

SB FINANCIAL GROUP, INC.
Form 10-K
March 11, 2016

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, 2015

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 001-36785

SB FINANCIAL GROUP, INC.

(Exact name of Registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	34-1395608 (I.R.S. Employer Identification No.)
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401 Clinton Street, Defiance, Ohio (Address of principal executive offices)	43512 (Zip Code)
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Registrant's telephone number, including area code: **(419) 783-8950**

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Shares, No Par Value	The NASDAQ Stock Market, LLC (NASDAQ Capital Market)
Depository Shares, each representing 1/100 th of a 6.50% Noncumulative Convertible Perpetual Preferred Share, Series A, No Par Value	The NASDAQ Stock Market, LLC (NASDAQ Capital Market)

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 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. 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 \$51.7 million.

The number of common shares of the registrant outstanding at February 29, 2016 was 4,899,019.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 20, 2016 are incorporated by reference into Part III of this Annual Report on Form 10-K.

SB FINANCIAL GROUP, INC.

2015 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

PART I

Item 1.	Business	3
Item 1A.	Risk Factors	19
Item 1B.	Unresolved Staff Comments	25
Item 2.	Properties	26
Item 3.	Legal Proceedings	27
Item 4.	Mine Safety Disclosures	27
Supplemental Item:	Executive Officers of the Registrant	27

PART II

Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	28
Item 6.	Selected Financial Data	30
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	39
Item 8.	Financial Statements and Supplementary Data	42
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	43
Item 9A.	Controls and Procedures	43
Item 9B.	Other Information	44

PART III

Item 10.	Directors, Executive Officers and Corporate Governance	44
Item 11.	Executive Compensation	45
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	45
Item 13.	Certain Relationships and Related Transactions, and Director Independence	46
Item 14.	Principal Accountant Fees and Services	46

PART IV

Item 15.	Exhibits and Financial Statement Schedules	46
	Signatures and Certifications	51

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 21 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. State Bank 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 Investment Services, an unaffiliated company. State Bank presently operates eighteen banking centers, all located within the Ohio counties of Allen, Defiance, Franklin, Fulton, Hancock, Lucas, Paulding, Wood and Williams, and one banking center located in Allen County, Indiana. State Bank also presently operates four loan production offices, in Franklin and Seneca Counties, Ohio, Steuben County, Indiana and Monroe County, Michigan. At December 31,

2015, State Bank had 206 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, 2015, 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. 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. RDSI/DCM provides item processing and related services to community banks located primarily in the Midwest. At December 31, 2015, RDSI/DCM 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, 2015, RMC 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, 2015, SBI had no employees.

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 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 that 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, 2015.

Restrictions on 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 or depository 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, 2015, State Bank had \$12.4 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 State Bank are separate and distinct legal entities. The Federal Reserve Board's Regulation W and various other legal limitations restrict State Bank from lending or otherwise supplying funds to the Company (or any other affiliate), generally limiting such transactions with the affiliate to 10% of State Bank's capital and surplus and limiting all such transactions with all affiliates to 20% of State 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 State 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. Prior to January 1, 2015, the minimum ratio of total capital to risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit) was 8%. Of that 8%, at least 4% was required to 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 January 1, 2015, State Bank and the Company became subject to new capital regulations under BASEL III (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. These new capital requirements are as follows: leverage ratio of 4% of adjusted total assets, total capital ratio of 8% of risk-weighted assets and the Tier 1 capital ratio of 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. 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.

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. State Bank decided in the first quarter of 2015 to permanently opt-out of the inclusion of AOCI in its capital calculations to reduce the impact of market volatility on its regulatory capital levels.

The new requirements under BASEL III 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 December 31, 2015. 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. (see Note 13) 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.

In April 2015, the Federal Reserve Board issued a final rule which increased the size limitation for qualifying bank holding companies under the Federal Reserve Board's Small Bank Holding Company Policy Statement from \$500 million to \$1 billion of total consolidated assets. As a result, the Company now qualifies under the Small Bank Holding Company Policy Statement for exemption from the Federal Reserve Board's consolidated risk-based capital and leverage rules at the holding company level.

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.

In addition, the FDIC has proposed changing the deposit insurance premium assessment method for banks with less than \$10 billion in assets that have been insured by the FDIC for at least five years. The proposed changes would revise the financial ratios method so that it would be based on a statistical model estimating the probability of failure of a bank over three years; update the financial measures used in the financial ratios method consistent with the statistical model; and eliminate risk categories for established small banks and use the financial ratios method to determine assessment rates for all such banks (subject to minimum or maximum initial assessment rates based upon a bank's composite examination rating).

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 Capital Market under the symbol “SBFG”. The Company’s depository shares, each representing a 1/100th interest in the preferred shares, Series A are listed on the NASDAQ Capital Market under the symbol “SBFGP”. 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 full 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 of the Company for the years ending December 31 and also includes the interest earned or paid, and the average interest rate, on each asset and liability:

(\$ in thousands)	2015			2014			2013			
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	
Assets:										
Taxable securities	\$78,840	\$1,506	1.91 %	\$69,795	\$1,198	1.72 %	\$78,520	\$1,244	1.58 %	
Non-taxable securities (1)	17,593	1,052	5.98 %	18,051	1,074	5.95 %	17,267	1,065	6.17 %	
Loans, net (2)(3)	531,614	23,745	4.47 %	501,486	22,524	4.49 %	469,603	22,936	4.88 %	
Total earning assets	628,047	26,303	4.19 %	589,332	24,796	4.21 %	565,390	25,245	4.47 %	
Cash and due from banks	38,895			24,665			20,827			
Allowance for loan losses	(6,979)			(6,785)			(6,962)			
Premises and equipment	16,427			13,725			14,635			
Other assets	43,196			51,340			46,030			
Total assets	\$719,586			\$672,277			\$639,920			
Liabilities										
Savings and interest-bearing demand deposits	\$309,169	\$346	0.11 %	\$275,188	\$105	0.04 %	\$262,954	\$136	0.05 %	
Time deposits	162,245	1,633	1.01 %	171,399	1,879	1.10 %	180,154	2,095	1.16 %	
Repurchase agreements & Other	15,749	17	0.11 %	18,764	91	0.48 %	13,085	58	0.44 %	
Advances from FHLB	29,996	375	1.25 %	24,294	334	1.37 %	18,551	339	1.83 %	
Trust preferred securities	10,310	213	2.07 %	17,448	1,071	6.14 %	20,620	1,407	6.82 %	
Total interest-bearing liabilities	527,469	2,584	0.49 %	507,093	3,480	0.69 %	495,364	4,035	0.81 %	
Demand deposits	104,426			88,973			78,540			
Other liabilities	9,073			16,025			11,316			
Total liabilities	640,968			612,091			585,220			
Shareholders' equity	78,618			60,186			54,700			

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Total liabilities and shareholders' equity	\$719,586	\$672,277	\$639,920
Net interest income (tax equivalent basis)	\$23,719	\$21,316	\$21,210
Net interest income as a percent of average interest-earning assets	3.78 %	3.62 %	3.75 %

(1) Security interest is computed on a tax equivalent basis using a 34 percent statutory tax rate. The tax equivalent adjustment was \$0.36 million, \$0.37 million and \$0.36 million in 2015, 2014 and 2013, 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 percent statutory tax rate. The tax equivalent adjustment was \$0.02 million, \$0.02 million and \$0.04 million in 2015, 2014 and 2013, 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 percent in 2015 and 2014.

(\$ in thousands)	Total		
	Variance	Variance Attributable To	
	2015/2014	Volume	Rate
<u>Interest income</u>			
Taxable securities	\$308	\$155	\$153
Non-taxable securities	(22)	(27)	5
Federal funds sold	-	-	-
Loans, net of unearned income and deferred fees *	1,221	1,353	(132)
	1,507	1,481	26
<u>Interest expense</u>			
Savings and interest-bearing demand deposits	\$241	\$13	228
Time deposits	(246)	(100)	(146)
Repurchase agreements & Other	(74)	(1)	(73)
Advances from FHLB	41	78	(37)
Trust preferred securities	(858)	(438)	(420)
	(896)	(448)	(447)
Net interest income	\$2,403	\$1,929	\$473

* Interest on non-taxable loans has been adjusted to fully tax equivalent.

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)	2015	2014	2013
U.S. Treasury and government agencies	\$10,905	\$15,307	\$11,300
Mortgage-backed securities	61,343	50,740	57,223
State and political subdivisions	17,518	19,170	18,155
Money Market Mutual Fund	-	-	3,092
Marketable equity securities	23	23	23
Total	\$89,789	\$85,240	\$89,793

B. The maturity distribution and weighted average interest rates of securities available for sale at December 31, 2015, 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	\$100	\$683	\$1,032	\$9,090
Mortgage-backed securities	744	8,765	8,556	43,278
State and political subdivisions	330	1,443	5,367	10,378
Total Securities with maturity	\$1,174	\$10,891	\$14,955	\$62,746
Weighted average yield by maturity (1)	2.62	% 2.50	% 3.18	% 2.59
Marketable equity securities with no maturity	23	-	-	-
Total Securities with no stated maturity	\$23	\$-	\$-	\$-

Weighted average yield no maturity (1)	<0.01%	-	-	-
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(1) Yields are presented on a tax-equivalent basis.

Excluding those holdings of the investment portfolio in U.S. Treasury securities and other agencies of the U.S. C. Government, there were no other securities of any one issuer which exceeded 10 percent of the shareholders' equity of the Company at December 31, 2015.

III. LOAN PORTFOLIO

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

Loans Held for Investment (HFI) (\$ in thousands)	2015	2014	2013	2012	2011
Commercial business and agricultural	\$ 130,421	\$ 134,546	\$ 124,578	\$ 123,767	\$ 116,172
Commercial real estate	242,208	217,030	205,301	201,392	187,829
Residential real estate	130,806	113,214	99,620	87,859	87,656
Consumer & other loans	54,224	51,546	47,804	50,371	50,897
Total loans, (HFI) net of unearned income	557,659	516,336	477,303	463,389	442,554
Residential Loans held for sale	7,516	5,168	3,366	6,147	5,238
Total Loans, net of unearned income	\$565,175	\$521,504	\$480,669	\$469,536	\$447,792

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, 2015, commercial business and agricultural loans made up approximately 23.4 percent of the loan portfolio while commercial real estate loans accounted for approximately 43.4 percent of the loan portfolio. As of December 31, 2015, residential first mortgage loans made up approximately 23.5 percent of the loan portfolio and are secured by first mortgages on residential real estate, with consumer loans to individuals approximately 9.7 percent of the loan portfolio and are primarily secured by consumer assets.

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, 2015, 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.)

Maturing (\$ in thousands)	Commercial Business & Ag.	Commercial Real Estate	Total
Within one year	\$ 17,783	\$ 18,324	\$36,107
After one year but within five years	45,368	82,917	128,285
After five years	67,270	140,967	208,237

Total Commercial, Commercial RE & Ag. \$ 130,421 \$ 242,208 \$372,629

(\$ in thousands)	Interest Sensitivity		Total
	Fixed Rate	Variable Rate	
<u>Commercial Business and Agricultural</u>			
Due after one year but within five years	\$19,407	\$25,961	\$45,368
Due after five years	10,074	57,196	67,270
Total	\$29,481	\$83,157	\$112,638
Commercial Real Estate			
Due after one year but within five years	37,879	45,038	82,917
Due after five years	44,454	96,513	140,967
Total	\$82,333	\$141,551	\$223,884
Total Commercial, Commercial RE & Ag.			
Due after one year but within five years	57,286	70,999	128,285
Due after five years	54,528	153,709	208,237
Total	\$111,814	\$224,708	\$336,522

III. LOAN PORTFOLIO (Continued)

Risk Elements: 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:

(\$ in thousands)	2015	2014	2013	2012	2011
Loans accounted for on a non-accrual basis	\$6,646	\$4,609	\$4,844	\$5,305	\$6,900
Accruing loans 90 days past due	-	-	-	-	-
Accruing Troubled Debt Restructurings	1,500	1,384	1,739	1,258	1,334
Total non-performing loans and TDRs	\$8,146	\$5,993	\$6,583	\$6,563	\$8,234

Listed below is the interest income on impaired and non-accrual loans at December 31 for the years indicated:

(\$ in thousands)	2015	2014
Cash basis interest income recognized on impaired loans outstanding	\$239	\$200
Interest income actually recorded on impaired loans and included in net income for the period	245	206
Unrecorded interest income on non-accrual loans	86	88

Management believes the allowance for loan losses at December 31, 2015 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. 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, 2015, in addition to the \$6.6 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 \$1.8 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, 2015, loans outstanding related to agricultural operations or collateralized by agricultural real estate and equipment aggregated approximately \$43.8 million, or 7.9 percent of total loans.

D. Other Interest-Bearing Assets

There were no other interest-bearing assets as of December 31, 2015 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:

(\$ in thousands)	2015	2014	2013	2012	2011	
Loans						
Loans outstanding at end of period	\$557,659	\$516,336	\$477,303	\$463,389	\$442,554	
Average loans outstanding during period	\$531,614	\$501,486	\$469,603	\$455,516	\$438,883	
Allowance for loan losses						
Balance at beginning of period	\$6,771	\$6,964	\$6,811	\$6,529	\$6,715	
Loans charged-off:						
Commercial business and agricultural loans	(497)	(607)	(1)	(400)	(642)	
Commercial real estate	(303)	(13)	(111)	(287)	(2,057)	
Residential real estate mortgage	(56)	(92)	(264)	(129)	(248)	
Consumer loans and other	(96)	(135)	(443)	(512)	(460)	
	(952)	(847)	(819)	(1,328)	(3,407)	
Recoveries of loans previously charged-off						
Commercial business and agricultural loans	29	22	22	48	468	
Commercial real estate	3	125	17	50	32	
Residential real estate mortgage	29	32	21	86	700	
Consumer loans and other	10	25	12	76	27	
	71	204	72	260	1,227	
Net loans charged-off	(881)	(643)	(747)	(1,068)	(2,180)	
Provision for loan losses	1,100	450	900	1,350	1,994	
Balance at end of period	\$6,990	\$6,771	\$6,964	\$6,811	\$6,529	
Ratio of net charge-offs to average loans	0.17	% 0.13	% 0.16	% 0.23	% 0.50	%

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:

	2015			2014			2013			2012			2011		
	Allowance Amount	Percentage of Loans In Each Category to Total Loans	%	Allowance Amount	Percentage of Loans In Each Category to Total Loans	%	Allowance Amount	Percentage of Loans In Each Category to Total Loans	%	Allowance Amount	Percentage of Loans In Each Category to Total Loans	%	Allowance Amount	Percentage of Loans In Each Category to Total Loans	%
Commercial and agricultural	\$1,118	23.4	%	\$1,838	26.1	%	\$2,334	26.1	%	\$1,747	26.7	%	\$1,965	26.3	%
Commercial real estate	3,886	43.4	%	2,857	42.0	%	2,708	43.0	%	3,034	43.5	%	2,880	42.4	%
Residential real estate	1,312	23.5	%	1,308	21.9	%	1,067	20.9	%	1,088	19.0	%	956	19.8	%
Consumer & other loans	674	9.7	%	768	10.0	%	855	10.0	%	942	10.9	%	728	11.5	%
	\$6,990	100.0	%	\$6,771	100.0	%	\$6,964	100.0	%	\$6,811	100.0	%	\$6,529	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)	2015		2014		2013	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
Savings and interest-bearing demand						

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deposits	\$309,169	0.11	%	\$275,188	0.04	%	\$262,954	0.05	%
Time deposits	162,245	1.01	%	171,399	1.10	%	180,154	1.16	%
Demand deposits (non-interest-bearing)	104,426	-		88,973	-		78,540	-	
	\$575,840			\$535,560			\$521,648		

Maturities of time certificates of deposit and other time deposits of \$100,000 or more outstanding at December 31, 2015, are summarized as follows:

	Amount (\$ in thousands)
Three months or less	\$ 13,471
Over three months and through six months	8,073
Over six months and through twelve months	14,612
Over twelve months	35,432
Total	\$ 71,588

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:

(\$ in thousands)	2015	2014	2013
Average total assets	\$719,586	\$672,277	\$639,920
Average shareholders' equity	\$78,618	\$60,186	\$54,700
Net income	\$7,619	\$5,263	\$5,205
Net income available to common shareholders	\$6,663	\$5,263	\$5,205
Cash dividends declared	\$0.20	\$0.16	\$0.12
Return on average total assets	1.06	% 0.78	% 0.81
Return on average shareholders' equity	9.69	% 8.74	% 9.52
Dividend payout ratio (1)	14.71	% 14.88	% 11.26
Average shareholders' equity to average assets	10.93	% 8.95	% 8.55

(1) Cash dividends declared on common shares divided by net income available to common.

