$ 6,529	100.0 %	\$ 6,715	100.0 %	\$ 7,030	100.0 %

While management's periodic analysis of the adequacy of the allowance for loan losses may allocate portions of the allowance for specific problem loan situations, the entire allowance is available for any loan charge-offs that occur.

V. DEPOSITS

The average amount of deposits and average rates paid are summarized as follows for the years ended December 31:

(\$ in thousands)	2013		2012		2011	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
Savings and interest-bearing demand deposits	\$262,954	0.05 %	\$245,528	0.09 %	\$234,497	0.16 %
Time deposits	180,154	1.16 %	206,135	1.34 %	217,546	1.66 %
Demand deposits (non-interest-bearing)	78,332	-	70,749	-	64,239	-
	\$521,440		\$522,412		\$516,282	

Maturities of time certificates of deposit and other time deposits of \$100,000 or more outstanding at December 31, 2013 are summarized as follows:

	Amount (dollars in thousands)
Three months or less	\$8,945
Over three months and through six months	7,709
Over six months and through twelve months	26,624
Over twelve months	33,530
Total	\$76,808

VI. RETURN ON EQUITY AND ASSETS

The ratio of net income to average shareholders' equity and average total assets and certain other ratios are as follows for periods ended December 31:

Return on Equity and Assets

(\$ in thousands)	2013	2012	2011
Average total assets	\$639,920	\$638,035	\$643,528
Average shareholders' equity	\$54,700	\$50,300	\$47,035
Net income	\$5,205	\$4,814	\$1,664
Cash dividends declared	\$0.12	\$-	\$-
Return on average total assets	0.81	% 0.75	% 0.26
Return on average shareholders' equity	9.52	% 9.57	% 3.54
Dividend payout ratio (1)	11.23	% -	-
Average shareholders' equity to average total assets	8.55	% 7.88	% 7.31

(1) Cash dividends declared divided by net income.

VII. SHORT-TERM BORROWINGS

The following information is reported for short-term borrowings for 2013, 2012 and 2011:

(\$ in thousands)	2013	2012	2011
Amount outstanding at end of year	\$14,696	\$10,333	\$18,779
Weighted average interest rate at end of year	0.11	% 0.10	% 1.47
Maximum amount outstanding at any month end	\$15,025	\$19,091	\$50,239
Average amount outstanding during the year	\$12,011	\$15,180	\$31,306
Weighted average interest rate during the year	0.09	% 0.94	% 2.91

Item 1A. Risk Factors

Cautionary Statement Regarding Forward-Looking Information

Certain statements contained in this Annual Report on Form 10-K, and in other statements that we make from time to time in filings by the Company with the SEC, in press releases, and in oral and written statements made by or with the approval of the Company which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include: (a) projections of income or expense, earnings per share, the payment or non-payment of dividends, capital structure and other financial items; (b) statements of plans and objectives of the Company or our Board of Directors or management, including those relating to products and services; (c) statements of future economic performance; (d) statements of future customer attraction or retention; and (d) statements of assumptions underlying these statements. These forward-looking statements include, but are not limited to, statements preceded by or that include the words or phrases “anticipates”, “believes”, “plans”, “intends”, “expects”, “projects”, “estimates”, “should”, “may”, “would allow”, “will likely result”, “will continue”, “will remain”, or similar expressions.

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” for forward-looking statements to encourage companies to provide prospective information so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the forward-looking statements. We desire to take advantage of the “safe harbor” provisions of the Act.

Forward-looking statements involve risks and uncertainties. Actual results may differ materially from those predicted by the forward-looking statements because of various factors and possible events, including those risk factors identified below. These risks and uncertainties include, but are not limited to, risks and uncertainties inherent in the national and regional banking industry, changes in economic conditions in the market areas in which the Company and its subsidiaries operate, changes in policies by regulatory agencies, changes in accounting standards and policies, changes in tax laws, fluctuations in interest rates, demand for loans in the market areas in which the Company and its subsidiaries operate, increases in FDIC insurance premiums, changes in the competitive environment, losses of significant customers, geopolitical events, the loss of key personnel and other factors. There is also the risk that the Company’s management or Board of Directors incorrectly analyzes these risks and forces, or that the strategies the Company develops to address them are unsuccessful.

Forward-looking statements speak only as of that date on which they are made. Except as may be required by law, the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made.

All forward-looking statements attributable to the Company or any person acting on our behalf are qualified in their entirety by the following cautionary statements.

Changes in economic conditions could adversely affect our earnings, as our borrowers’ ability to repay loans and the value of the collateral securing our loans decline.

Our success depends to a large extent upon local and national economic conditions, as well as governmental fiscal and monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond our control can adversely affect our asset quality, deposit levels and loan demand and, therefore, our earnings and our capital. Because we have a significant amount of real estate loans, additional decreases in real estate values could adversely affect the value of property used as collateral and our ability to sell the collateral upon foreclosure. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make

timely repayments of their loans, which would have an adverse impact on our earnings and cash flows.

We continue to experience difficult economic conditions and high unemployment in our market areas and a significant continued decline in the economy in our market areas could have a materially adverse effect on our financial condition and results of operations. As a result of these economic conditions, the Company's future earnings may be susceptible to declining credit conditions in the markets in which we operate.

A substantial amount of our loan portfolio consists of residential and commercial real estate loans. Sustained weakness or deterioration in the real estate market could cause increases in delinquencies and non-performing assets, including additional loan charge-offs, and could depress our income, earnings and capital.

A substantial amount of our loan portfolio consists of residential and commercial real estate loans. The commercial and residential real estate markets continue to experience challenges in our markets. Economic factors both nationally and in the communities we serve have and may continue to cause deterioration to the value of real estate State Bank uses to secure its loans. Continued weakness in the economy or a prolonged recovery, deterioration of our real estate portfolio, a decrease in real estate values, an increase in unemployment, decreased or nonexistent housing price appreciation or increases in interest rates could reduce our earnings and consequently our financial condition because borrowers may not be able to repay their loans. The value of the collateral securing our loans and the quality of our loan portfolio may decline and customers may not want or need our products and services. Any of these scenarios could cause us to make fewer loans, increase delinquencies and non-performing assets, require us to charge off a higher percentage of our loans or result in additional increases to our provision for loan losses in future periods, which could adversely affect our business, financial condition and results of operations.

Our earnings are significantly affected by the fiscal and monetary policies of the federal government and its agencies.

The policies of the Federal Reserve Board impact us significantly. The Federal Reserve Board regulates the supply of money and credit in the United States. Its policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits, and can also affect the value of financial instruments we hold. Those policies determine to a significant extent our cost of funds for lending and investing. Changes in those policies are beyond our control and are difficult to predict. Federal Reserve Board policies can also affect our borrowers, potentially increasing the risk that they may fail to repay their loans. For example, a tightening of the money supply by the Federal Reserve Board could reduce the demand for a borrower's products and services. This could adversely affect the borrower's earnings and ability to repay its loan, which could have a material adverse effect on our financial condition and results of operations.

We may be unable to manage interest rate risks, which could reduce our net interest income.

Our results of operations are affected principally by net interest income, which is the difference between interest earned on loans and investments and interest expense paid on deposits and other borrowings. The spread between the yield on our interest-earning assets and our overall cost of funds has been compressed in the recent low interest rate environment, and our net interest income may continue to be adversely impacted by an extended period of continued low rates. We cannot predict or control changes in interest rates. National, regional and local economic conditions and the policies of regulatory authorities, including monetary policies of the Board of Governors of the Federal Reserve System, affect the movement of interest rates and our interest income and interest expense. If the interest rates paid on deposits and other borrowed funds increase at a faster rate than the interest rates received on loans and other investments, our net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowed funds.

In addition, certain assets and liabilities may react in different degrees to changes in market interest rates. For example, interest rates on some types of assets and liabilities may fluctuate prior to changes in broader market interest rates, while interest rates on other types may lag behind. Some of our assets, such as adjustable rate mortgages, have features that restrict changes in their interest rates, including rate caps.

Interest rates are highly sensitive to many factors that are beyond our control. Some of these factors include: inflation; recession; unemployment; money supply; international disorders; and instability in domestic and foreign financial

markets.

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Changes in interest rates may affect the level of voluntary prepayments on our loans and may also affect the level of financing or refinancing by customers. We believe that the impact on our cost of funds from a rise in interest rates will depend on a number of factors, including but not limited to, the competitive environment in the banking sector for deposit pricing, opportunities for clients to invest in other markets such as fixed income and equity markets, and the propensity of customers to invest in their businesses. The effect on our net interest income from an increase in interest rates will ultimately depend on the extent to which the aggregate impact of loan re-pricings exceeds the impact of increases in our cost of funds.

If our actual loan losses exceed our allowance for loan losses, our net income will decrease.

Our loan customers may not repay their loans according to their terms, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which could have a material adverse effect on our operating results. In accordance with accounting principles generally accepted in the United States, we maintain an allowance for loan losses to provide for loan defaults and non-performance, which when combined, we refer to as the allowance for loan losses. Our allowance for loan losses may not be adequate to cover actual credit losses, and future provisions for credit losses could have a material adverse effect on our operating results. Our allowance for loan losses is based on prior experience, as well as an evaluation of the risks in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. Federal regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses. We cannot assure you that we will not further increase the allowance for loan losses or that regulators will not require us to increase this allowance. Either of these occurrences could have a material adverse effect on our financial condition and results of operations.

FDIC insurance premiums may increase materially, which could negatively affect our profitability.

The FDIC insures deposits at FDIC insured financial institutions, including State Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. During 2008 and 2009, there were higher levels of bank failures which dramatically increased resolution costs of the FDIC and depleted the deposit insurance fund. The FDIC collected a special assessment in 2009 to replenish the Deposit Insurance Fund and also required a prepayment of an estimated amount of future deposit insurance premiums. If the costs of future bank failures increase, deposit insurance premiums may also increase.

Legislative or regulatory changes or actions could adversely impact our business.

The financial services industry is extensively regulated. We are subject to extensive state and federal regulation, supervision and legislation that govern almost all aspects of our operations. These laws and regulations are primarily intended for the protection of consumers, depositors, borrowers and the deposit insurance fund, 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. In the last several years, Congress and the federal bank regulators have acted 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 federal bank regulators subject us and other financial institutions to additional restrictions, oversight and costs that may have an adverse impact on our business and results of operations.

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.

Changes in tax laws could adversely affect our performance

We are subject to extensive federal, state and local taxes, including income, excise, sales/use, payroll, franchise, withholding and ad valorem taxes. Changes to our taxes could have a material adverse effect on our results of operations. In addition, our customers are subject to a wide variety of federal, state and local taxes. Changes in taxes paid by our customers may adversely affect their ability to purchase homes or consumer products, which could adversely affect their demand for our loans and deposit products. In addition, such negative effects on our customers could result in defaults on the loans we have made.

We may be a defendant from time to time in a variety of litigation and other actions, which could have a material adverse effect on our financial condition and results of operations.

The Company and its subsidiaries may be involved from time to time in a variety of litigation arising out of our businesses. The risk of litigation increases in times of increased troubled loan collection activity. Our insurance may not cover all claims that may be asserted against us, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation. Should the ultimate judgments or settlements in any litigation exceed our insurance coverage, they could have a material adverse effect on our financial condition and results of operations. In addition, we may not be able to obtain appropriate types or levels of insurance in the future, nor may we be able to obtain adequate replacement policies with acceptable terms, if at all.

Our success depends upon our ability to attract and retain key personnel.

Our success depends upon the continued service of our senior management team and upon our ability to attract and retain qualified financial services personnel. Competition for qualified employees is intense. We cannot assure you that we will be able to retain our existing key personnel or attract additional qualified personnel. If we lose the

services of our key personnel, or are unable to attract additional qualified personnel, our business, financial condition and results of operations could be adversely affected.

We depend upon the accuracy and completeness of information about customers.

In deciding whether to extend credit or enter into other transactions with customers, we may rely on information provided to us by customers, including financial statements and other financial information. We may also rely on representations of customers as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to a business, we may assume that the customer's audited financial statements conform with generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer, and we may also rely on the audit report covering those financial statements. Our financial condition and results of operations could be negatively impacted to the extent we rely on financial statements that do not comply with generally accepted accounting principles or that are materially misleading.