VII. SHORT-TERM BORROWINGS

The following information is reported for short-term borrowings for the periods noted:

(\$ in thousands)	2015	2014	2013
Amount outstanding at end of year	\$12,406	\$12,740	\$14,696
Weighted average interest rate at end of year	0.10	% 0.10	% 0.11
Maximum amount outstanding at any month end	\$20,306	\$20,607	\$15,025
Average amount outstanding during the year	\$15,749	\$17,057	\$12,011
Weighted average interest rate during the year	0.11	% 0.11	% 0.09

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. Forward-looking statements reflect our expectations, estimates or projections concerning future results or events. These statements are generally identified by the use of forward-looking words or phrases such as “anticipates”, “believes”, “plans”, “intends”, “expects”, “projects”, “estimates”, “should”, “may”, “would be”, “will allow”, “will likely result”, “will continue to 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 and political conditions in the market areas in which the Company and its subsidiaries operate, changes in laws, regulations or 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, unanticipated litigation, 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 and political conditions could adversely affect our earnings through declines in deposits, loan demand, the ability of our customers to repay loans and the value of collateral securing our loans.

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. Economic turmoil in Europe and Asia and changes in oil production in the Middle East affect the economy and stock prices in the United States, which can affect our earnings and capital and the ability of our customers to repay loans. 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. In addition, our lending and deposit gathering activities are concentrated primarily in Northwest Ohio. As a result, our success depends in large part on the general economic conditions of these areas, particularly given that a significant portion of our lending relates to real estate located in this region. Therefore, adverse changes in the economic conditions in these areas could adversely impact our earnings and cash flows.

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 Federal Reserve Board, 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. 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. In addition, the FDIC has proposed changes to its assessment system for banks with less than \$10 billion in assets that have been insured by the FDIC for at least five years. It is unclear how a final new assessment system might impact Civista's deposit insurance premiums in the future.

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 addition, we cannot predict whether there will be additional new laws or regulations that might affect the Company and result in material adverse effects on our financial condition and results of operations.

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.

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 and depository 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 shares could have a material adverse effect on the market price of our shares.

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

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

The market price of our common and depository shares may be subject to fluctuations and volatility.

The market price of our common and depository shares may fluctuate significantly due to, among other things, changes in market sentiment regarding our operations, financial results or business prospects, the banking industry generally or the macroeconomic outlook. Factors that could impact trading prices include:

our operating and financial results, including how those results vary from the expectations of management, securities analysts and investors;

developments in our business or operations or in the financial sector generally;

any future offerings by us of debt or preferred shares, which would be senior to our common shares upon liquidation and for purposes of dividend distributions;

legislative or regulatory changes affecting our industry generally or our business and operations specifically;

the operating and stock price performance of companies that investors consider to be comparable to us;

announcements of strategic developments, acquisitions and other material events by us or our competitors;

expectations of (or actual) equity dilution, including the actual or expected dilution to various financial measures, including earnings per share, that may be caused by any future offering and/or sale of additional securities of the Company;

actions by our current shareholders, including future sales of common shares by existing shareholders, including our directors and executive officers; and

other changes in U.S. or global financial markets, global economies and general market conditions, such as interest or foreign exchange rates, stock, commodity, credit or asset valuations or volatility.

Equity markets in general and our shares in particular have experienced volatility over the past few years. The market price of our shares may continue to be subject to volatility unrelated to our operating performance or business prospects. Increased volatility could result in a decline in the market price of our shares.

Investors could become subject to regulatory restrictions upon ownership of our common shares.

Under the federal Change in Bank Control Act, a person may be required to obtain prior approval from the Federal Reserve before acquiring 10% or more of our common shares or the power to directly or indirectly control our

management, operations, or policies.

We have implemented anti-takeover devices that could make it more difficult for another company to purchase us, even though such a purchase may increase shareholder value.

In many cases, shareholders may receive a premium for their shares if we were purchased by another company. Ohio law and our Articles and Amended and Restated Regulations, as amended (“Regulations”), make it difficult for anyone to purchase us without the approval of our board of directors. Consequently, a takeover attempt may prove difficult, and shareholders may not realize the highest possible price for their securities.

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 34 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.

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.

New regulations applicable to residential mortgage origination could adversely impact our business.

In the past several years, the CFPB has issued significant new mortgage rules and additional guidance and initiatives aimed at the mortgage lending industry. These new rules, guidance and initiatives impact a key business line for the Company, and may have an impact on our mortgage loan origination practices going forward. The Company has been closely monitoring these regulatory developments, and the Company continues to evaluate the applicable requirements of the new mortgage rules that have been issued, including the TILA-RESPA Integrated Disclosure (TRID) rules (which were originally to be effective on August 1, 2015, but were subsequently postponed until October 3, 2015). The new TRID rules contain new requirements and new disclosure forms that are required to be provided to borrowers during the origination process for mortgage loans, and the implementation of these new requirements and forms have necessitated operational and technological changes for our residential mortgage loan business. The Company has been working closely with its vendors and partners and has diligently strived to achieve compliance as of the new effective date and to maintain compliance with these complex new rules as additional guidance and clarification is provided by the regulators. These new rules, as well as additional rules, guidance and initiatives established by the CFPB or other regulators in the future, may continue to increase regulatory compliance costs, impede the growth of our mortgage lending business and otherwise adversely impact our business.

Item 1B. Unresolved Staff Comments

None.

25

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 used as a retail banking center. In addition, State Bank owns the land and buildings occupied by 19 of its banking centers and leases one other property used as a banking center. The Company also 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. The Dublin and Findlay banking centers were opened during 2015, and the Bowling Green banking center was purchased in 2015 and will open in the fourth quarter of 2016.

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, Hancock, Lucas, Paulding, Seneca, Williams and Wood counties of Ohio, Allen and Steuben counties of Indiana and Ingham and Monroe counties of Michigan:

Description/Address	Leased/ Owned	Deposits 12/31/15
Main Banking Center & Corporate Office		
401 Clinton Street, Defiance, OH	Owned	\$159,767
Banking Centers/Drive-Thru's		
1419 West High Street, Bryan, OH	Owned	32,911
1232 Main Street, Bowling Green, OH	Owned	N/A
510 Third Street, Defiance, OH (Drive-thru)	Owned	N/A
1600 North Clinton Street, Defiance, OH	Leased	32,622
312 Main Street, Delta, OH	Owned	12,766
4080 West Dublin Granville Road, Dublin, OH	Owned	13,530
211 East Lincoln Street, Findlay, OH	Owned	2,355
12832 Coldwater Road, Fort Wayne, IN	Owned	16,382
235 Main Street, Luckey, OH	Owned	41,651
133 East Morenci Street, Lyons, OH	Owned	20,185
930 West Market Street, Lima, OH	Owned	34,200
1201 East Main Street, Montpelier, OH	Owned	38,944
218 North First Street, Oakwood, OH	Owned	20,432
220 North Main Street, Paulding, OH	Owned	38,548
610 East South Boundary Street, Perrysburg, OH	Owned	12,372
119 South State Street, Pioneer, OH	Owned	28,761
6401 Monroe Street, Sylvania, OH	Owned	29,613
311 Main Street, Walbridge, OH	Owned	26,525
515 Parkview, Wauseon, OH	Owned	24,889

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Loan Production Offices

908	North Wayne Street, Suite A, Angola, IN	Leased	-
68	North High Street, Bldg. E, Ste. 105, New Albany, OH	Leased	-
206	South Washington Street, Tiffin, OH	Leased	-
8194	Secor Road, Lambertville, MI	Leased	-

Service Facilities (RDSI/DCM/SBT)

112	East Jackson Street, West Unity, OH	Owned	N/A
104	Depot Street, Archbold, OH	Leased	N/A
105	East Holland Street, Archbold, OH	Leased	N/A
3125	Pine Tree Road, Suite 3D, Lansing, MI	Leased	N/A

Total Deposits			\$586,453
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The Company's subsidiaries have several noncancellable leases for business use that expire over the next ten years. Aggregate rental expense for these leases was \$0.14 and \$0.31 million for the years ended December 31, 2015, and 2014, respectively. Future minimum lease payments under operating leases are:

(\$ in thousands)	
2016	\$ 135
2017	111
2018	102
2019	103
2020	103
Thereafter	104

Total Lease Payments \$658

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 29, 2015, 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.

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Name	Age	Position(s) Held with the Company and <u>its Subsidiaries and Principal Occupation(s)</u>
Mark A. Klein	61	Chairman of the Company since April 2015; Director of the Company since February 2010; President and Chief Executive Officer of the Company since January 2010 and of The 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	54	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 June 2010.
Jonathan R. Gathman	42	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 State Bank 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 Capital Market under the symbol "SBFG" and there were 4,890,886 shares outstanding as of December 31, 2015. These common shares were held by approximately 1,400 record holders. Our depository shares representing a 1/100th interest in our preferred shares, Series A, are traded on the NASDAQ Capital Market under the symbol "SBFGP" and there were 1,500,000 depository shares outstanding as of December 31, 2015. On or after the fifth anniversary of the issue date of the Series A Preferred Shares (December 23, 2019), the Company may require all holders of Series A Preferred Shares (and, therefore, depository shares) to convert their shares into common shares of the Company provided the Company's common share price exceeds 120 percent of \$10.34. At December 31, 2015, the aggregate number of common shares issuable upon the conversion of outstanding Series A Preferred Shares was 1,451,377.

The following table presents quarterly market price information and cash dividends paid per share for our common shares for 2015 and 2014:

Quarter ended:	Year Ending December 31, 2015			December 31, 2014		
	High	Low	Dividend	High	Low	Dividend
March 31	\$11.25	\$9.18	\$ 0.045	\$9.00	\$7.75	\$ 0.035
June 30	11.87	10.40	0.050	8.75	7.71	0.040
September 30	11.45	9.51	0.050	9.20	8.06	0.040
December 31	11.75	9.95	0.055	9.70	8.50	0.045

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 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	<i>Period Ending</i>					
	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
SB Financial Group, Inc.	100.00	66.25	163.98	201.33	244.73	295.54
NASDAQ Composite	100.00	99.21	116.82	163.75	188.03	201.40
NASDAQ Bank	100.00	89.50	106.23	150.55	157.95	171.92

Source : SNL Financial LC, Charlottesville, VA

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The following table provides information regarding SB Financial's purchases of its common shares during the period ended 2015:

Period	Total Number of Shares Purchased	Average Price Paid per Share
May 2015	186	\$ 10.90

There were no common shares repurchased by the Company in 2014.

Item 6. Selected Financial Data**Financial Highlights****Year Ended December 31**

(\$ in thousands except per share data)

EARNINGS	2015	2014	2013	2012	2011
Interest income	\$25,927	\$24,408	\$24,848	\$26,122	\$27,509
Interest expense	2,584	3,480	4,035	5,390	6,798
Net interest income	23,343	20,928	20,813	20,732	20,711
Provision for loan losses	1,100	450	900	1,350	1,994
Noninterest income	15,707	12,827	14,046	14,845	13,857
Noninterest expense	26,927	25,957	26,511	27,484	30,253
Provision for income taxes	3,404	2,085	2,243	1,929	658
Net income	7,619	5,263	5,205	4,814	1,664
Preferred stock dividends	956	-	-	-	-
Net income available to common	6,663	5,263	5,205	4,814	1,664
PER SHARE DATA					
Basic earnings	\$1.36	\$1.08	\$1.07	\$0.99	\$0.34
Diluted earnings	1.19	1.07	1.07	0.99	0.34
Cash dividends declared	0.20	0.16	0.12	-	-
Total equity per share	12.81	11.96	11.55	10.96	9.86
AVERAGE BALANCES					
Average total assets	\$719,586	\$672,277	\$639,920	\$638,035	\$643,528
Average equity	78,618	60,186	54,700	50,300	47,035
RATIOS					
Return on average total assets	1.06	% 0.78	% 0.81	% 0.75	% 0.26
Return on average equity	9.69	8.74	9.52	9.57	3.54
Cash dividend payout ratio*	14.75	14.81	11.21	-	-
Average equity to average assets	10.93	8.95	8.55	7.88	7.31
PERIOD END TOTALS					
Total assets	\$733,071	\$684,228	\$631,754	\$638,234	\$628,664
Total investments; fed funds sold	89,789	85,240	89,793	98,702	111,978
Total loans and leases	557,659	516,336	477,303	463,389	442,554
Loans held for sale	7,516	5,168	3,366	6,147	5,238
Allowance for loan losses	6,990	6,771	6,964	6,811	6,529
Total deposits	586,453	550,906	518,234	527,001	518,765

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Notes payable	-	-	589	1,702	2,788
Advances from FHLB	35,000	30,000	16,000	21,000	12,776
Trust preferred securities	10,310	10,310	20,620	20,620	20,620
Total equity	81,241	75,683	56,269	53,284	47,932

*Cash dividends divided by net income

Quarterly Financial Information (unaudited)**Year ended December 31**

(\$ in thousands except per share data)

2015	December	September	June	March
Interest income	\$ 6,622	\$ 6,717	\$6,414	\$6,174
Interest expense	646	644	651	643
Net interest income	5,976	6,073	5,763	5,531
Provision for loan losses	150	100	500	350
Non-interest income	3,716	3,952	4,443	3,596
Non-interest expense	6,839	6,626	6,818	6,644
Income tax expense	835	1,035	897	637
Net income	\$ 1,868	\$ 2,264	\$1,991	\$1,496
Preferred share dividend	244	244	244	225
Net income available to common	\$ 1,624	\$ 2,020	\$1,747	\$1,271
Basic earnings per share	\$ 0.33	\$ 0.41	\$0.36	\$0.26
Diluted earnings per share	0.29	0.35	0.31	0.23
Dividends per share	0.055	0.05	0.05	0.045

2014	December	September	June	March
Interest income	\$ 6,190	\$ 6,321	\$6,156	\$5,741
Interest expense	685	971	908	916
Net interest income	5,505	5,350	5,248	4,825
Provision for loan losses	150	150	150	-
Non-interest income	3,163	3,809	3,295	2,560
Non-interest expense	6,363	6,888	6,627	6,079
Income tax expense	630	608	521	326
Net income	\$ 1,525	\$ 1,513	\$1,245	\$980
Basic earnings per share	\$ 0.31	\$ 0.31	\$0.26	\$0.20
Diluted earnings per share	0.30	0.31	0.25	0.20
Dividends per share	0.045	0.04	0.04	0.035

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

SB Financial Group, Inc. ("SB Financial" or the "Company"), 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 provides 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, 2015 and 2014.