Our ability to pay cash dividends is limited, and we may be unable to pay cash dividends in the future even if we elect to do so.

We are dependent primarily upon the earnings of our operating subsidiaries for funds to pay dividends on our common shares. The payment of dividends by us is also subject to regulatory restrictions. As a result, any payment of dividends in the future will be dependent, in large part, on our ability to satisfy these regulatory restrictions and our subsidiaries' earnings, capital requirements, financial condition and other factors. There can be no assurance as to if or when the Company may pay dividends or as to the amount of any dividends which may be declared and paid to shareholders in future periods. Failure to pay dividends on our common shares could have a material adverse effect on the market price of our common shares.

A limited trading market exists for our common shares which could lead to price volatility.

Your ability to sell or purchase our common shares depends upon the existence of an active trading market for our common shares. While our stock is quoted on the NASDAQ Global Market, it trades infrequently. As a result, you may be unable to sell or purchase our common shares at the volume, price and time you desire. The limited trading market for our common shares may cause fluctuations in the market value of our common shares to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market.

The preparation of our financial statements requires the use of estimates that may vary from actual results.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make significant estimates that affect the financial statements. Two of our most critical estimates are the level of the allowance for loan losses and the accounting for goodwill and other intangibles. Because of the inherent nature of these estimates, we cannot provide complete assurance that we will not be required to adjust earnings for significant unexpected loan losses, nor that we will not recognize a material provision for impairment of our goodwill. For additional information regarding these critical estimates, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 31 of this Annual Report on Form 10-K.

Changes in accounting standards could impact our results of operations.

The accounting standard setters, including the Financial Accounting Standards Board, the SEC and other regulatory bodies, periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes can be difficult to predict and can materially affect how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, which would result in the restatement of our financial statements for prior periods.

Our information systems may experience an interruption or security breach.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

We may elect or be compelled to seek additional capital in the future, but capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. In addition, federal banking agencies have proposed extensive changes to their capital requirements, including raising required amounts and eliminating the inclusion of certain instruments from the calculation of capital. The final form of such regulations and their impact on the Company is unknown at this time, but may require us to raise additional capital. In addition, we may elect to raise additional capital to support our business or to finance acquisitions, if any, or we may otherwise elect to raise additional capital. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control, and on our financial performance. Accordingly, we cannot be assured of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital if and when needed, it may have a material adverse effect on our financial condition, results of operations and prospects.

Strong competition within our market area may reduce our ability to attract and retain deposits and originate loans.

We face competition both in originating loans and in attracting deposits within our market area. We compete for clients by offering personal service and competitive rates on our loans and deposit products. The type of institutions we compete with include large regional financial institutions, community banks, thrifts and credit unions operating within our market areas. Nontraditional sources of competition for loan and deposit dollars come from captive auto finance companies, mortgage banking companies, internet banks, brokerage companies, insurance companies and direct mutual funds. As a result of their size and ability to achieve economies of scale, certain of our competitors offer a broader range of products and services than we offer. We expect competition to remain intense in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry. In addition, to stay competitive in our markets we may need to adjust the interest rates on our products to match the rates offered by our competitors, which could adversely affect our net interest margin. As a result, our profitability depends upon our continued ability to successfully compete in our market areas while achieving our investment objectives.

We may be the subject of litigation which could result in legal liability and damage to our business and reputation.

From time to time, we may be subject to claims or legal action from customers, employees or others. Financial institutions like the Company and State Bank are facing a growing number of significant class actions, including those based on the manner of calculation of interest on loans and the assessment of overdraft fees. Future litigation could include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. We are also involved from time to time in other reviews, investigations and proceedings (both formal and informal) by governmental and other agencies regarding our business. These matters also could result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Like other large financial institutions, we are also

subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information. Substantial legal liability or significant regulatory action against us could materially adversely affect our business, financial condition or results of operations and/or cause significant reputational harm to our business.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties.

The Company's principal executive offices are located at 401 Clinton Street, Defiance, Ohio. This facility is owned by State Bank, and a portion of the facility is leased to the Company. State Bank owns the land and buildings occupied by 18 of its banking centers and leases four other properties used as banking centers. In addition, the Company occupies office space from various parties for multiple business purposes on varying lease terms. There is no outstanding mortgage debt on any of the properties which the Company owns. Listed below are the banking centers, loan production offices and service facilities of the Company and their addresses, all of which are located in Allen, Defiance, Fulton, Franklin, Lucas, Paulding, Williams and Wood Counties of Ohio, and Allen and Steuben Counties of Indiana:

Main Banking Center & Corporate Offices	401 Clinton Street, Defiance, OH
Angola LPO (lease)	908 North Wayne Street, Suite A, Angola, IN
Bryan Banking Center	1419 West High Street, Bryan, OH
Chief Banking Center (lease)	705 Deatruck Street, Defiance, OH
Columbus LPO	109 South High, Dublin, OH
New Albany LPO (lease)	68 N. High Street, Bldg. E, Ste. 105, New Albany, OH
Delta Banking Center	312 Main Street, Delta, OH
Fort Wayne Banking Center	12832 Coldwater Road, Fort Wayne, IN
Luckey Banking Center	235 Main Street, Luckey, OH
Lyons Banking Center	133 East Morenci Street, Lyons, OH
Market Street Banking Center	930 West Market Street, Lima, OH
Montpelier Banking Center	1201 East Main Street, Montpelier, OH
Motor Bank Drive-thru	510 Third Street, Defiance, OH
Northtowne Banking Center (lease)	1600 North Clinton Street, Defiance, OH
Oakwood Banking Center	218 North First Street, Oakwood, OH
Paulding Banking Center	220 North Main Street, Paulding, OH
Perrysburg Banking Center	610 East South Boundary Street, Perrysburg, OH
Pioneer Banking Center	119 South State Street, Pioneer, OH
Sylvania Banking Center	6401 Monroe Street, Sylvania, OH
Walbridge Banking Center	311 Main Street, Walbridge, OH
Wauseon Banking Center	515 Parkview, Wauseon, OH
RDSI – Main Office (lease)	7622 St. Rt. 66 North, Defiance, OH
DCM – Main Office (lease)	3101 Technology Blvd., Suite B, Lansing, MI
RDSI – Office Space (lease)	104 Depot Street, Archbold, OH
RDSI – Office Space (lease)	105 East Holland Street, Archbold, OH

Item 3. 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 4. Mine Safety Disclosures.

Not Applicable

Supplemental Item: Executive Officers of the Registrant

The following table lists the names and ages of the executive officers of the Company as of February 26, 2013, the positions presently held by each executive officer and the business experience of each executive officer during the past five years. Unless otherwise indicated, each person has held his principal occupation(s) for more than five years.

Name	Age	Position(s) Held with the Company and its Subsidiaries and Principal Occupation(s)
Mark A. Klein	59	President, and Chief Executive Officer of the Company since January 2010; Director of the Company since February 2010; President and Chief Executive Officer of State Bank since January 2006; Director of State Bank since 2006; President of RDSI since October 2011; Member of State Bank Investment Committee since March 2007.
Anthony V. Cosentino	52	Executive Vice President and Chief Financial Officer of the Company and State Bank since March 2010; Chief Financial Officer of RDSI since October 2011; Member of State Bank Investment Committee since 2010.
Jonathan R. Gathman	40	Executive Vice President and Senior Lending Officer of the Company since October 2005; Senior Vice President and Commercial Lending Manager from June 2005 through October 2005; Vice President and Commercial Lender from February 2003 through June 2005. Began working for The State Bank and Trust Company in May 1996.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our common shares are traded on the NASDAQ Global Market under the symbol "SBFG". There were 4,869,629 shares outstanding and approximately 1,417 holders of record of our common shares as of December 31, 2013.

The following table presents quarterly market price information and cash dividends paid per share for our common shares for 2013 and 2012:

	Market Price Range		Dividends Paid
	High	Low	
2013			
Quarter ended December 31, 2013	\$8.14	\$7.88	\$0.035
Quarter ended September 30, 2013	8.00	7.77	0.030
Quarter ended June 30, 2013	8.05	7.55	0.055
Quarter ended March 31, 2013	8.98	8.54	-
2012			
Quarter ended December 31, 2012	\$7.25	\$6.20	\$-
Quarter ended September 30, 2012	8.02	6.17	-
Quarter ended June 30, 2012	7.22	3.80	-
Quarter ended March 31, 2012	4.00	2.60	-

On April 3, 2013 the Company announced that it had elected to reinstate payment of quarterly cash dividends after not paying shareholder dividends since November 2009. There can be no assurance as to the amount of dividends which may be declared in future periods with respect to the common shares of the Company, since such dividends are subject to the discretion of the Company's Board of Directors, cash needs, general business conditions, dividends from the subsidiaries and applicable governmental regulations and policies.

Payment of dividends by State Bank may be restricted at any time at the discretion of the regulatory authorities, if they deem such dividends to constitute an unsafe and/or unsound banking practice. These provisions could have the effect of limiting the Company's ability to pay dividends on its outstanding common shares. Moreover, the Federal Reserve Board expects the Company to serve as a source of strength to its subsidiary banks, which may require it to retain capital for further investment in the subsidiary, rather than for dividends to shareholders of the Company.

Index	Period Ending					
	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
SB Financial Group, Inc.	100.00	94.22	54.69	36.23	89.67	110.10
NASDAQ Composite	100.00	145.36	171.74	170.38	200.63	281.22
NASDAQ Bank	100.00	83.70	95.55	85.52	101.50	143.84

Source : SNL Financial LC,
 Charlottesville, VA
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Repurchase of Common Shares

There were no common shares repurchased by the Company in 2013 or 2012.

Item 6. Selected Financial Data

SUMMARY OF SELECTED FINANCIAL DATA

FINANCIAL HIGHLIGHTS

(Dollars in thousands except per share data)
Year Ended December 31

	2013	2012	2011	2010	2009					
EARNINGS										
Interest income	\$ 24,848	\$ 26,122	\$27,509	\$ 29,564	\$ 32,591					
Interest expense	4,035	5,390	6,798	9,602	11,592					
Net interest income	20,813	20,732	20,711	19,962	20,999					
Provision for loan losses	900	1,350	1,994	10,588	5,738					
Noninterest income	14,046	14,845	13,857	20,819	29,304					
Noninterest expense	26,511	27,484	30,253	52,308	44,843					
Provision (credit) for income taxes	2,243	1,929	658	(6,502)	(660)					
Net income (loss)	5,205	4,814	1,664	(15,613)	382					
PER SHARE DATA										
Basic earnings	\$ 1.07	\$ 0.99	\$0.34	\$ (3.21)	\$ 0.07					
Diluted earnings	1.07	0.99	0.34	(3.21)	0.07					
Cash dividends declared	0.12	-	-	-	0.36					
Shareholders' equity per share	11.55	10.96	9.86	9.47	12.69					
AVERAGE BALANCES										
Average total assets	\$ 639,920	\$ 638,035	\$643,528	\$ 673,781	\$ 667,470					
Average shareholders' equity	54,700	50,300	47,035	57,281	63,576					
RATIOS										
Return on average total assets	0.81	%	0.75	%	0.26	%	-2.32	%	0.06	%
Return on average shareholders' equity	9.52		9.57		3.54		(27.26)		0.60	
Cash dividend payout ratio (dividends divided by net income)	11.21		-		-		-		458.18	
Average shareholders' equity to average total assets	8.55		7.88		7.31		8.50		9.52	
PERIOD END TOTALS										
Total assets	\$ 631,754	\$ 638,234	\$628,664	\$ 660,288	\$ 673,049					
Total investments; fed funds sold	89,793	98,702	111,978	132,762	105,083					
Total loans and leases	477,303	463,389	442,554	427,544	452,558					
Loans held for sale	3,366	6,147	5,238	9,055	16,858					
Allowance for loan losses	6,964	6,811	6,529	6,715	7,030					
Total deposits	518,234	527,001	518,765	515,678	491,242					
Notes payable	589	1,702	2,788	3,290	2,147					

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Advances from FHLB	16,000	21,000	12,776	22,807	35,267
Trust preferred securities	20,620	20,620	20,620	20,620	20,620
Shareholders' equity	56,269	53,284	47,932	46,024	61,708

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

SB Financial Group, Inc. ("SB Financial"), is a bank holding company registered with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. Through its direct and indirect subsidiaries, SB Financial is engaged in commercial banking, computerized item processing, and trust and financial services.