Strategic Discussion

The focus and strategic goal of the Company is to grow into a top decile (>90th percentile) independent financial services company. We intend to achieve that goal by succeeding at the five key initiatives we have adopted.

Increase profitability through ongoing diversification of revenue streams: For the twelve months ended December 31, 2015, the Company generated \$15.7 million in revenue from "fee based" products, or 40.2 percent of total operating revenue. These revenue sources include fees generated from saleable residential mortgage loans, retail deposit products, wealth management division, saleable business-based loans (small business and farm service) and fees generated by our wholly-owned item processing subsidiary (RDSI).

Strengthen our penetration in all markets served: Over our 113 year history of continuous operation in Northwest Ohio, we have established a significant presence in our traditional markets in Defiance, Fulton, Paulding and Williams counties in Ohio. In our newer markets of Columbus, Findlay, Toledo (Ohio) and Ft. Wayne (Indiana), our current market penetration is minimal but we believe our potential for growth is significant. During 2015, we expanded our presence into Columbus (Dublin), Ohio and Findlay, Ohio with new banking center openings.

Expand product utilization by new and existing customers: As of December 31, 2015, we served 26,076 households and provided 57,118 products to these households. Our strategy is to continue to expand the scope of our relationship with each household via our dynamic "on-boarding" process. Proactively identifying client needs is a key ingredient of our value proposition.

Deliver gains in operational excellence: Our management team believes that becoming and remaining a high-performance financial services company will depend upon seamlessly and consistently delivering operational excellence. This excellence is demonstrated by the Company's leadership in the origination and servicing of residential mortgage loans. As of December 31, 2015, the Company serviced 5,632 loans with a principal balance of \$772.5 million.

Sustain asset quality: As of December 31, 2015, the Company was near the top quartile of our peer group in asset quality metrics. Specifically, total non-performing assets were \$8.4 million, or 1.15 percent of total assets. Total delinquent loans at December 31, 2015 were 1.09 percent of total loans.

Critical Accounting Policies

The accounting and reporting policies of SB Financial 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, 2015 and 2014. 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 2015 was \$7.62 million, and net income available to common shareholders was \$6.66 million or \$1.19 per diluted share, compared with net income and net income available to common of \$5.26 million, or \$1.07 per diluted share for 2014. State Bank reported net income for 2015 of \$8.37 million, which was up from the \$6.95 million in net income in 2014. RDSI reported a net loss for 2015 of \$3 thousand, compared to a net loss of \$180 thousand reported for 2014.

Positive results for 2015 included loan growth of \$41.3 million, and deposit growth of \$35.5 million. Both of these factors contributed to a net interest margin of 3.78 percent, which was up 16 basis points from 2014. The mortgage banking business line continues to grow, with residential real estate loan production of \$323 million for the year, resulting in \$6.3 million of revenue from gains on sale. The level of mortgage origination was up from the \$220 million in 2014. The Company's loans serviced for others ended the year at \$773 million.

Operating revenue was up compared to the prior year by \$5.2 million, or 15.7 percent, due to higher mortgage volume, SBA gains and \$41.3 million in balance sheet loan growth. Net interest margin for 2015 was 3.78 percent, up 16 basis point from 2014.

Operating expense was up compared to the prior year by \$0.97 million, or 3.7 percent, due to higher mortgage volumes, fringe benefit cost increases and higher staffing levels. Net charge-offs for 2015 of \$0.88 million resulted in a loan loss provision of \$1.1 million, which was up from the \$0.64 and \$0.45 million respectively in 2014.

Changes in Financial Condition

Total assets at December 31, 2015, were \$733.1 million, compared to \$684.2 million at December 31, 2014. Loans (excluding loans held for sale) were \$557.7 million at December 31, 2015, compared to \$516.3 million at December 31, 2014. Total deposits were \$586.4 million at December 31, 2015, compared to \$550.9 million at December 31, 2014.

Total equity was \$81.2 million at December 31, 2015, up from \$75.7 million at December 31, 2014. The \$5.5 million increase in equity, which reflected a 7.3 percent increase over 2014 was due to net income less shareholder dividends of \$1.0 million.

Results of Operations

(\$ in thousands except per share data)	Year Ended December 31,			% Change
	2015	2014		
Total assets	\$733,071	\$684,228	7.1	%
Total investments	89,789	85,240	5.3	%
Loans held for sale	7,516	5,168	45.4	%
Loans, net of unearned income	557,659	516,336	8.0	%
Allowance for loan losses	6,990	6,771	3.2	%
Total deposits	586,453	550,906	6.5	%
Total operating revenue	\$39,050	\$33,755	15.7	%
Net interest income	23,343	20,928	11.5	%
Loan loss provision	1,100	450	144.4	%
Non-interest income	15,707	12,827	22.5	%

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Non-interest expense	26,927	25,957	3.7	%
Net income	7,619	5,263	44.8	%
Net income available to common shareholders	6,663	5,263	26.6	%
Diluted earnings per share	1.19	1.07	11.3	%

Net Interest Income Year Ended December 31,

(\$ in thousands)	2015	2014	% Change	
Net interest income	\$23,343	\$20,928	11.5	%

Net interest income was \$23.3 million for 2015 compared to \$20.9 million for 2014, an increase of \$2.4 million or 11.5 percent. Average earning assets increased to \$628.0 million in 2015, compared to \$589.3 million in 2014, an increase of \$38.7 million or 6.6 percent due to loan volume. The consolidated 2015 full-year net interest margin increased 16 basis points to 3.78 percent compared to 3.62 percent for the full year of 2014. In the third quarter of 2014, the Company redeemed its fixed rate trust preferred securities prior to maturity, which impacted the full year improvement in net interest margin by 14 basis points.

Provision for Loan Losses of \$1.1 million was taken in 2015 compared to \$0.45 million taken for 2014. The \$0.65 million increase was due to the higher level of charge-offs and the deterioration in the Company's non-performing asset levels. For 2015, net charge-offs totaled \$0.88 million, or 0.17 percent of average loans. This charge-off level was higher than 2014, in which net charge-offs were \$0.64 million or 0.13 percent of average loans.

Non-interest Income (\$ in thousands)	Year Ended December 31,			% Change	%
	2015	2014			
Total non-interest income	\$15,707	\$12,827	22.5		%
Data service fees	1,190	1,289	-7.7		%
Wealth management fees	2,606	2,630	-0.9		%
Customer service fees	2,779	2,691	3.3		%
Gains on sale of residential loans	6,264	4,228	48.2		%
Gains on sale of other loans	947	321	195.0		%
Mortgage loan servicing fees, net	1,025	731	40.2		%
Gains on sale of securities	-	160	-100.0		%
Other	896	777	15.3		%

Total non-interest income was \$15.7 million for 2015 compared to \$12.8 million for 2014, representing a \$2.9 million, or 22.5 percent increase year-over-year. This increase was driven by a 38 percent increase in gains on sale of residential real estate loans and a 195 percent increase in other loan sale gains. The Company sold \$271 million of originated mortgages into the secondary market, which allowed for our serviced loan portfolio to grow to \$773 million at December 31, 2015 from \$666 million at December 31, 2014.

Data servicing fees from RDSI continued to decline, and were down 8 percent in 2015, due to lower check processing volume and client losses. Customer service fees increased during 2015 due to changes in the Company's deposit products.

Other income increased due to gains on sales of assets and swap income.

Non-interest Expense (\$ in thousands)	Year Ended December 31,			% Change	%
	2015	2014			
Total non-interest expense	\$26,927	\$25,957	3.7		%
Salaries & employee benefits	14,917	13,185	13.1		%
Professional fees	1,663	1,703	-2.3		%

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Occupancy & equipment expense	4,166	4,612	-9.7	%
Marketing expense	594	564	5.3	%
All other	5,587	5,893	-5.2	%

Total non-interest expense was \$26.9 million for 2015 compared to \$26.0 million for 2014, representing a \$0.97 million, or 3.7 percent year-over-year. Included in the 2014 expense totals was \$0.33 million related to the trust preferred prepayment penalty. Total full-time equivalent headcount (FTE) ended 2015 at 214, which was up 24 from year end 2014.

Salaries and benefits were driven by higher personnel and incentive costs due to mortgage and SBA loan sales. Occupancy costs were down as computer equipment purchased in 2010 has been fully expenses and is still operational.

Balance Sheet (\$ in thousands)	Year Ended December 31,			
	2015	2014	% Change	
Total Loans				
Commercial	\$86,586	\$88,329	-2.0	%
Commercial real estate	242,208	217,030	11.6	%
Agricultural	43,835	46,217	-5.2	%
Residential real estate	130,806	113,214	15.5	%
Consumer & Other	54,224	51,546	5.2	%
Total loans, net of unearned income	\$557,659	\$516,336	8.0	%
Total loans, held for sale	\$7,516	\$5,168	45.4	%
Total Deposits				
Non interest bearing demand	\$113,113	\$97,853	15.6	%
Interest bearing demand	126,443	121,043	4.5	%
Savings & money market	187,859	168,709	11.4	%
Time deposits	159,038	163,301	-2.6	%
Total deposits	\$586,453	\$550,906	6.5	%

Loans increased \$41.3 million, or 8.0 percent, to \$557.7 million at December 31, 2015. The largest component of this increase was in commercial real estate loans which rose \$25.2 million followed by residential real estate and consumer which rose \$17.6 million and \$2.7 million, respectively.

Deposits increased \$35.5 million, or 6.5 percent, to \$586.4 million at December 31, 2015. Deposit growth for the year included \$15.3 million in non-interest demand deposits and \$19.3 million in savings deposits.

Asset Quality (\$ in thousands)	Year Ended December 31,			
	2015	2014	% Change	
Non-accruing loans	\$6,646	\$4,608	44.2	%
Accruing restructured loans (TDR's)	1,500	1,385	8.3	%
OREO & Repossessed assets	286	285	0.4	%
Non-performing assets	8,432	6,278	34.3	%
Net charge-offs	881	643	37.0	%
Loan loss provision	1,100	450	144.4	%
Allowance for loan losses	6,990	6,771	3.2	%
Non-performing assets/total assets	1.15 %	0.92 %	25.4	%

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Net charge-offs/average loans	0.13 %	0.13 %	0.0 %
Allowance/loans	1.25 %	1.31 %	-4.4 %
Allowance/non-performing loans	85.81 %	112.98 %	-24.1 %

Non-performing assets consisting of loans and OREO (Other Real Estate Owned) and accruing TDRs totaled \$8.4 million, or 1.15 percent of total assets at December 31, 2015, an increase of \$2.2 million or 34.3 percent from 2014. Net charge-offs were also up during 2015 at \$0.88 million, which was a \$0.24 million increase compared to 2014. The Company's loan loss allowance at December 31, 2015, now covers non-performing loans at 86 percent, down from 113 percent at December 31, 2014.

Stockholders' equity at December 31, 2015, was \$81.2 million or 11.08 percent of total assets compared to \$75.7 million or 11.06 percent of total assets at December 31, 2014. The equity balances for 2014 included the net impact of the Company's capital raise, which closed in December 2014 and added \$14.0 million to total equity through the public offering of depository shares representing 1/100th interest in our 6.50 percent Noncumulative Convertible Preferred Shares, Series A.

Regulatory capital reporting is required for State Bank only, as the Company is now exempt from quarterly regulatory capital level measurement. As of December 31, 2015, State Bank met all requirements for well capitalized (See Note 13).

Goodwill and Intangibles: The Company completed its most recent annual goodwill impairment test as of December 31, 2015. 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, 2015, 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.

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 \$2.5 million for the Company during 2016. These capital expenditures and 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 \$117.8 million at December 31, 2015, compared to \$118.6 million at December 31, 2014.

The Company's commercial real estate, first mortgage residential, agricultural and multi-family mortgage portfolio of \$416.8 million at December 31, 2015, 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, 2015, all eligible commercial real estate, residential first, multi-family mortgage and agricultural loans were pledged under an Federal Home Loan Bank (FHLB) blanket lien.

Significant additional off-balance-sheet liquidity is available in the form of 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. Based on the current collateralization requirements of the FHLB, approximately \$31.1 million of additional borrowing capacity existed at December 31, 2015.

At December 31, 2015 and 2014, the Company had \$15.0 and \$14.0 million in federal funds lines available, respectively. The Company also had \$27.7 million in unpledged securities at December 31, 2015, that may be used to pledge for additional borrowings.

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 2015 and 2014 follows:

The Company experienced positive cash flows from operating activities in 2015 and 2014. Net cash from operating activities was \$8.6 million and \$5.0 million for the years ended December 31, 2015 and 2014, respectively. Significant operating items for 2015 included gain on sale of loans (\$7.2 million) and net income (\$7.6 million). Net proceeds from sales of loans held for sale and loans originated and held for sale were a positive \$16.2 million.

The Company experienced negative cash flows from investing activities in 2015 and 2014. Net cash used in investing activities was \$54.7 million and \$36.6 million for the years ended December 31, 2015 and 2014, respectively. The changes for 2015 include the purchase of available-for-sale securities of \$26.3 million, and net increase in loans of \$42.3 million. The changes for 2014 include the purchase of available-for-sale securities of \$26.1 million and net increase in loans of \$40.0 million. The Company had proceeds from repayments, maturities, sales and calls of securities of \$20.3 million and \$31.0 million in 2015 and 2014, respectively. The Company had proceeds from sales of premises and foreclosed assets of \$0.8 million and \$0.3 million in 2015 and 2014, respectively.

The Company experienced positive cash flows from financing activities in 2015 and 2014. Net cash in financing activities was \$38.3 million in 2015 and \$46.7 million in 2014. Positive \$35.5 million \$32.6 million is attributable to the change in deposits for 2015 and 2014, respectively. In 2014, the Company provided cash of \$14.0 million from a preferred capital raise, and repaid trust preferred securities in the amount of \$10.6 million.

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 was considered to be remote given the current interest rate environment and therefore, only the minus 100 basis point rate change was included for 2015 and 2014. The results of this analysis are reflected in the following tables.

December 31, 2015

Economic Value of Equity

(\$'s in thousands)

Change in Rates	\$ Amount	\$ Change	% Change	
+400 basis points	\$ 137,575	\$ 16,287	13.43	%
+300 basis points	135,269	13,981	11.53	%
+200 basis points	131,535	10,247	8.45	%
+100 basis points	127,022	5,734	4.73	%
Base Case	121,288	-	-	
-100 basis points	114,630	(6,657)	(5.49	%)

December 31, 2014

Economic Value of Equity

(\$'s in thousands)

Change in Rates	\$ Amount	\$ Change	% Change	
+400 basis points	\$128,975	\$18,443	16.69	%
+300 basis points	126,167	15,635	14.14	%
+200 basis points	122,675	12,142	10.99	%
+100 basis points	117,985	7,453	6.74	%
Base Case	110,532	-	-	
-100 basis points	105,296	(5,236)	(4.74	%)

Tabular Disclosure of Contractual Obligations

The following table details the Company's contractual obligations as of December 31, 2015, which 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 \$35.0 million. Other debt obligations are comprised of Trust Preferred securities of \$10.3 million. The Other long-term liabilities include time deposits of \$159.0 million.

(\$ in thousands) <u>Contractual Obligations</u>	Payment due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-Term Debt Obligations	\$35,000	\$14,000	\$14,500	\$6,500	\$-
Other Debt Obligations	10,310	-	-	-	10,310
Operating Lease Obligations	658	135	213	206	104
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	156,038	75,593	59,520	23,394	531
Total	\$205,006	\$89,728	\$74,233	\$30,100	\$10,945

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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 2015 and 2014 the Company entered into interest rate swap agreements as an accommodation to certain loan customers. See Note 6 to the financial statements. The Company may purchase such instruments in the future if market conditions are favorable.

The following table details quantitative disclosures of market risk and 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, 2015. 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.

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

(\$ in thousands)	2016	2017	2018	2019	2020	Thereafter	Total
<u>Rate Sensitive Assets</u>							
Variable Rate Loans	\$60,821	\$16,519	\$12,388	\$10,827	\$6,458	\$28,030	\$135,043
Average interest rate	3.98 %	3.95 %	3.45 %	3.29 %	3.58 %	3.59 %	3.77 %
Adjustable Rate Loans	\$25,304	\$20,701	\$17,380	\$16,976	\$16,131	\$154,222	\$250,714
Average interest rate	4.10 %	4.30 %	4.18 %	4.20 %	4.22 %	4.15 %	4.17 %
Fixed Rate Loans	\$34,507	\$19,400	\$18,410	\$16,558	\$19,442	\$71,101	\$179,419
Average interest rate	4.01 %	4.30 %	4.22 %	4.35 %	4.22 %	4.04 %	4.13 %
Total Loans	\$120,632	\$56,620	\$48,178	\$44,361	\$42,031	\$253,353	\$565,175
Average interest rate	4.01 %	4.20 %	4.01 %	4.03 %	4.12 %	4.06 %	4.06 %
Fixed rate investment securities	\$14,223	\$9,082	\$8,942	\$11,287	\$10,735	\$32,476	\$86,745
Average interest rate	1.39 %	1.81 %	1.86 %	2.14 %	1.89 %	2.54 %	2.07 %
Variable rate investment securities	\$880	\$894	\$907	\$695	\$442	\$2,974	\$6,792
Average interest rate	1.10 %	1.11 %	1.13 %	1.50 %	1.66 %	1.83 %	1.50 %
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	\$135,735	\$66,596	\$58,027	\$56,343	\$53,208	\$288,803	\$658,712
Average interest rate	3.72 %	3.83 %	3.63 %	3.62 %	3.65 %	3.86 %	3.77 %
<u>Rate Sensitive Liabilities</u>							
Demand - Non Interest Bearing	\$15,967	\$13,711	\$11,778	\$10,114	\$8,686	\$52,857	\$113,113
Demand-Interest Bearing	\$15,043	\$13,253	\$11,677	\$10,286	\$9,064	\$67,120	\$126,443
Average interest rate	0.05 %	0.05 %	0.05 %	0.05 %	0.05 %	0.05 %	0.05 %
Money Market Accounts	\$13,089	\$11,448	\$10,013	\$8,757	\$7,659	\$53,446	\$104,412
Average interest rate	0.23 %	0.23 %	0.23 %	0.23 %	0.23 %	0.23 %	0.23 %
Savings	\$24,118	\$7,688	\$6,692	\$5,824	\$5,070	\$34,055	\$83,447
Average interest rate	0.10 %	0.10 %	0.10 %	0.10 %	0.10 %	0.10 %	0.10 %
Certificates of Deposit	\$74,882	\$41,865	\$18,356	\$12,801	\$10,607	\$528	\$159,039
Average interest rate	0.76 %	0.92 %	1.35 %	1.52 %	1.30 %	3.49 %	0.98 %
Fixed rate FHLB Advances	\$16,000	\$7,500	\$5,000	\$6,500	\$-	\$-	\$35,000
Average interest rate	0.76 %	1.12 %	1.48 %	1.85 %	0.00 %	0.00 %	1.14 %
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	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Average interest rate	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Variable rate Notes Payable	\$-	\$-	\$-	\$-	\$-	\$10,310	\$10,310
Average interest rate	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	2.31 %	2.31 %
Fed Funds Purchased, Repos & Other	\$12,406	\$-	\$-	\$-	\$-	\$-	\$12,406
Average interest rate	0.11 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.11 %
Total Rate Sensitive Liabilities	\$171,505	\$95,465	\$63,516	\$54,282	\$41,086	\$218,316	\$644,170
Average interest rate	0.44 %	0.53 %	0.56 %	0.64 %	0.40 %	0.20 %	0.40 %

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

Comparison of 2015 to 2014 (\$ in thousands)	First Year	Years 2 - 5	Thereafter	Total
Total Rate Sensitive Assets:				
December 31, 2015	\$ 135,735	\$ 234,174	\$ 288,803	\$ 658,712
December 31, 2014	141,131	202,744	266,617	610,492
Increase (decrease)	\$(5,396)	\$ 31,430	\$ 22,186	\$ 48,220
Total Rate Sensitive Liabilities:				
December 31, 2015	\$ 171,505	\$ 254,349	\$ 218,316	\$ 644,170
December 31, 2014	133,803	263,424	206,729	603,956
Increase (decrease)	\$ 37,702	\$(9,075)	\$ 11,587	\$ 40,214

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.

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.

42

SB Financial Group, Inc.**Consolidated Balance Sheets
December 31**

(\$ in thousands)	2015	2014
ASSETS		
Cash and due from banks	\$20,459	\$28,197
Available-for-sale securities	89,789	85,240
Loans held for sale	7,516	5,168
Loans, net of unearned income	557,659	516,336
Allowance for loan losses	(6,990)	(6,771)
Premises and equipment, net	19,010	13,604
Federal Reserve and Federal Home Loan Bank Stock, at cost	3,748	3,748
Foreclosed assets held for sale, net	286	285
Interest receivable	1,260	1,346
Goodwill	16,353	16,353
Core deposits and other intangibles	82	283
Cash value of life insurance	13,437	13,148
Mortgage servicing rights	7,152	5,704
Other assets	3,310	1,587
Total assets	\$733,071	\$684,228
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Non interest bearing demand	\$113,113	\$97,853
Interest bearing demand	126,443	121,043
Savings	83,447	64,107
Money market	104,412	104,602
Time deposits	159,038	163,301
Total deposits	586,453	550,906
Repurchase agreements	12,406	12,740
Federal Home Loan Bank advances	35,000	30,000
Trust preferred securities	10,310	10,310
Interest payable	264	264
Other liabilities	7,397	4,325
Total liabilities	651,830	608,545
Commitments & Contingent Liabilities	-	-

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Stockholders' Equity		
Preferred stock 6.5% non-cumulative, Series A, no par value; authorized 200,000 shares; 15,000 shares issued	13,983	13,983
Common stock, no par value; authorized 10,000,000 shares; 5,027,433 shares issued	12,569	12,569
Additional paid-in capital	15,438	15,461
Retained earnings	40,059	34,379
Accumulated other comprehensive income	650	918
Treasury stock, at cost - (2015 - 136,547, 2014 - 152,302 shares)	(1,458)	(1,627)
Total stockholders' equity	81,241	75,683
Total liabilities and stockholders' equity	\$733,071	\$684,228

See Notes to Consolidated Financial Statements

F-1

SB Financial Group, Inc.**Consolidated Statements of Income****Years Ended December 31**

(\$ in thousands - except per share data)	2015	2014
Interest Income		
Loans		
Taxable	\$23,692	\$22,457
Tax-exempt	35	44
Securities		
Taxable	1,506	1,198
Tax-exempt	694	709
Total interest income	25,927	24,408
Interest Expense		
Deposits	1,979	1,984
Repurchase agreements & Other	17	91
Federal Home Loan Bank advances	375	334
Trust preferred securities	213	1,071
Total interest expense	2,584	3,480
Net Interest Income	23,343	20,928
Provision for loan losses	1,100	450
Net interest income after provision for loan losses	22,243	20,478
Non-interest Income		
Wealth management fees	2,606	2,630
Customer service fees	2,779	2,691
Gain on sale of mortgage loans & OMSR's	6,264	4,228
Mortgage loan servicing fees, net	1,025	731
Gain on sale of non-mortgage loans	947	321
Data service fees	1,190	1,289
Net gain on sales of securities	-	160
Gain (loss) on sale of assets	18	(79)
Other	878	856
Total non-interest income	\$15,707	\$12,827
Non-interest Expense		
Salaries and employee benefits	\$14,917	\$13,185
Net occupancy expense	1,943	2,087
Equipment expense	2,223	2,525
Data processing fees	1,060	928
Professional fees	1,663	1,703

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Marketing expense	594	564
Telephone and communications	387	404
Postage and delivery expense	801	783
Employee expense	543	488
Intangible amortization expense	200	372
State, local and other taxes	517	370
Other expenses	2,079	2,548
Total non-interest expense	26,927	25,957
Income Before Income Tax	11,023	7,348
Provision for Income Taxes	3,404	2,085
Net Income	\$7,619	\$5,263
Preferred Stock Dividends	956	-
Net Income available to Common	\$6,663	\$5,263
Basic Earnings Per Share	\$1.36	\$1.08
Diluted Earnings Per Share	\$1.19	\$1.07

See Notes to Consolidated Financial Statements

SB Financial Group, Inc.**Consolidated Statements of Comprehensive Income
Years Ended December 31**

(\$'s in thousands)	2015	2014
Net income	\$7,619	\$5,263
Other comprehensive income (loss):		
Available-for-sale investment securities:		
Gross unrealized holding gain (loss) arising in the period	(406)	1,439
Related tax (benefit) expense	138	(489)
Less: reclassification adjustment for gain realized in income	-	(160)
Related tax benefit	-	54
Net effect on other comprehensive income (loss)	(268)	844
Total comprehensive income	\$7,351	\$6,107

SB Financial Group, Inc.**Consolidated Statements of Stockholders' Equity****Years Ended December 31**

(\$'s in thousands - except per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2015	\$ 13,983	\$ 12,569	\$ 15,461	\$ 34,379	\$ 918	\$ (1,627)	\$ 75,683
Net income				7,619			7,619
Other comprehensive loss					(268)		(268)
Dividends on common, \$0.20 per share				(983)			(983)
Dividends on preferred, \$0.6374 per share				(956)			(956)
Restricted stock issuance			(69)			69	-
Stock options exercised			(35)			102	67
Stock buyback						(2)	(2)
Share based compensation expense			81				81
Balance, December 31, 2015	\$ 13,983	\$ 12,569	\$ 15,438	\$ 40,059	\$ 650	\$ (1,458)	\$ 81,241
Balance, January 1, 2014	\$-	\$ 12,569	\$ 15,412	\$ 29,899	\$ 74	\$ (1,685)	\$ 56,269

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Net income						5,263		5,263
Other comprehensive income							844	844
Preferred stock offering (Series A)	13,983							13,983
Dividends on common, \$0.16 per share						(783)		(783)
Restricted stock issuance							33	33
Stock options exercised						(41)	25	(16)
Share based compensation expense						90		90
Balance, December 31, 2014	\$ 13,983	\$ 12,569	\$ 15,461	\$ 34,379	\$ 918		\$(1,627)	\$ 75,683

See Notes to Consolidated Financial Statements

F-3

SB Financial Group, Inc.**Consolidated Statements of Cash Flows****Years Ended December 31**

(\$ in thousands)	2015	2014
Operating Activities		
Net Income	\$7,619	\$5,263
Items not requiring (providing) cash		
Depreciation and amortization	1,097	901
Provision for loan losses	1,100	450
Expense of share-based compensation plan	81	90
Amortization of premiums and discounts on securities	977	929
Amortization of intangible assets	201	372
Amortization of originated mortgage servicing rights	880	613
Deferred income taxes	1,519	661
Proceeds from sale of loans held for sale	278,670	188,495
Originations of loans held for sale	(266,850)	(182,225)
Gain from sale of loans	(7,195)	(4,549)
Loss on sales of assets	22	80
Net gains on sales of securities	-	(160)
Prepayment penalty on trust preferred securities	-	333
Originated mortgage servicing rights impairment, net	(115)	231
Changes in		
Interest receivable	86	(65)
Other assets	(11,058)	(4,557)
Interest payable & other liabilities	1,581	(1,855)
Net cash provided by operating activities	8,615	5,007
Investing Activities		
Purchases of available-for-sale securities	(26,261)	(26,097)
Proceeds from maturities of available-for-sale securities	20,328	17,701
Proceeds from sales of available-for-sale securities	-	13,299
Net change in loans	(42,338)	(39,985)
Purchase of premises, equipment & software	(7,199)	(1,895)
Proceeds from sales of premises, equipment & software	667	(13)
Proceeds from sale of foreclosed assets	111	342
Net cash used in investing activities	\$(54,692)	\$(36,648)
Financing Activities		
Net increase in demand deposits, money market, interest checking & savings accounts	\$39,810	\$44,930
Net decrease in certificates of deposit	(4,263)	(12,258)
Net decrease in securities sold under agreements to repurchase	(334)	(1,956)
Proceeds from Federal Home Loan Bank advances	9,000	16,000

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Repayment of Federal Home Loan Bank advances	(4,000)	(2,000)
Net proceeds from share based compensation plans	65	17
Dividends on Common Stock	(983)	(783)
Dividends on Preferred Stock	(956)	-
Repayment of trust preferred securities	-	(10,643)
Proceeds from issuance of Series A preferred stock	-	13,983
Proceeds from long term note	-	7,000
Repayment of long term note payable	-	(7,000)
Repayment of short term note payable	-	(589)
Net cash provided by (used in) financing activities	38,339	46,701
Increase (Decrease) in Cash and Cash Equivalents	(7,738)	15,060
Cash and Cash Equivalents, Beginning of Year	28,197	13,137
Cash and Cash Equivalents, End of Year	\$20,459	\$28,197
Supplemental Cash Flows Information		
Interest paid	\$2,583	\$3,855
Income taxes paid	\$2,060	\$1,715
Transfer of loans to foreclosed assets	\$134	\$308

See Notes to Consolidated Financial Statements

SB Financial Group, Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2015 and 2014

Note 1: Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

SB Financial Group, Inc. (the “Company”) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, The State Bank and Trust Company (“State Bank”), RFCBC, Inc. (“RFCBC”), Rurbanc Data Services, Inc. dba RDSI Banking Systems (“RDSI”), and Rurban Statutory Trust II (“RST II”). State Bank owns all the outstanding stock of Rurban Mortgage Company (“RMC”), and State Bank Insurance, LLC (“SBI”). Effective April 18, 2013, the Company changed its name from Rurban Financial Corp. to SB Financial Group, Inc. The Company is primarily engaged in providing a full range of banking and wealth management services to individual and corporate customers in Northwest Ohio and Northeast Indiana. The Company is subject to competition from other financial institutions, and is regulated by certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. Where appropriate, reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on net income.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company, State Bank, RFCBC, RDSI, RMC, and SBI. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, loan servicing rights, valuation of deferred tax assets, other-than-temporary impairment (OTTI) and fair value of financial instruments.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2015 and 2014, cash equivalents consisted primarily of interest-bearing and non-interest bearing demand deposit balances held by correspondent banks.

Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

For debt securities with fair value below carrying value when the Company does not intend to sell the debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, the Company recognizes the credit component of an other-than-temporary impairment of the debt security in earnings and the remaining portion in other comprehensive income.

Mortgage Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to non-interest income. Gains and losses on loan sales are recorded in non-interest income.

Loans

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

Allowance for Loan Losses

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that

loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected on the historical loss or risk rating data.

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

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

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

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method for buildings and equipment over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases.

Long-lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset's cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Federal Reserve and Federal Home Loan Bank Stock

Federal Reserve and Federal Home Loan Bank stock are required investments for institutions that are members of the Federal Reserve and Federal Home Loan Bank systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or the fair value less cost to sell. Revenue and expenses from operations related to foreclosed assets and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Goodwill

Goodwill is tested for impairment annually. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value.

Core Deposits and Other Intangibles

Intangible assets are being amortized on a straight-line basis over weighted-average periods ranging from one to fifteen years. Such assets are periodically evaluated as to the recoverability of their carrying value. Purchased software is being amortized using the straight-line method over periods ranging from one to three years.

Derivatives

Derivatives are recognized as assets and liabilities on the consolidated balance sheet and measured at fair value. For exchange-traded contracts, fair value is based on quoted market prices. For non-exchange traded contracts, fair value is based on dealer quotes, pricing models, discounted cash flow methodologies or similar techniques for which the determination of fair value may require significant management judgment or estimation.

Mortgage Servicing Rights

Mortgage servicing assets are recognized separately when rights are acquired through purchase or through sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 806-50), servicing rights from the sale or securitization of loans originated by the Company are initially measured at fair value at the date of transfer. The Company subsequently measures each class of servicing asset using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment based on fair value at each reporting date.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost of service, the discount rate, the custodial earning rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing right and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method is evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with "Mortgage Loan Servicing Fees, net" on the income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Share-Based Employee Compensation Plan

At December 31, 2015 and 2014, the Company had a share-based employee compensation plan, which is described more fully in Note 15.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before the maturity or the ability to unilaterally cause the holder to return specific assets.

F-8

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the term “upon examination” also includes resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiaries. With a few exceptions, the Company is no longer subject to U.S. Federal, State and Local examinations by tax authorities for the years before 2011. As of December 31, 2015, the Company had no uncertain income tax positions.

Treasury Shares

Treasury stock is stated at cost. Cost is determined by the weighted average cost method.

Earnings Per Share

Earnings per common share is computed using the two-class method. Basic earnings per share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflect additional potential common shares and convertible preferred shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options which are determined using the treasury stock method and convertible preferred shares which are determined using the if converted method. Treasury stock shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized appreciation (depreciation) on available-for-sale securities, and unrealized and realized gains and losses in derivative financial instruments that qualify for hedge accounting. Accumulated other comprehensive income consists solely of the cumulative unrealized gains and losses on available-for-sale securities net of income tax.

New and applicable accounting pronouncements:

Accounting Standards Update (ASU) No. 2016-02: Leases (Topic 842)

This ASU is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The amendments in this ASU are effective for reporting periods beginning after December 15, 2019, and management will need further study to determine the impact on the Company's consolidated financial statements

ASU No. 2016-01: Financial Instruments – Recognition and measurement of financial assets and financial liabilities (Subtopic 825-10)

This ASU makes targeted improvements to generally accepted accounting principles. Specifically, the amendments require equity securities with readily determinable fair values be classified into different categories and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The amendments in this ASU are effective for reporting periods beginning after December 15, 2017, and management does not believe this ASU will have a material impact on the Company's consolidated financial statements

ASU No. 2015-16: Business Combinations (Topic 805)

This ASU requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Further, an entity must present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings that would have been recorded previously if the provisional amounts had been recorded as of the acquisition date. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, and management does not believe this ASU will have a material impact on the Company's consolidated financial statements

ASU No. 2015-15: Interest – Imputation of Interest (Subtopic 835-30)

This ASU requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, and management does not believe this ASU will have a material impact on the Company's consolidated financial statements.

ASU No. 2015-05: Intangibles – Goodwill and Other (Subtopic 310-40, Software)

This ASU provides guidance for the customer's accounting treatment for fees paid in a cloud computing arrangement. Existing GAAP does not include explicit guidance regarding this topic. Specifically the ASU indicates how to handle cloud computing arrangements when a software license does and does not exist as part of the arrangement. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, and management does not believe this ASU will have a material impact on the Company's consolidated financial statements.

ASU No. 2015-03 (Sub Topic 835-30): Interest – Simplifying the Presentation of Debt Issuance Costs

This ASU simplifies the presentation of debt issuance costs, with the amendments in this ASU requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, and management does not believe this update will have a material impact on the Company's consolidated financial statements.

ASU No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract is more Akin to Debt or to Equity.

This ASU provides guidance for an entity when hybrid financial instruments are issued in the form of a share. The entity should determine the nature of the host contract by considering the economic characteristics and risks of the entire financial instrument. The determination of these host characteristics may meet the definition of a derivative financial instrument. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, and management does not believe this update will have a material impact on the Company's consolidated financial statements.

ASU No. 2014-12 (Topic 718): Compensation – Stock Compensation

This ASU provides guidance for the accounting treatment of share-based payments when the terms provide that a performance target could be achieved after the service period. The treatment requires that the target achievement after the service period be treated as a performance condition. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, and management does not believe this update will have a material impact on the Company's consolidated financial statements.

Note 2: Earnings Per Share

Earnings per common share (EPS) is computed using the two-class method. Basic earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the applicable period, excluding participating securities. Participating securities include non-vested restricted stock awards. Non-vested restricted stock awards are considered participating securities to the extent the holders of these securities receive non-forfeitable dividends at the same rate as holders of common stock. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share plus the convertible impact of preferred shares and the dilutive effect of stock compensation using the treasury stock method. EPS for the years ended December 31, 2015 and 2014 is computed as follows:

(\$ in thousands - except per share data)	2015	2014
Distributed earnings allocated to common shares	\$982	\$783
Undistributed earnings allocated to common shares	5,676	4,477
Net earnings allocated to common shares	6,663	5,260
Net earnings allocated to participating securities	5	3
Dividends on convertible preferred shares	956	-
Net Income allocated to common shares and participating securities	\$7,619	\$5,263
Weighted average shares outstanding for basic earnings per share	4,884	4,874
Dilutive effect of stock compensation	88	68
Dilutive effect of convertible shares	1,451	-
Weighted average shares outstanding for diluted earnings per share	6,423	4,942
Basic earnings per common share	\$1.36	\$1.08
Diluted earnings per common share	\$1.19	\$1.07

Shares subject to issue upon exercise of options of 35,424 and 171,470 in 2015 and 2014, respectively, at prices of \$11.50 to \$14.15 were excluded from the diluted earnings per common share calculation as they were anti-dilutive.

F-11

Note 3: Available-for-Sale Securities

The amortized cost and appropriate fair values, together with gross unrealized gains and losses, of available-for-sale securities are as follows:

(\$ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
December 31, 2015:				
U.S. Treasury and Government agencies	\$ 10,804	\$ 101	\$ -	\$ 10,905
Mortgage-backed securities	61,459	311	(427)	61,343
State and political subdivisions	16,519	999	-	17,518
Equity securities	23	-	-	23
	\$ 88,805	\$ 1,411	\$ (427)	\$ 89,789

(\$ in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
December 31, 2014:				
U.S. Treasury and Government agencies	\$ 15,187	\$ 124	\$ (4)	\$ 15,307
Mortgage-backed securities	50,563	462	(285)	50,740
State and political subdivisions	18,075	1,095	-	19,170
Equity securities	23	-	-	23
	\$ 83,848	\$ 1,681	\$ (289)	\$ 85,240

The amortized cost and fair value of securities available for sale and held to maturity at December 31, 2015, by contractual maturity, are shown below. Expected maturities differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(\$ in thousands)	Available for Sale Amortized Cost	Fair Value
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Within one year	\$425	\$429
Due after one year through five years	2,044	2,126
Due after five years through ten years	6,079	6,399
Due after ten years	18,775	19,469
	27,323	28,423
Mortgage-backed securities and equity securities	61,482	61,366
Totals	\$88,805	\$89,789

The fair value of securities pledged as collateral, to secure public deposits and for other purposes, was \$46.2 million at December 31, 2015, and \$44.5 million at December 31, 2014. Securities delivered for repurchase agreements (not included above) were \$15.8 million at December 31, 2015 and \$16.5 million at December 31, 2014.

F-12

There were no realized gains or losses on available-for-sale securities in 2015. Gross gains of \$0.17 million and gross losses of \$0.01 million were realized from sales of available-for-sale securities in 2014. The net \$0.16 million gain on sale in 2014 was a reclassification from accumulated other comprehensive income and is included in the net gain on sales of securities. The related tax expense for net security gains was \$0.05 million in 2014 and was a reclassification from accumulated other comprehensive income and is included in the income tax expense line in the income statement.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2015 and 2014, was \$37.2 million and \$29.0 million, respectively, which was approximately 41% and 34%, respectively, of the Company's available-for-sale investment portfolio.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following tables present securities with unrealized losses at December 31, 2015 and 2014:

(\$ in thousands)	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2015						
Mortgage-backed securities	30,184	(253)	7,061	(174)	37,245	(427)
	\$30,184	\$ (253)	\$7,061	\$ (174)	\$37,245	\$ (427)

December 31, 2014	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	U.S. Treasury and Government agencies	\$1,387	\$ (4)	\$-	\$ -	\$1,387
Mortgage-backed securities	20,491	(73)	7,073	(212)	27,564	(285)
	\$21,878	\$ (77)	\$7,073	\$ (212)	\$28,951	\$ (289)

The unrealized loss on the securities portfolio has increased by \$0.14 million as of December 31, 2015, from the prior year. Management reviews these securities on a quarterly basis and has determined that no impairment exists. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concern warrants such evaluation. When the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

F-13

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31 include:

(\$ in thousands)	Total Loans		Non-Accrual Loans	
	Dec. 2015	Dec. 2014	Dec. 2015	Dec. 2014
Commercial & Industrial	\$86,542	\$88,485	188	1,387
Commercial RE & Construction	242,208	217,030	5,670	2,092
Agricultural & Farmland	43,835	46,217	7	-
Residential Real Estate	130,806	113,214	749	992
Consumer & Other	54,224	51,546	32	138
Total Loans	\$557,615	\$516,492	\$6,646	\$4,609
Unearned Income	\$44	\$(156)		
Total Loans, net of unearned income	\$557,659	\$516,336		
Allowance for loan losses	\$(6,990)	\$(6,771)		

State Bank makes commercial, agri-business, consumer and residential loans to customers throughout the states of Ohio, Indiana, and Michigan. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Standby letters of credit are conditional commitments issued by State Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Forward sale commitments are commitments to sell groups of residential mortgage loans that the Company originates or purchases as part of its mortgage banking activities. The Company commits to sell the loans at specified prices in a

future period, typically within forty-five days. These commitments are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sales since the Company is exposed to interest rate risk during the period between issuing a loan commitment and the sales of the loan into the secondary market.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments. Listed below is a summary loan commitments, unused lines of credit and standby letters of credit as of December 31, 2015 and 2014.

(\$ in thousands)	2015	2014
Loan commitments and unused lines of credit	\$ 126,902	\$ 105,136
Standby letters of credit	1,026	672
Total	\$ 127,928	\$ 105,808

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the Company's consolidated financial condition or results of operations.

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

Commercial and Agricultural

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

Commercial Real Estate including Construction

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

Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term

lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Residential and Consumer

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

The following tables present the balance of the allowance for loan losses (“ALLL”) and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2015 and 2014:

(\$'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Consumer & Other	Total
ALLOWANCE FOR LOAN AND LEASE LOSSES						
For the Twelve Months Ended						
December 31, 2015						
Beginning balance	\$ 1,630	\$ 2,857	\$ 208	\$ 1,308	\$ 768	\$ 6,771
Charge Offs	(497)	(303)	-	(56)	(96)	\$(952)
Recoveries	26	3	3	29	10	71
Provision	(245)	1,329	(7)	31	(8)	1,100
Ending Balance	\$ 914	\$ 3,886	\$ 204	\$ 1,312	\$ 674	\$ 6,990

Loans Receivable at December 31,
2015

Allowance:

Ending balance:

individually evaluated for
impairment

\$ -	\$ 1,759	\$ -	\$ 167	\$ 37	\$ 1,963
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Ending balance:

collectively evaluated for
impairment

\$ 914	\$ 2,127	\$ 204	\$ 1,145	\$ 637	\$ 5,027
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Loans:

Ending balance:

individually evaluated for
impairment

\$ 126	\$ 5,754	\$ -	\$ 1,713	\$ 464	\$ 8,057
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Ending balance:

collectively evaluated for
impairment

\$ 86,416	\$ 236,454	\$ 43,835	\$ 129,093	\$ 53,760	\$ 549,558
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(\$'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Consumer & Other	Total
ALLOWANCE FOR LOAN AND LEASE LOSSES						
For the Twelve Months Ended						
December 31, 2014						
Beginning balance	\$ 2,175	\$ 2,708	\$ 159	\$ 1,067	\$ 855	\$ 6,964
Charge Offs	(607)	(13)	-	(92)	(135)	\$(847)
Recoveries	19	125	3	32	25	204
Provision	43	37	46	301	23	450

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Ending Balance	\$ 1,630	\$ 2,857	\$ 208	\$ 1,308	\$ 769	\$6,771
Loans Receivable at December 31, 2014						
Allowance:						
Ending balance:						
individually evaluated for impairment	\$ 510	\$ 1,018	\$ -	\$ 242	\$ 41	\$1,811
Ending balance:						
collectively evaluated for impairment	\$ 1,120	\$ 1,839	\$ 208	\$ 1,066	\$ 728	\$4,960
Loans:						
Ending balance:						
individually evaluated for impairment	\$ 1,268	\$ 2,035	\$ -	\$ 1,647	\$ 481	\$5,431
Ending balance:						
collectively evaluated for impairment	\$ 87,217	\$ 214,995	\$ 46,217	\$ 111,567	\$ 51,065	\$511,061

F-16

Credit Risk Profile

The Company categorizes loans into risk categories (loan grades) based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes loans with an outstanding balance greater than \$100,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Pass (grades 1 – 4): Loans which management has determined to be performing as expected and in agreement with the terms established at the time of loan origination.