The following discussion is intended to provide a review of the consolidated financial condition and results of operations of SB Financial and its subsidiaries (collectively, the "Company"). This discussion should be read in conjunction with the Company's consolidated financial statements and related footnotes as of and for the years ended December 31, 2013 and 2012.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with generally accepted accounting principles in the United States and conform to general practices within the banking industry. The Company's significant accounting policies are described in detail in the notes to the Company's consolidated financial statements for the years ended December 31, 2013 and 2012. 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 the nature and amount of problem assets and associated collateral, 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 each impaired 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 valuations, 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.

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 and 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.

EARNINGS SUMMARY

Net income for 2013 was \$5.2 million, or \$1.07 per diluted share, compared with net income of \$4.8 million, or \$0.99 per diluted share for 2012.

Net charge-offs for 2013 of \$0.7 million resulted in a loan loss provision of \$0.9 million, which was down from the \$1.4 million in 2012. State Bank reported net income for 2013 of \$7.1 million, which is up significantly from the \$6.4 million in net income in 2012. RDSI reported a net loss for 2013 of \$0.2 million, compared to net income of \$0.4 million reported for 2012.

Positive results at State Bank for 2013 included loan growth of \$13.9 million, and demand deposit growth of \$6.0 million. Both of these factors contributed to a net interest margin of 3.75 percent, which is down just 1 basis point from 2012. The mortgage banking business line continues to grow, with residential real estate loan production of \$248 million for the year, resulting in \$5.1 million of revenue from gains on sale. The Company's loans serviced for others ended the year at \$606 million.

CHANGES IN FINANCIAL CONDITION

Total assets at December 31, 2013 were \$631.8 million, compared to \$638.2 million at December 31, 2012. Loans (excluding loans held for sale) were \$477.3 million at December 31, 2013, compared to \$463.4 million at December 31, 2012. Total deposits were \$518.2 million at year-end 2013, compared to \$527.0 million at December 31, 2012. Non-interest bearing deposits at December 31, 2013 were \$81.6 million, compared to \$77.8 million at December 31, 2012. Total shareholders' equity was \$56.3 million at year-end 2013, up from \$53.3 million from the prior year-end.

Significant Events of 2013

The Company expanded its profitability during 2013 with net income of \$5.2 million, or \$1.07 per share. This was an improvement from the net income of \$4.8 million for 2012. Our Banking subsidiary, State Bank, had net income of \$7.1 million, while our technology subsidiary, RDSI, lost \$0.2 million during 2013.

Improvements in problem assets were a factor in the Company's increase in profitability during 2013. At December 31, 2013, non-performing assets had declined \$1.7 million from the prior year. The level of non-performing assets to total assets fell to 1.1 percent from 1.4 percent for the prior year. Loan delinquency ended the year at 0.72 percent at December 31, 2013 versus 1.08 percent at December 31, 2012.

Mortgage loan production and sale continued to be a significant part of our business model during 2013. During the year, the Company sold \$228 million of originated balances and had net mortgage banking revenue of \$6.3 million.

Operating expense was reduced by 3.5 percent during 2013 as expenses at RDSI declined due to reduced business volume. Additionally, the Company made efforts to become more efficient with the reduction of four full-time equivalent staff positions.

The Company's loan loss provision for 2013 totaled \$0.9 million, which was down 33 percent from the \$1.4 million incurred during 2012. The provision level for 2013 was above the \$0.7 million of net charge-offs incurred during the year.

RDSI had a net loss during 2013 of \$0.2 million as compared to reported net income of \$0.4 million in 2012. RDSI continued to downsize during 2013 and ended the year concentrating on its core competencies of item and statement processing.

SUMMARY OF FINANCIAL DATA AND RESULTS OF OPERATIONS

(\$ in thousands except per share data)	Year Ended December 31,			
	2013	2012	% Change	
Total Assets	\$631,754	\$638,234	-1.0	%
Total Investments	89,793	98,702	-9.0	%
Loans Held for Sale	3,366	6,147	-45.2	%
Loans (Net)	477,303	463,389	3.0	%
Allowance for Loan Losses	6,964	6,811	2.2	%
Total Deposits	\$518,234	\$527,001	-1.7	%
Total Revenues	\$34,859	\$35,577	-2.0	%
Net Interest Income	20,813	20,732	0.4	%
Loan Loss Provision	900	1,350	-33.3	%
Non-interest Income	14,046	14,845	-5.4	%
Non-interest Expense	26,511	27,484	-3.5	%
Net Income	5,205	4,814	8.1	%
Diluted Earnings per Share	\$1.07	\$0.99	8.1	%

Net Interest Income

(\$ in thousands)	Year Ended December 31,			
	2013	2012	% Change	
Net Interest Income	\$20,813	\$20,732	0.4	%

Net interest income was \$20.8 million for 2013 compared to \$20.7 million for 2012, an increase of 0.04 percent. Average earning assets increased to \$565.4 million in 2013 compared to \$560.9 million in 2012, due to loan volume. The consolidated 2013 full-year net interest margin decreased 1 basis point to 3.75 percent compared to 3.76 percent for the full year 2012.

Loan Loss Provision

Provision for Loan Losses of \$0.9 million was taken in 2013 compared to \$1.4 million taken for 2012. The \$0.5 million decrease was due to the lower level of charge-offs and the improvement in the Company's non-performing asset levels. For 2013, net charge-offs totaled \$0.7 million, or 0.16 percent of average loans.

Non-interest Income

(\$ in thousands)	Year Ended December 31,			% Change
	2013	2012		
Total Non-interest Income	\$14,046	\$14,845	-5.4	%
Data Service Fees	\$1,500	\$2,515	-40.4	%
Wealth Management Fees	2,653	2,501	6.1	%
Customer Service Fees	2,587	2,624	-1.4	%
Gains on Sale of Loans	5,651	6,548	-13.7	%
Mortgage Loan Servicing Fees, net	1,246	124		*
Gains on Sale of Securities	48	-		*
Other	361	533	-32.3	%

* Percentage comparison not meaningful

Total non-interest income was \$14.0 million for 2013 compared to \$14.8 million for 2012, representing a \$0.8 million, or 5.4 percent decrease year-over-year. This decrease was driven by a 14 percent decline in gains on sale of loans. The Company sold \$228 million of originated mortgages into the secondary market, which allowed for the sold and serviced loan portfolio to grow from \$528 million in 2012 to \$606 million at December 31, 2013. This portfolio provides a servicing fee annuity, which is expected to provide servicing revenue for the foreseeable future.