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

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

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

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

The following tables present the credit risk profile of the Company's loan portfolio based on rating category as of December 31, 2015 and 2014:

December 31, 2015	Commercial	Commercial RE	Agricultural	Residential	Consumer	
(\$ in thousands)	& Industrial	& Construction	& Farmland	Real Estate	& Other	Total
1-2	\$ 709	\$ 767	\$ 47	\$ -	\$ 15	\$1,538
3	23,362	79,915	8,195	118,463	50,745	280,680
4	61,799	149,473	35,593	10,418	3,223	260,506
Total Pass (1 - 4)	85,870	230,155	43,835	128,881	53,983	542,724
Special Mention (5)	330	5,260	-	756	70	6,416
Substandard (6)	110	1,072	-	420	139	1,741
Doubtful (7)	232	5,721	-	749	32	6,734
Loss (8)	-	-	-	-	-	-
Total Loans	\$ 86,542	\$ 242,208	\$ 43,835	\$ 130,806	\$ 54,224	\$557,615

December 31, 2014	Commercial	Commercial RE	Agricultural	Residential	Consumer	
(\$ in thousands)	& Industrial	& Construction	& Farmland	Real Estate	& Other	Total
1-2	\$ 1,148	\$ 66	\$ 61	\$ -	\$ -	\$1,275
3	23,580	67,779	9,505	105,149	47,795	253,808
4	61,691	136,427	36,651	5,611	3,465	243,845
Total Pass (1 - 4)	86,419	204,272	46,217	110,760	51,260	498,928
Special Mention (5)	83	6,224	-	1,160	84	7,551
Substandard (6)	752	4,422	-	312	55	5,541
Doubtful (7)	1,231	2,112	-	982	147	4,472
Loss (8)	-	-	-	-	-	-
Total Loans	\$ 88,485	\$ 217,030	\$ 46,217	\$ 113,214	\$ 51,546	\$516,492

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis. The Company uses a three-year average of historical losses for the general component of the allowance for loan loss calculation. No significant changes were made to the loan risk grading system definitions and allowance for loan loss methodology during the periods presented.

The following tables present the Company's loan portfolio aging analysis as of December 31, 2015 and 2014:

(\$ in thousands)

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	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
December 31, 2015						
Commercial & Industrial	\$-	\$ 60	\$ 188	\$ 248	\$ 86,294	\$ 86,542
Commercial RE & Construction	99	-	5,280	5,379	236,829	242,208
Agricultural & Farmland	-	-	-	-	43,835	43,835
Residential Real Estate	98	198	156	452	130,354	130,806
Consumer & Other	64	-	2	66	54,158	54,224
Total Loans	\$ 261	\$ 258	\$ 5,626	\$ 6,145	\$ 551,470	\$ 557,615

(\$ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
December 31, 2014						
Commercial & Industrial	\$-	\$-	\$ 987	\$ 987	\$ 87,498	\$ 88,485
Commercial RE & Construction	3,660	-	1,747	5,407	211,623	217,030
Agricultural & Farmland	-	-	-	-	46,217	46,217
Residential Real Estate	164	19	377	560	112,654	113,214
Consumer & Other	39	81	-	120	51,426	51,546
Total Loans	\$ 3,863	\$ 100	\$ 3,111	\$ 7,074	\$ 509,418	\$ 516,492

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

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

The following tables present impaired loan activity for the twelve months ended December 31, 2015 and 2014:

Twelve Months Ended December 31, 2015 (\$'s in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial & Industrial	\$ 126	\$ 1,214	\$ -	\$ 1,388	\$ -
Commercial RE & Construction	1,110	1,110	-	1,206	27
Agricultural & Farmland	-	-	-	-	-
Residential Real Estate	657	657	-	862	52
Consumer & Other	90	90	-	107	9
All Impaired Loans < \$100,000	131	131	-	131	-
With a specific allowance recorded:					
Commercial & Industrial	-	-	-	-	-
Commercial RE & Construction	4,643	4,893	1,759	5,006	90
Agricultural & Farmland	-	-	-	-	-
Residential Real Estate	1,013	1,013	167	1,084	45
Consumer & Other	374	374	37	385	22
Totals:					
Commercial & Industrial	\$ 126	\$ 1,214	\$ -	\$ 1,388	\$ -
Commercial RE & Construction	\$ 5,753	\$ 6,003	\$ 1,759	\$ 6,212	\$ 117
Agricultural & Farmland	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Real Estate	\$ 1,670	\$ 1,670	\$ 167	\$ 1,946	\$ 97
Consumer & Other	\$ 464	\$ 464	\$ 37	\$ 492	\$ 31
All Impaired Loans < \$100,000	\$ 131	\$ 131	\$ -	\$ 131	\$ -

Twelve Months Ended December 31, 2014 (\$'s in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial & Industrial	\$ 316	\$ 316	\$ -	\$ 316	\$ -
Commercial RE & Construction	530	530	-	571	20
Agricultural & Farmland	-	-	-	-	-
Residential Real Estate	567	611	-	734	49
Consumer & Other	11	110	-	124	10
All Impaired Loans < \$100,000	565	565	-	565	-
With a specific allowance recorded:					
Commercial & Industrial	952	1,552	510	1,605	-
Commercial RE & Construction	1,505	1,505	1,018	1,521	60
Agricultural & Farmland	-	-	-	-	-
Residential Real Estate	1,080	1,080	242	1,146	47
Consumer & Other	371	371	41	402	20
Totals:					
Commercial & Industrial	\$ 1,268	\$ 1,868	\$ 510	\$ 1,921	\$ -

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Commercial RE & Construction	\$ 2,035	\$ 2,035	\$ 1,018	\$ 2,092	\$ 80
Agricultural & Farmland	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Real Estate	\$ 1,647	\$ 1,691	\$ 242	\$ 1,880	\$ 96
Consumer & Other	\$ 382	\$ 481	\$ 41	\$ 526	\$ 30
All Impaired Loans < \$100,000	\$ 565	\$ 565	\$ -	\$ 565	\$ -

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

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

F-19

Troubled Debt Restructured (TDR) Loans

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

TDR Concession Types

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

Interest rate reduction: A reduction of the stated interest rate to a nonmarket rate for the remaining original life of the debt. The Company also may grant interest rate concessions for a limited timeframe on a case by case basis.

Amortization or maturity date change beyond what the collateral supports, including a change that does any of the following:

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

Reduces the amount of loan principal to be amortized. This concession also reduces the minimum monthly (2) payment and increases the amount of the balloon payment at the end of the term of the loan. Principal is generally not forgiven.

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

Other: A concession that is not categorized as one of the concessions described above. These concessions include, but are not limited to: principal forgiveness, collateral concessions, covenant concessions, and reduction of accrued

interest. Principal forgiveness may result from any TDR modification of any concession type.

F-20

The tables below present the activity of TDRs during the years ended December 31, 2015 and 2014:

		December 31, 2015		
(\$ in thousands)	Number of Loans	Pre-Modification	Post Modification	
		Recorded Balance	Recorded Balance	
Residential Real Estate	1	\$ 22	\$	22
Commercial	1	314		314
Consumer & Other	1	39		39
Total Modifications	3	\$ 375	\$	375

(\$ in thousands)	Interest			Total Modification
	Only	Term	Combination	
Residential Real Estate	\$ -	\$22	\$ -	\$ 22
Commercial	-	314	-	314
Consumer & Other	-	39	-	39
Total Modifications	\$ -	\$375	\$ -	\$ 375

There was no increase in the allowance for loan losses due to TDR's in the twelve month period ended December 31, 2015.

		December 31, 2014		
(\$ in thousands)	Number of Loans	Pre-Modification	Post Modification	
		Recorded Balance	Recorded Balance	
Residential Real Estate	-	\$ -	\$	-
Consumer & Other	1	16		16
Total Modifications	1	\$ 16	\$	16

(\$ in thousands)	Interest			Total Modification
	Only	Term	Combination	
Residential Real Estate	\$ -	-	-	\$ -
Consumer & Other	-	16	-	16
Total Modifications	\$ -	16	-	16

Residential Real Estate	\$	-	\$	-	\$	-
Consumer & Other		-	16		-	16
Total Modifications	\$	-	\$ 16	\$	-	\$ 16

There was no increase in the allowance for loan losses due to TDR's in the twelve month period ended December 31, 2014.

There were no TDR's modified during 2015 that have subsequently defaulted.

TDR's modified in 2014 that have subsequently defaulted

(\$ in thousands)	Number of Contracts	Recorded Balance
Residential Real Estate	2	\$ 197
	2	197

F-21

Note 5: Mortgage Banking and Servicing Rights

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others approximated \$772.5 million and \$662.7 million at December 31, 2015 and 2014, respectively. Contractually specified servicing fees of approximately \$1.8 million and \$1.6 million were included in mortgage loan servicing fees in the income statement for the years ended December 31, 2015 and 2014, respectively.

The following table summarizes mortgage servicing rights capitalized and related amortization, along with activity in the related valuation allowance:

(\$ in thousands)	2015	2014
Carrying amount, beginning of year	\$5,704	\$5,180
Mortgage servicing rights capitalized during the year	2,214	1,367
Mortgage servicing rights amortization during the year	(882)	(612)
Net change in valuation allowance	116	(231)
Carrying amount, end of year	\$7,152	\$5,704
Valuation allowance:		
Beginning of year	\$412	\$181
Reduction	(116)	231
End of year	\$296	\$412
Fair Value, beginning of period	\$6,358	\$6,237
Fair Value, end of period	\$7,760	\$6,358

Note 6: Derivative Financial Instruments

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

The Company does not use derivatives for trading or speculative purposes. Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Those interest rate swaps are simultaneously hedged by offsetting interest rate swaps that the Company executes with a third party, such that the Company minimizes its net risk exposure resulting from such transactions. As the interest rate swaps associated with this program do not meet the strict hedge accounting requirements, changes in the fair value of both the customer swaps and the offsetting swaps are recognized directly in earnings. As of December 31, 2015, the notional amount of customer-facing swaps was approximately \$17.6 million, as compared to \$12.6 million at December 31, 2014. This amount is offset with third party counterparties, as described above. The Company has minimum collateral posting thresholds with its derivative counterparties. As of December 31, 2015, the Company had posted cash as collateral in the amount of \$0.7 million.

Fair Values of Derivative Instruments on the Balance Sheet

The table below presents the fair value of the Company's derivative financial instruments, as well as their classification on the Balance Sheet, as of December 31, 2015 and 2014.

(\$ in thousands)	Asset Derivatives December 31, 2015		Liability Derivatives December 31, 2015	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments:				
Interest rate contracts	Other Assets	\$ 490	Other Liabilities	\$ 490

(\$ in thousands)	Asset Derivatives December 31, 2014		Liability Derivatives December 31, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments:				
Interest rate contracts	Other Assets	\$ 273	Other Liabilities	\$ 273

The Company's derivative financial instruments had no net effect on the Income Statement for the years ended December 31, 2015 and 2014.

Note 7: Premises and Equipment

Major classifications of premises and equipment stated at cost were as follows at December 31:

(\$ in thousands)	2015	2014
Land	\$2,501	\$2,013
Buildings and improvements	19,222	15,213
Equipment	10,566	9,209
Construction in progress	2,002	1,546
	34,291	27,981
Less accumulated depreciation	(15,281)	(14,377)

Net premises and equipment \$19,010 \$13,604

For the coming year the Company has plans, but no commitments, of approximately \$2.5 million in premises and equipment purchases. These expenditures are expected to be funded by cash on hand and from cash generated from current operations.

F-23

Note 8: Goodwill and Intangibles

Goodwill impairment is tested on the last day of the last quarter of each calendar year. The goodwill impairment test is performed in two steps. If the fair market value of the stock is greater than the calculated book value of the stock, the goodwill is deemed not to be impaired and no further testing is required. If the fair market value is less than the calculated book value, an additional step of determining fair value is taken to determine if there is any impairment. Goodwill at State Bank was reviewed independently as of December 31, 2015 and 2014. Step one indicated the fair value of State Bank was in excess of its book value at the end of both 2015 and 2014 and no further testing was required.

Carrying basis and accumulated amortization of intangible assets were as follows at December 31:

(\$ in thousands)	2015		2014	
	Gross Carrying	Accumulated Amortization	Gross Carrying	Accumulated Amortization
	Amount	Amount	Amount	Amount
Core deposits intangible	\$4,698	\$ (4,668)	\$4,698	\$ (4,473)
Customer relationship intangible	200	(148)	200	(142)
Banking intangibles	4,898	(4,816)	4,898	(4,615)

Amortization expense for core deposits and other for the years ended December 31, 2015 and 2014 was \$0.20 and \$0.37 million, respectively. Estimated amortization expense for each of the following five years is:

(\$ in thousands)	2016	2017	2018	2019	2020
Core deposit intangible	\$ 8	\$ 7	\$ 5	\$ 4	\$ 4
Customer relationship intangible	5	5	4	4	4
Banking intangibles	13	12	9	8	8

Note 9: Interest Bearing Deposits

Interest-bearing time deposits in denominations of \$250,000 or more were \$7.4 million on December 31, 2015, and \$16.1 million on December 31, 2014. Certificates of Deposit obtained from brokers totaled approximately \$5.2 million and \$8.2 million at December 31, 2015 and 2014, respectively, and mature between 2016 and 2020.

At December 31, 2015, the scheduled maturities of time deposits were as follows:

(\$ in thousands)	
2016	\$75,593
2017	41,152
2018	18,368
2019	12,282
2020	11,112
Thereafter	531
	\$159,038

Included in time deposits at December 31, 2015 and 2014 were \$37.1 million and \$29.2 million, respectively, of deposits which were obtained through the Certificate of Deposit Account Registry Service (CDARS). This service allows deposit customers to maintain fully insured balances in excess of the \$250,000 FDIC limit without the inconvenience of having multi-banking relationships. Under the reciprocal program that State Bank is currently participating in, customers agree to allow State Bank to place their deposits with other participating banks in the CDARS program in insurable amounts under \$250,000. In exchange, other banks in the program agree to place their deposits with State Bank also in insurable amounts under \$250,000.

Note 10: Securities Sold Under Repurchase Agreements

(\$ in thousands)	2015	2014
Securities Sold Under Repurchase Agreements	\$12,406	\$12,740

At December 31, 2015 and December 31, 2014, State Bank had \$15.0 and \$14.0 million, respectively, in federal funds lines, of which \$0.0 million were drawn upon.

State Bank has retail repurchase agreements to facilitate cash management transactions with commercial customers. These obligations are secured by agency and mortgage-backed securities and such collateral is held by the Federal Home Loan Bank. The maximum amount of outstanding agreements at any month end during 2015 and 2014 totaled \$20.3 and \$20.6 million, respectively, and the monthly average of such agreements totaled \$15.7 and \$17.1 million, respectively. The agreements mature within one month.

Note 11: Federal Home Loan Bank Advances

The Federal Home Loan Bank advances were secured by \$79.9 million in mortgage loans at December 31, 2015. Advances, at interest rates from 0.47 to 1.99 percent, are subject to restrictions or penalties in the event of prepayment. Aggregate annual maturities of Federal Home Loan Bank advances at December 31, 2015, were:

(\$ in thousands)	Debt
2016	\$14,000
2017	7,500
2018	7,000
2019	6,500
2020	-
Total	\$35,000

Note 12: Income Taxes

The provision for income taxes includes these components:

(\$ in thousands)	For The Year	
	Ended	
	December 31,	
	2015	2014
Taxes currently payable	\$1,885	\$1,424
Deferred provision	1,519	661
Income tax expense	\$3,404	\$2,085

F-25

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

(\$ in thousands)	For The Year	
	Ended	
	December 31,	
	2015	2014
Computed at the statutory rate (34%)	\$3,748	\$2,498
Increase (decrease) resulting from		
Tax exempt interest	(240)	(240)
BOLI Income	(99)	(138)
Other	(5)	(35)
Actual tax expense	\$3,404	\$2,085

The tax effects of temporary differences related to deferred taxes shown on the balance sheets are:

(\$ in thousands)	At December 31,	
	2015	2014
Deferred tax assets		
Allowance for loan losses	\$2,377	\$2,302
Net deferred loan fees	104	80
AMT credit carry over	-	542
Other	757	787
	3,238	3,711
Deferred tax liabilities		
Depreciation	(1,335)	(995)
Mortgage servicing rights	(2,468)	(1,939)
Unrealized gains on available-for-sale securities	(335)	(473)
Purchase accounting adjustments	(1,489)	(1,319)
Prepays	(285)	(277)
FHLB stock dividends	(465)	(466)
	(6,377)	(5,469)
Net deferred tax liability	\$(3,139)	\$(1,758)

Note 13: Regulatory Matters and Trust Preferred Securities

As of December 31, 2015, based on its call report computations, State Bank was classified as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, State Bank must

maintain capital ratios as set forth in the table below. There are no conditions or events since December 31, 2015 that management believes have changed State Bank's capital classification.

F-26

State Bank's actual capital amounts and ratios are presented in the following table. Capital levels are presented for the State Bank only as the Company is now exempt from quarterly reporting at the holding company level:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Procedures	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(\$ in thousands)						
As of December 31, 2015						
Tier I Capital to average assets	\$64,914	9.10 %	\$28,534	4.0 %	\$35,668	5.0 %
Tier I Common equity capital to risk-weighted assets	64,914	10.23 %	28,545	4.5 %	41,231	6.5 %
Tier I Capital to risk-weighted assets	64,914	10.23 %	38,059	6.0 %	50,746	8.0 %
Total Risk-based capital to risk-weighted assets	71,904	11.34 %	50,746	8.0 %	63,432	10.0 %
As of December 31, 2014						
Tier I Capital to average assets	57,591	8.55 %	27,354	4.0 %	33,333	5.0 %
Tier I Capital to risk-weighted assets	57,591	10.73 %	21,253	4.0 %	31,879	6.0 %
Total Risk-based capital to risk-weighted assets	63,664	11.98 %	42,506	8.0 %	53,132	10.0 %

On September 7, 2014, the Company redeemed its fixed rate trust preferred securities of \$10.3 million using a portion of the \$14.0 million in proceeds of the Company's capital raise completed on December 22, 2014, through the public offering of depository shares, each representing a 1/100th interest in the Company's 6.50 percent Noncumulative Convertible Preferred Shares, Series A.

Note 14: Employee Benefits

The Company has instituted a long-term incentive program (LTI), with the objective of rewarding senior management with restricted shares of the Company, in addition to the existing stock option program (see note 15).

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees contributing up to 4 percent of their compensation receive a Company match of 100 percent of the employee's contribution. Employee contributions are vested immediately and the Company's matching contributions are fully vested after three years of employment. Employer contributions charged to expense for 2015 and 2014 were \$0.4 million and \$0.4 million, respectively.

Also, the Company has Supplemental Executive Retirement Plan (“SERP”) Agreements with certain active and retired officers. The agreements provide monthly payments for up to 15 years that equal 15 percent to 25 percent of average compensation prior to retirement or death. The charges to expense for the current agreements were \$0.2 million and \$0.1 million for 2015 and 2014, respectively.

Additional life insurance is provided to certain officers through a bank-owned life insurance policy (“BOLI”). By way of a separate split-dollar agreement, the policy interests are divided between State Bank and the insured’s beneficiary. State Bank owns the policy cash value and a portion of the policy net death benefit, over and above the cash value assigned to the insured’s beneficiary. The cash surrender value of all life insurance policies totaled \$13.4 and \$13.1 million at December 31, 2015, and 2014, respectively.

The Company has a noncontributory employee stock ownership plan (“ESOP”) covering substantially all employees of the Company and its subsidiaries. Voluntary contributions are made by the Company to the plan. Each eligible employee is vested based upon years of service, including prior years of service. The Company’s contributions to the account of each employee become fully vested after three years of service.

Benefit expense for the value of the stock purchased is recorded equal to the fair market value of the stock when contributions, which are determined annually by the Board of Directors of the Company, are made to the ESOP. Allocated shares in the ESOP at December 31, 2015 and 2014, were 457,647 and 464,377, respectively.

Dividends on allocated shares are recorded as dividends and charged to retained earnings. Compensation expense is recorded equal to the fair market value of the stock when contributions, which are determined annually by the Board of Directors of the Company, are made to the ESOP. ESOP expense for the years ended December 31, 2015 and 2014 was \$0.2 million and \$0.0 million, respectively.

Note 15: Share Based Compensation Plan

In April 2008, the shareholders approved a new share-based incentive compensation plan, the SB Financial Group, Inc. 2008 Stock Incentive Plan (the "2008 Plan"), which replaced the Company's 1997 Stock Option Plan.

The 2008 Plan permits the grant or award of incentive stock options, nonqualified stock options, stock appreciation rights ("SARs"), and restricted stock for up to 250,000 Common Shares of the Company.

The 2008 Plan is intended to advance the interests of the Company and its shareholders by offering employees, directors and advisory board members of the Company and its subsidiaries an opportunity to acquire or increase their ownership interest in the Company through grants of equity-based awards. The 2008 Plan permits equity-based awards to be used to attract, motivate, reward and retain highly competent individuals upon whose judgment, initiative, leadership and efforts are key to the success of the Company by encouraging those individuals to become shareholders of the Company.

Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant, and those option awards generally vest based on 5 years of continuous service and have 10-year contractual terms. The fair value of each option award was estimated on the date of grant using the Black-Scholes valuation model. No options were granted in either 2015 or 2014.

The compensation cost charged against income with respect to option awards under the 2008 Plan was \$0.00 million and \$0.04 million for 2015 and 2014, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$0.00 million and \$0.01 million for 2015 and 2014, respectively.

A summary of incentive option activity under the Company's plans as of December 31 and changes during the years then ended, is presented below:

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	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Term	Aggregate Intrinsic Value
Outstanding, beginning of year	195,220	\$ 8.60		
Granted	-	-		
Exercised	(9,500)	6.98		
Forfeited	(25,646)	6.98		
Expired	(20,000)	12.33		
Outstanding, end of year	140,074	8.12	3.36	\$ 436,089
Exercisable, end of year	140,074	8.12	3.36	\$ 436,089

F-28

As of December 31, 2015, there was \$0.00 million of total unrecognized compensation cost related to incentive option share-based compensation arrangements granted under the 2008 Plan.

On February 5, 2013, the Company adopted a Long Term Incentive (LTI) Plan. The Plan awards restricted stock in the Company to certain key executives under the 2008 Plan. These restricted stock awards vest over a four-year period and are intended to assist the Company in retention of key executives. During 2015 and 2014, the Company met certain performance targets and restricted stock awards were approved by the Board. The compensation cost charged against income for the Long Term Incentive (LTI) Plan was \$0.08 million and \$0.05 million for 2015 and 2014, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$0.03 million and \$0.02 million for 2015 and 2014, respectively.

A summary of restricted stock activity under the Company's plan as of December 31 and changes during the years ended, is presented below:

	Shares	Weighted-Average Value per Share
Nonvested, beginning of year	22,652	\$ 8.15
Granted	12,192	9.55
Vested	(6,441)	8.07
Forfeited	(1,075)	8.11
Nonvested, end of year	27,328	\$ 8.77

As of December 31, 2015, there was \$0.17 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements related to the restricted stock awards under the 2008 Plan which were granted in accordance with the Long Term Incentive (LTI) plan. That cost is expected to be recognized over a weighted-average period of 2.50 years.

Note 16: Preferred Stock

On December 23, 2014, the Company completed its public offering of 1,500,000 depository shares, each representing a 1/100th ownership interest in a 6.50 percent Noncumulative Convertible Preferred Share, Series A, of the Company

with a liquidation preference of \$1,000 per share (equivalent to \$10.00 per depository shares). The Company sold the maximum of 1,500,000 depository shares in the offering, resulting in gross proceeds to the Company of \$15,000,000. Net proceeds to the Company after all expenses related to the offering were \$13,983,000.

Each Series A Preferred Share, at the option of the holder, is convertible at any time into the number of common shares equal to \$1,000.00 divided by the conversion price then in effect, which at December 31, 2015, was \$10.335. On or after the fifth anniversary of the issue date of the Series A Preferred Shares (December 23, 2019), the Company may require all holders of Series A Preferred Shares (and, therefore, depository shares) to convert their shares into common shares of the Company, provided the Company's common share price exceeds 120 percent of the conversion price noted above. The conversion price will be impacted by the quarterly dividend paid on the common shares. At December 31, 2015, the aggregate number of common shares issuable upon the conversion of outstanding Series A Preferred Shares was 1,451,377.

Note 17: Disclosures About Fair Value of Assets and Liabilities

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

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

Available-for-Sale Securities

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

Interest Rate Contracts

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

F-30

The following table presents the fair value measurements of securities measured at fair value on a recurring basis and the level within ASC 820 fair value hierarchy in which the fair value measurements fell at December 31, 2015 and 2014:

Fair Value Measurements Using:

(\$ in thousands) Available-for-Sale Securities:	Fair Values at 12/31/2015	(Level 1)	(Level 2)	(Level 3)
U.S. Treasury and Government Agencies	\$ 10,905	\$ -	\$ 10,905	\$ -
Mortgage-backed securities	61,343	-	61,343	-
State and political subdivisions	17,518	-	17,518	-
Equity securities	23		23	
Interest rate contracts - assets	490		490	
Interest rate contracts - liabilities	(490)		(490)	

Fair Value Measurements Using:

(\$ in thousands) Available-for-Sale Securities:	Fair Values at 12/31/2014	(Level 1)	(Level 2)	(Level 3)
U.S. Treasury and Government Agencies	\$ 15,307	\$ -	\$ 15,307	\$ -
Mortgage-backed securities	50,740	-	50,740	-
State and political subdivisions	19,170	-	19,170	-
Equity securities	23		23	
Interest rate contracts - assets	273		273	
Interest rate contracts - liabilities	(273)		(273)	

Level 1 - Quoted Prices in Active Markets for Identical Assets

Level 2 - Significant Other Observable Inputs

Level 3 - Significant Unobservable Inputs

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

Collateral-dependent Impaired Loans, Net of ALLL

Loans for which it is probable the Company will not collect all principal and interest due according to contractual terms are measured for impairment. The estimated fair value of collateral-dependent impaired loans is based on the appraised value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy. This method requires obtaining independent appraisals of the collateral, which are reviewed for accuracy and consistency by Credit Administration. These appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by applying a discount factor to the value based on the Company's loan review policy. All impaired loans held by the Company were collateral dependent at December 31, 2015 and 2014.

Mortgage Servicing Rights

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

Foreclosed Assets Held for Sale

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

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

The following table presents the fair value measurements of assets measured at fair value on a non-recurring basis and the level within the fair value hierarchy in which the fair value measurements fell at December 31, 2015 and 2014:

(\$ in thousands) Description	Fair Values at 12/31/2015	(Level 1)	(Level 2)	(Level 3)
Impaired loans	\$ 3,011	\$ -	\$ -	\$3,011
Mortgage Servicing Rights	2,585	-	-	2,585

(\$ in thousands) Description	Fair Values at 12/31/2014	(Level 1)	(Level 2)	(Level 3)
Impaired loans	\$ 2,538	\$ -	\$ -	\$2,538
Mortgage Servicing Rights	3,037	-	-	3,037

Level 1 - Quoted Prices in Active Markets for Identical Assets

Level 2 - Significant Other Observable Inputs

Level 3 - Significant Unobservable Inputs

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements at December 31, 2014 and 2013:

(\$ in thousands)	Fair Value at 12/31/2015	Valuation Technique	Unobservable Inputs	Range (Weighted Average)	
Collateral-dependent impaired loans	\$ 3,011	Market comparable properties	Comparability adjustments (%)	Not available	
Mortgage servicing rights	2,585	Discounted cash flow	Discount Rate	9.75	%
			Constant prepayment rate	8.90	%
			P&I earnings credit	0.42	%
			T&I earnings credit	1.54	%
			Inflation for cost of servicing	1.50	%

(\$ in thousands)	Fair Value at 12/31/2014	Valuation Technique	Unobservable Inputs	Range (Weighted Average)	
Collateral-dependent impaired loans	\$ 2,538	Market comparable properties	Comparability adjustments (%)	Not available	
Mortgage servicing rights	3,037	Discounted cash flow	Discount Rate	9.50	%
			Constant prepayment rate	10.30	%
			P&I earnings credit	0.17	%
			T&I earnings credit	1.75	%
			Inflation for cost of servicing	1.50	%

The mortgage servicing rights portfolio is measured for fair value by an independent third party. The valuation of the portfolio hinges on a number of quantitative factors. These factors include, but are not limited to, a discount rate applied to the cash flows, and an assumption of future principle prepayments. The prepayment assumptions are based upon the historical performance of the Company's portfolio as well as market metrics. With the stable to slightly declining interest rates during 2015, the mortgage servicing rights have increased in value. The servicing rights have had a decline in prepayments and the .25 percent decrease in the discount rate reflects the change in market rates. There were no changes in the inputs or methodologies used to determine fair value at December 31, 2015, as compared to December 31, 2014.

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

Cash and Due From Banks, Federal Reserve and Federal Home Loan Bank Stock and Interest Receivable and Payable

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

Loans Held for Sale

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

Loans

The estimated fair value for loans receivable, net, is based on estimates of the rate State Bank would charge for similar loans at December 31, 2015 and 2014, applied for the time period until the loans are assumed to re-price or be paid.

Mortgage Servicing Rights

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

Deposits, Repurchase Agreements & FHLB advances

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates the fair value. The estimated fair value for fixed-maturity time deposits, as well as borrowings, is based on estimates of the rate State Bank could pay on similar instruments with similar terms and maturities at December 31, 2015 and 2014.

Loan Commitments

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The estimated fair values for other financial instruments and off-balance-sheet loan commitments approximate cost at December 31, 2015 and 2014 and are not considered significant to this presentation.