Data Service Fees ("RDSI")

(\$ in thousands)	Year Ended December 31,			% Change
	2013	2012		
Data Service Fees	\$1,500	\$2,515	-40.4	%

Data service fees decreased \$1.0 million, or 40.4 percent, to \$1.5 million in 2013 from \$2.5 million in 2012. During 2013, RDSI became exclusively an item processing and statement provider.

RDSI reported a 2013 fiscal year net loss of \$0.2 million, compared to \$0.4 million in net income reported for 2012.

Non-interest Expense

(\$ in thousands)	Year Ended December 31,			% Change
	2013	2012		
Total Non-interest Expense	\$26,511	\$27,484	-3.5	%
Salaries & Employee Benefits	13,497	14,518	-7.0	%
Professional Fees	1,827	1,912	-4.4	%
Occupancy & Equipment Expense	4,865	4,922	-1.2	%
FDIC Insurance Expense	409	628	-34.9	%
Fixed Asset & Software Impairment	-	65		*
Marketing Expense	471	393	19.8	%
All Other	5,442	5,046	7.8	%

* Percentage comparison not meaningful

Non-interest expense for 2013 decreased \$1.0 million, or 3.5 percent compared to 2012. The Company made further declines in staffing levels for efficiency purposes and to reflect the commensurate declines in RDSI revenues. Total full-time equivalent headcount (FTE) ended 2013 at 200, which was down four from year end 2012.

FINANCIAL CONDITION

Investments

At December 31, 2013, the Company's available for sale securities was \$89.8 million, which was a \$8.9 million decrease from the prior year. Investment yields were up by an average of 10 basis points from the prior year.

Loans/Deposits

(\$ in thousands)	Total Loans		
	2013	2012	% Change
Commercial	\$85,281	\$81,215	5.0 %
Commercial real estate	205,301	201,392	1.9 %
Agricultural	39,210	42,276	-7.3 %
Residential real estate	99,620	87,859	13.4 %
Consumer	47,804	50,499	-5.3 %
Leasing	87	148	-41.2 %
Total loans, net of unearned income	\$477,303	\$463,389	3.0 %

(\$ in thousands)	Total Deposits		
	2013	2012	% Change
Non interest bearing demand	\$81,570	\$77,799	4.8 %
Interest bearing demand	119,551	117,289	1.9 %
Savings & money market	141,554	137,842	2.7 %
Time deposits	175,559	194,071	-9.5 %
Total deposits	\$518,234	\$527,001	-1.7 %

Loans increased \$13.9 million to \$477.3 million at December 31, 2013. Loan volume increased in most categories, except for agricultural and consumer loans. Deposits were down from the prior year by \$8.8 million driven by the loss of time deposits.

Asset Quality

(\$ in thousands)			Change in Dollars / Percentages	
	12/31/2013	12/31/2012		
Non-accruing loans	\$4,844	\$5,305	\$(461))
Accruing restructured loans	\$1,739	\$1,258	\$481	
OREO & Repossessed assets	\$651	\$2,367	\$(1,717))
Non-performing assets	\$7,234	\$8,930	\$(1,697))
Non-performing assets/total assets	1.14 %	1.40 %	-0.26	%
Net charge-offs	\$747	\$1,068	\$(321))
Net charge-offs/average loans	0.16 %	0.23 %	-0.07	%
Loan loss provision	\$900	\$1,350	\$(450))
Allowance for loan losses	\$6,964	\$6,811	\$153	
Allowance/loans	1.46 %	1.47 %	-0.01	%
Allowance/non-accruing loans	143.8 %	128.4 %	15.4	%
Allowance/non-performing assets	96.3 %	76.3 %	20.0	%

Non-performing assets (loans + OREO (Other Real Estate Owned) + OAO (Other Assets Owned) + accruing TDRs) were \$7.2 million, or 1.1 percent, of total assets at December 31, 2013, a decrease of \$1.7 million from 2012. Net charge-offs were also down during 2013 at \$0.7 million, which was a \$0.3 million improvement over 2012. The Company's loan loss allowance at December 31, 2013 now covers non-accruing loans at 144 percent, up from 128 percent at December 31, 2012.

CAPITAL RESOURCES

Stockholders' equity at December 31, 2013, was \$56.3 million, equivalent to 8.9 percent of total assets. The total consolidated risk-based capital ratio was 12.6 percent at December 31, 2013. Total consolidated regulatory (risk-based) capital was \$64.9 million at December 31, 2013, and \$59.4 million at December 31, 2012. Capital ratios for the Company's banking subsidiary, State Bank, were 8.8 percent for the Tier 1 leverage ratio and 12.5 percent for the risk-based capital ratio at December 31, 2013.

Goodwill and Intangibles

The Company completed the most recent annual goodwill impairment test as of December 31, 2013. The first step impairment test compares the fair value of the reporting unit with the carrying value, including goodwill. The reporting unit is State Bank. RDSI has no remaining goodwill. At December 31, 2013, State Bank passed step one, which indicated no impairment.

The fair value testing of Goodwill and Intangibles was conducted pursuant to ASC Topic 350 and utilized Company prepared projections of cash flows, historical financial results and market based comparisons. These inputs were used to evaluate the expected future cash flows of the business and those results determined the fair value of the Goodwill and Intangibles.

Planned Purchases of Premises and Equipment

Management plans to purchase additional premises and equipment to meet the current and future needs of the Company's customers. These purchases, including buildings and improvements and furniture and equipment (which includes computer hardware, software, office furniture and license agreements), are currently expected to total approximately \$2.3 million for the Company during 2014. These purchases are expected to be funded by cash on hand and from cash generated from current operations.

LIQUIDITY

Liquidity relates primarily to the Company's ability to fund loan demand, meet deposit customers' withdrawal requirements and provide for operating expenses. Sources used to satisfy these needs consist of cash and due from banks, interest bearing deposits in other financial institutions, securities available for sale, loans held for sale, and borrowings from various sources. The assets, excluding the borrowings, are commonly referred to as liquid assets. Liquid assets were \$106.3 million at December 31, 2013 compared to \$124.0 million at December 31, 2012.

The Company's commercial real estate, first mortgage residential and multi-family mortgage portfolio of \$304.9 million at December 31, 2013 can and has been readily used to collateralize borrowings, which is an additional source of liquidity. Management believes the Company's current liquidity level, without these borrowings, is sufficient to meet its current and anticipated liquidity needs. At December 31, 2013, all eligible commercial real estate, residential first, 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 2013 and 2012 follows:

The Company experienced positive cash flows from operating activities in 2013 and 2012. Net cash from operating activities was \$13.9 million and \$7.4 million for the years ended December 31, 2013 and 2012, respectively. Significant operating items for 2013 included OMSR recapture (\$0.6 million), gain on sale of loans

(\$5.7 million) and loss on sale of assets (\$0.4 million). Net proceeds from sales of loans held for sale and loans originated and held for sale were a positive \$15.1 million.

The Company experienced negative cash flows from investing activities in 2013 and 2012. Net cash used in investing activities was (\$8.9) million and (\$10.0) million for the years ended December 31, 2013 and 2012, respectively. The changes for 2013 include the purchase of available-for-sale securities of \$32.1 million, and net increase in loans of \$15.7 million. The changes for 2012 include the purchase of available-for-sale securities of \$28.6 million and net increase in loans of \$23.0 million. The Company had proceeds from repayments, maturities, sales and calls of securities of \$37.4 million and \$41.3 million in 2013 and 2012, respectively.

The Company experienced negative cash flows from financing activities in 2013 and positive cash flows from financing activities in 2012. Net cash used in financing activities was (\$11.0 million) in 2013 and a source of cash of \$6.9 million in 2012. Negative \$4.4 million and positive \$8.2 million of the change is attributable to the change in deposits for 2013 and 2012, respectively.

The Company 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 -400 basis points to +400 basis points. The likelihood of a decrease in rates as of December 31, 2013 and December 31, 2012 was considered to be remote given the current interest rate environment and therefore, only the minus 100 basis point rate change was included for 2013 and no negative rate changes were included for 2012. The results of this analysis are reflected in the following tables for December 31, 2013 and December 31, 2012.

December 31, 2013
Economic Value of Equity
(\$’s in thousands)

Change in Rates	\$ Amount	\$ Change	% Change	
+400 basis points	\$ 105,687	\$ 13,393	14.51	%
+300 basis points	103,812	11,517	12.48	%
+200 basis points	101,018	8,724	9.45	%
+100 basis points	97,311	5,017	5.44	%
Base Case	92,294	-	-	
-100 basis points	86,266	(6,029)	(6.53	%)

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	-	-	

Off-Balance-Sheet Borrowing Arrangements:

Significant additional off-balance-sheet liquidity is available in the form of Federal Home Loan Bank (FHLB) advances, unused federal funds lines from correspondent banks and the national certificate of deposit market. 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 \$304.9 million have been pledged to meet collateralization requirements as of December 31, 2013. Based on the current collateralization requirements of the FHLB, approximately \$28.5 million of additional borrowing capacity existed at December 31, 2013.

At December 31, 2013 and 2012, the Company had \$11.5 million in federal funds lines available. The Company also had \$27.0 million in unpledged securities at December 31, 2013 that may be used to pledge for additional borrowings.

SB Financial had a term note balance at December 31, 2013 and 2012 of \$0.0 million and \$0.8 million, respectively.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Contractual Obligations	Total	Payment due by period			
		Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-Term Debt Obligations	\$16,000	\$8,500	\$5,000	\$2,500	\$-
Other Debt Obligations	21,209	386	203	-	20,620
Operating Lease Obligations	745	310	195	163	77
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	175,559	95,152	59,518	19,667	1,222
Total	\$213,513	\$104,348	\$64,916	\$22,330	\$21,919

The Company's contractual obligations as of December 31, 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 \$0.6 million. The operating lease obligations are detailed in Note 21. Other long-term liabilities include time deposits of \$175.6 million.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

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 Corporation 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 during 2013 the Company entered into interest rate swap agreements as an accommodation to certain loan customers. See Note 5 to the financial statements. The Company may purchase such instruments in the future if market conditions are favorable.

Quantitative Market Risk Disclosure. The following table provides information about the Company's financial instruments used for purposes other than trading that are sensitive to changes in interest rates as of December 31, 2013. The table does not present when these items may actually reprice. For loans receivable, securities, and liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturities as well as the historical impact of interest rate fluctuations on the prepayment of loans and mortgage backed securities. For core deposits (demand deposits, interest-bearing checking, savings, and money market deposits) that have no contractual maturity, the table presents principal cash flows and applicable related weighted-average interest rates based upon the Company's historical experience, management's judgment and statistical analysis, as applicable, concerning their most likely withdrawal behaviors. The current historical interest rates for core deposits have been assumed to apply for future periods in this table as the actual interest rates that will need to be paid to maintain these deposits are not currently known. Weighted average variable rates are based upon contractual rates existing at the reporting date.

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Principal/Notional Amount Maturing or Assumed to be Withdrawn In:

(\$ in thousands)	2014	2015	2016	2017	2018	Thereafter	Total
Rate Sensitive Assets							
Variable Rate							
Loans	\$55,029	\$12,414	\$7,075	\$5,095	\$6,112	\$14,699	\$100,424
Average interest rate	4.03	% 3.69	% 3.82	% 3.86	% 3.07	% 3.75	% 3.86
Adjustable Rate							
Loans	\$24,690	\$19,119	\$17,184	\$16,466	\$15,269	\$109,285	\$202,013
Average interest rate	3.95	% 4.14	% 4.35	% 4.20	% 4.25	% 4.22	% 4.19
Fixed Rate							
Loans	\$43,834	\$22,092	\$18,936	\$15,714	\$15,660	\$61,997	\$178,233
Average interest rate	4.55	% 4.38	% 4.49	% 4.33	% 4.01	% 3.97	% 4.25
Total Loans	\$123,553	\$53,625	\$43,194	\$37,275	\$37,041	\$185,981	\$480,669
Average interest rate	4.20	% 4.13	% 4.32	% 4.21	% 3.95	% 4.10	% 4.15
Fixed rate investment securities							
	\$18,000	\$11,011	\$9,283	\$7,115	\$3,609	\$33,362	\$82,380
Average interest rate	2.39	% 1.51	% 1.52	% 1.47	% 1.90	% 2.85	% 2.26
Variable rate investment securities							
	\$4,141	\$1,061	\$1,082	\$1,009	\$864	\$3,004	\$11,161
Average interest rate	0.40	% 1.55	% 1.56	% 1.71	% 2.04	% 1.59	% 1.19
Fed Funds Sold & Other							
	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Average interest rate	0.00	% 0.00	% 0.00	% 0.00	% 0.00	% 0.00	% 0.00
Total Rate Sensitive Assets							
	\$145,694	\$65,697	\$53,559	\$45,399	\$41,514	\$222,347	\$574,210
Average interest rate	3.86	% 3.65	% 3.78	% 3.73	% 3.74	% 3.88	% 3.82
Rate Sensitive Liabilities							
Demand - Non Interest Bearing							
	\$11,513	\$9,889	\$8,492	\$7,293	\$6,265	\$38,118	\$81,570
Demand - Interest Bearing							
	\$14,224	\$12,530	\$11,040	\$9,726	\$8,569	\$63,462	\$119,551
Average interest rate	0.05	% 0.05	% 0.05	% 0.05	% 0.05	% 0.05	% 0.05
Money Market Accounts							
	\$10,015	\$8,761	\$7,664	\$6,703	\$5,861	\$40,898	\$79,902

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Average interest rate	0.07	%	0.07	%	0.07	%	0.07	%	0.07	%	0.07	%
Savings	\$8,173		\$6,930		\$6,031		\$5,252		\$4,570		\$30,696	\$61,652
Average interest rate	0.02	%	0.02	%	0.02	%	0.02	%	0.02	%	0.02	%
Certificates of Deposit	\$94,154		\$35,837		\$24,682		\$9,002		\$10,662		\$1,222	\$175,559
Average interest rate	0.79	%	1.40	%	1.31	%	1.35	%	1.36	%	3.39	1.07
Fixed rate FHLB Advances	\$8,500		\$-		\$2,500		\$2,500		\$-		\$2,500	\$16,000
Average interest rate	2.37	%	0.00	%	1.99	%	1.19	%	0.00	%	1.67	2.02
Variable rate FHLB Advances	\$-		\$-		\$-		\$-		\$-		\$-	\$-
Average interest rate	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%	0.00	0.00
Fixed rate Notes Payable	\$356		\$233		\$-		\$-		\$-		\$10,310	\$10,899
Average interest rate	6.00	%	6.00	%	0.00	%	0.00	%	0.00	%	10.60	10.35
Variable rate Notes Payable	\$-		\$-		\$-		\$-		\$-		\$10,310	\$10,310
Average interest rate	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%	2.04	2.04
Fed Funds Purchased, Repos & Other	\$14,696		\$-		\$-		\$-		\$-		\$-	\$14,696
Average interest rate	0.11	%	0.00	%	0.00	%	0.00	%	0.00	%	0.00	0.11
Total Rate Sensitive Liabilities	\$161,631		\$74,180		\$60,409		\$40,476		\$35,927		\$197,516	\$570,139
Average interest rate	0.62	%	0.71	%	0.64	%	0.40	%	0.43	%	0.73	0.64

Principal/Notional Amount Maturing or Assumed to be Withdrawn In:

Comparison of 2013 to 2012 (\$ in thousands)	First Year	Years 2 - 5	Thereafter	Total
Total Rate Sensitive Assets:				
At December 31, 2013	\$145,694	\$206,169	\$222,347	\$574,210
At December 31, 2012	168,054	221,420	182,512	571,987
Increase (decrease)	\$(22,360)	\$(15,251)	\$39,834	\$2,223
Total Rate Sensitive Liabilities:				
At December 31, 2013	\$161,631	\$210,992	\$197,516	\$570,139
At December 31, 2012	154,362	232,896	193,398	580,656
Increase (decrease)	\$7,269	\$(21,904)	\$4,118	\$(10,517)

The above table reflects expected maturities, not expected repricing. The contractual maturities adjusted for anticipated prepayments and anticipated renewals at current interest rates, as shown in the preceding table, are only part of the Company's interest rate risk profile. Other important factors include the ratio of rate-sensitive assets to rate-sensitive liabilities (which takes into consideration loan repricing frequency but not when deposits may be repriced) and the general level and direction of market interest rates. For core deposits, the repricing frequency is assumed to be longer than when such deposits actually reprice. For some rate-sensitive liabilities, their repricing frequency is the same as their contractual maturity. For variable rate loans receivable, repricing frequency can be daily or monthly. For adjustable rate loans receivable, repricing can be as frequent as annually for loans whose contractual maturities range from one to thirty years.

The Company manages its interest rate risk by the employment of strategies to assure that desired levels of both interest-earning assets and interest-bearing liabilities mature or reprice with similar time frames. Such strategies include: 1) loans receivable which are renewed (and repriced) annually, 2) variable rate loans, 3) certificates of deposit with terms from one month to six years, 4) securities available for sale which mature at various times primarily from one through ten years, 5) federal funds borrowings with terms of one day to 90 days, and 6) Federal Home Loan Bank borrowings with terms of one day to ten years.

Impact of Inflation and Changing Prices

The majority of assets and liabilities of the Company are monetary in nature and therefore, the Company differs greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. However, inflation does have an important impact on the growth of total assets in the banking industry and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio. Inflation significantly affects non-interest expense, which tends to rise during periods of general inflation.

Management believes the most significant impact on financial results is the Company's ability to react to changes in interest rates. Management seeks to maintain an essentially balanced position between interest sensitive assets and liabilities and actively manages loan, security, and liability maturities in order to protect against the effects of wide interest rate fluctuations on net income and shareholders' equity.

Item 8. Financial Statements and Supplementary Data.

Our Consolidated Financial Statements and notes thereto and other supplementary data begin on the following page.

SB Financial Group, Inc.
Consolidated Balance Sheets

December 31

ASSETS