Trust Preferred Securities

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

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

December 31, 2015	Carrying	Fair Value Measurements Using		
\$'s in thousands	Amount	(Level 1)	(Level 2)	(Level 3)
Financial assets				
Cash and due from banks	\$20,459	\$20,459	\$-	\$-
Loans held for sale	7,516	-	7,779	-
Loans, net of allowance for loan losses	550,669	-	-	548,154
Federal Reserve and FHLB Bank stock, at cost	3,748	-	3,748	-
Interest receivable	1,260	-	1,260	-
Mortgage Servicing Rights	7,152	-	-	7,760
Financial liabilities				
Deposits	\$586,453	\$113,113	\$475,468	\$-
Repurchase agreements	12,406	-	12,406	-
FHLB advances	35,000	-	34,870	-
Trust preferred securities	10,310	-	7,165	-
Interest payable	264	-	264	-
December 31, 2014	Carrying	Fair Value Measurements		
\$'s in thousands	Amount	Using (Level 1)	(Level 2)	(Level 3)
Financial assets				
Cash and due from banks	\$28,197	\$28,197	\$-	\$-
Loans held for sale	5,168	-	5,315	-
Loans, net of allowance for loan losses	509,565	-	-	510,314
Federal Reserve and FHLB Bank stock, at cost	3,748	-	3,748	-
Interest receivable	1,346	-	1,346	-
Mortgage Servicing Rights	5,704	-	-	6,358
Financial liabilities				
Deposits	\$550,906	\$97,853	\$455,383	\$-
Repurchase agreements	12,740	-	12,740	-
FHLB advances	30,000	-	29,907	-
Trust preferred securities	10,310	-	7,206	-

Interest payable	264	-	264	-
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F-35

Note 18: Condensed Financial Information

Presented below is condensed financial information of the parent company only (\$ in thousands):

Condensed Balance Sheets	2015	2014
Assets		
Cash and cash equivalents	\$9,157	\$12,446
Investment in banking subsidiaries	82,251	75,194
Investment in nonbanking subsidiaries	1,438	1,401
Other assets	318	152
Total assets	\$93,164	\$89,193
Liabilities		
Trust preferred securities	\$10,000	\$10,000
Borrowings from nonbanking subsidiaries	310	310
Other liabilities & accrued interest payable	1,613	3,200
Total liabilities	11,923	13,510
Stockholders' Equity	81,241	75,683
Total liabilities and stockholders' equity	\$93,164	\$89,193
Condensed Statements of Income & Comprehensive Income	2015	2014
Dividends from subsidiaries:		
Banking subsidiaries	\$1,000	\$5,000
Nonbanking subsidiaries	-	39
Total income	1,000	5,039
Expenses		
Interest expense	212	1,138
Other expense	922	1,201
Total expenses	1,134	2,339
Income before income tax	(134)	2,700
Income tax benefit	(385)	(803)
Income before equity in undistributed income of subsidiaries	251	3,503
Equity in undistributed income of subs.		
Banking subsidiaries	7,369	1,952
Nonbanking subsidiaries	(1)	(192)
Total	7,368	1,760
Net income	\$7,619	\$5,263
Preferred stock dividends	956	-
Net income available to common shareholders	\$6,663	\$5,263
Comprehensive income	\$7,351	\$6,107

F-36

Condensed Statements of Cash Flows	2015	2014
Operating Activities		
Net income	\$7,619	\$5,263
Items not requiring (providing) cash		
Equity in undistributed net income of subsidiaries	(7,368)	(1,760)
Expense of stock option plan	81	90
Other assets	(166)	118
Prepayment penalty on Trust Preferred	-	333
Other liabilities	(1,581)	(362)
Net cash (used in) provided by operating activities	(1,415)	3,682
Investing Activities		
Investment in Subsidiary	-	(164)
Net cash used in investing activities	-	(164)
Financing Activities		
Dividends on common stock	(983)	(783)
Dividends on preferred stock	(956)	-
Proceeds from stock compensation	67	18
Repurchase of common stock	(2)	-
Redemption of trust preferred	-	(10,643)
Preferred stock raise	-	13,983
Repayment of Notes Payable	-	-
Net cash provided by (used in) financing activities	(1,874)	2,575
Net Change in Cash and Cash Equivalents	(3,289)	6,093
Cash and Cash Equivalents at Beginning of Year	12,446	6,353
Cash and Cash Equivalents at End of Year	\$9,157	\$12,446

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

SB Financial Group, Inc. Defiance, Ohio

We have audited the accompanying consolidated balance sheets of SB Financial Group, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the years in the two-year period ended December 31, 2015. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SB Financial Group, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

BKD, llp

Cincinnati, Ohio

March 11, 2016

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not Applicable.

Item 9A. Controls and Procedures

a) Evaluation of Disclosure Controls and Procedures

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

Information required to be disclosed by the Company in this Annual Report on Form 10-K and other reports which the Company files or submits under the Exchange Act would be accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely discussions regarding required disclosure;

Information required to be disclosed by the Company in the Annual Report on Form 10-K and other reports which the Company files or submits under the Exchange act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and

The Company's disclosure controls and procedures were effective as of the end of the fiscal year covered by this Annual Report on Form 10-K.

b) Management's Report on Internal Control Over Financial Reporting

The management of SB Financial Group, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company and its consolidated subsidiaries;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company and its consolidated subsidiaries are being made only in accordance with authorizations of management and directors of the Company; and

Provide reasonable assurance regarding prevention of timely detection of unauthorized acquisition, use or disposition of the assets of the Company and its consolidated subsidiaries that could have a material effect on the financial statements.

With the supervision and participation of our President and Chief Executive Officer, and our Chief Financial Officer, management assessed the effectiveness of the company's internal control over financial reporting as of December 31, 2015, based on the criteria set forth for effective internal control over financial reporting by the Committee of Sponsoring Organizations of the Treadway commission in "Internal control Integrated Framework" (1992 version). Based on our assessment and those criteria, management concluded that, as of December 31, 2015, the Company's internal control over financial reporting is effective.

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.

c) Changes in Internal Controls Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended December 31, 2015, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not Applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers

The information required by Item 401 of SEC Regulation S-K concerning the directors of the Company and the nominees for re-election as directors of the Company at the Annual Meeting of Shareholders to be held on April 20, 2016 (the "2016 Annual Meeting"), is incorporated herein by reference from the disclosure included in the Company's definitive Proxy Statement relating to the 2016 Annual Meeting (the "2016 Proxy Statement"), under the caption "PROPOSAL NO. 1 – ELECTION OF DIRECTORS". The information concerning the executive officers of the Company required by Item 401 of SEC Regulation S-K is set forth in the portion of Part I of this Annual Report on Form 10-K entitled "Supplemental Item: Executive Officers of the Registrant."

Compliance with Section 16(a) of the Exchange Act

The information required by Item 405 of SEC Regulation S-K is incorporated herein by reference from the disclosure included in the Company's 2016 Proxy Statement under the caption "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE."

Committee Charters and Code of Conduct and Ethics

The Company's Board of Directors has adopted charters for each of the Audit Committee, the Compensation Committee and the Governance and Nominating Committee. Copies of these charters are available on the Company's Internet website at www.yoursbfinancial.com by first clicking "Corporate Governance" and then "Supplementary Info". The Company has adopted a Code of Conduct and Ethics that applies to the Company's directors, officers and employees. A copy of the Code of Conduct and Ethics is available on the Company's Internet website at www.yoursbfinancial.com under the "Corporate Governance" tab. Interested persons may also obtain copies of the Code of Conduct and Ethics, the Audit Committee charter, the Compensation Committee charter and the Executive Governance and Nominating Committee charter, without charge, by writing to SB Financial Group, Inc., Attn: Anthony V. Cosentino, 401 Clinton Street, Defiance, OH 43512.

Audit Committee

The information required by Items 407(d)(4) and 407(d)(5) of SEC Regulation S-K is incorporated herein by reference from the disclosure included under the caption “MEETINGS AND COMMITTEES OF THE BOARD – Committees of the Board – Audit Committee” in the Company’s 2016 Proxy Statement.

Item 11. Executive Compensation.

The executive compensation information required by this item is incorporated herein by reference to the information contained in the Company’s 2016 Proxy Statement under the captions “COMPENSATION OF EXECUTIVE OFFICERS” and “DIRECTOR COMPENSATION”.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 403 of SEC Regulation S-K is incorporated herein by reference from the disclosure included in the Company’s 2016 Proxy Statement under the caption “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT”.

Equity Compensation Plan Information

The SB Financial Group, Inc. Stock Option Plan (the “2008 Plan”) was approved by the shareholders of the Company at the 2008 Annual Meeting of Shareholders.

The following table shows, as of December 31, 2015, the number of common shares issuable upon exercise of outstanding stock options, the weighted-average exercise price of those stock options, and the number of common shares remaining for future issuance under the Company’s equity compensation plans (excluding common shares issuable upon exercise of outstanding stock options):

(\$ in thousands - except per share data)	Equity compensation approved by security holders
Number of securities to be issued upon exercise of outstanding options, warrants and rights	140,074
Weighted-average exercise price of outstanding options, warrants and rights	\$ 8.12
Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a)	151,997

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 404 of SEC Regulation S-K is incorporated herein by reference from the disclosure contained in the Company's 2016 Proxy Statement under the caption "TRANSACTIONS WITH RELATED PERSONS".

The information required by Item 407(a) of SEC Regulation S-K is incorporated herein by reference from the disclosure contained in the Company's 2016 Proxy Statement under the caption "CORPORATE GOVERNANCE – Director Independence".

Item 14. Principal Accountant Fees and Services

The information required to be disclosed in this Item 14 is incorporated herein by reference from the disclosure contained in the Company's 2016 Proxy Statement under the caption "AUDIT COMMITTEE DISCLOSURE" – Pre-Approval of Services Performed by Independent Registered Public Accounting Firm" and "AUDIT COMMITTEE DISCLOSURE" – Services of Independent Registered Public Accounting Firm".

PART IV

Item 15. Exhibits and Financial Statement Schedules

a) Financial Statements.

The following consolidated financial statements are incorporated by reference from Item 8 hereof:

Report of Independent Registered Public Accounting Firm (BKD, LLP)

Consolidated Balance Sheets as of December 31, 2015 and 2014

Consolidated Statements of Income for the Years ended December 31, 2015 and 2014

Consolidated Statements of Comprehensive Income for the Years ended December 31, 2015 and 2014

Consolidated Statements of Stockholders' Equity for the Years ended December 31, 2015 and 2014

Consolidated Statements of Cash Flows for Years ended December 31, 2015 and 2014

Notes to Consolidated Financial Statements

b) Financial Statement Schedules.

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

c) Exhibits.

Exhibit No.	Description	Location
3.1	Amended Articles of the Company as amended	Incorporated herein by reference to Exhibit 3(a)(i) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1989 (File No. 0-13507).
3.2	Certificate of Amendment to the Amended Articles of the Company as filed with the Ohio Secretary of State on April 27, 1993	Incorporated herein by reference to Exhibit 3(b) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (File No. 0-13507).
3.3	Certificate of Amendment to the Amended Articles of the Company as filed with the Ohio Secretary of State on April 30, 1997	Incorporated herein by reference to Exhibit 3(c) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-13507).
3.4	Certificate of Amendment to the Amended Articles of the Company as filed with the Ohio Secretary of State on May 27, 2011 to evidence the amendment of Article FOURTH to authorize 10,000,000 common shares and 200,000 preferred shares, each without par value	Incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 1, 2011.
3.5	Certificate of Amendment to the Amended Articles of the Company as filed with the Ohio Secretary of State on April 12, 2013 to evidence the amendment of Article FIRST to change the name of the corporation to SB Financial Group, Inc.	Incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed April 18, 2013 (File No. 0-13507)
3.6	Certificate of Amendment by Directors or Incorporators to Articles filed with the Secretary of State of the State of Ohio on November 6, 2014, evidencing the adoption of an amendment by the Board of Directors of the Company to Article FOURTH to establish the express terms of the 6.50% Noncumulative Convertible Perpetual Preferred Share, Series A	Incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed November 12, 2014 (File No. 0-13507)
3.7	Amended Articles of the Company, as amended (reflecting amendments through November 6, 2014) [for SEC reporting compliance purposes only – not filed with the Ohio Secretary of State]	Incorporated herein by reference to Exhibit 3.7 to the Company's Annual Report on Form 10-K for the Fiscal year ended December 31, 2014 (File No. 0-13507).

3.8	Amended and Restated Regulations of the Company	Incorporated herein by reference to Exhibit 3.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507).
3.9	Certificate Regarding Adoption of Amendment to Section 2.01 of the Amended and Restated Regulations of the Company by the Shareholders on April 16, 2009	Exhibit 3.1 to the Company's Current Report on Form 8-K filed April 22, 2009 (File No. 0-13507).
47		

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Exhibit No.	Description	Location
4.1	Form of Certificate for 6.50% Noncumulative Convertible Perpetual Preferred Share, Series A, of the Company	Incorporated herein by reference to Exhibit 4.1 to the Company's Amendment No. 1 to Registration Statement on Form S-1 filed on November 6, 2014 (File No. 333-198879)
4.2	Form of Depositary Receipt of the Company	Incorporated herein by reference to Exhibit 4.2 to the Company's Amendment No. 1 to Registration Statement on Form S-1 filed on November 6, 2014 (File No. 333-198879)
4.3	Deposit Agreement, dated November 6, 2014, by and among the Company, Computershare Inc. and Computershare Trust Company, N.A. as Depositary, and the Holders from time to time of the Depositary Receipts described therein	Incorporated herein by reference to Exhibit 4.3 to the Company's Amendment No. 1 to Registration Statement on Form S-1 filed on November 6, 2014 (File No. 333-198879)
4.4	Indenture, dated as of September 15, 2005, by and between the Company and Wilmington Trust Company, as Debenture Trustee, relating to Floating Rate Junior Subordinated Deferrable Interest Debentures	Incorporated herein by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 (File No. 0-13507).
4.5	Amended and Restated Declaration of Trust of Rurban Statutory Trust II, dated as of September 15, 2005	Incorporated herein by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 (File No. 0-13507).
4.6	Guarantee Agreement, dated as of September 15, 2005, by and between the Company and Wilmington Trust Company, as Guarantee Trustee	Incorporated herein by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 (File No. 0-13507).
4.7	Agreement to furnish instruments and agreements defining rights of holders of long-term debt	Filed herewith.
10.1*	The Company's Plan to Allow Directors to Elect to Defer Compensation	Incorporated herein by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-13507).
10.2*	2008 Stock Incentive Plan of the Company	Incorporated herein by reference to Exhibit 10 to the Company's Current Report on Form 8-K filed April 22, 2008 (File No. 0-13507).
10.3*	Form of Restricted Stock Award Agreement (For Employees) under the Company's 2008 Stock Option Plan	Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on

Exhibit No.	Description	Location
10.4*	Form of Incentive Stock Option Agreement with Five-Year Vesting under the Company's 2008 Stock Incentive Plan	Incorporated herein by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (File No. 0-13507).
10.5*	Form of Non-Qualified Stock Option Award Agreement with Five-Year Vesting under the Company's 2008 Stock Incentive Plan	Incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (File No. 0-13507).
10.6*	Employees' Stock Ownership and Savings Plan of the Company	Incorporated herein by reference to Exhibit 10(y) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (File No. 0-13507).
10.7*	Employee Stock Purchase Plan of the Company	Incorporated herein by reference to Exhibit 10(z) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (File No. 0-13507).
10.8*	Employment Agreement, dated July 30, 2010, between the Company and Mark A. Klein	Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 5, 2010 (File No. 0-13507).
10.9*	Second Amended and Restated Change of Control Agreement, dated July 30, 2010, between the Company and Mark A. Klein	Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed August 5, 2010 (File No. 0-13507).
10.10*	Change of Control Agreement, dated April 21, 2010, between the Company and Anthony V. Cosentino	Incorporated herein by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010 (File No. 0-13507).
10.11*	Supplemental Executive Retirement Plan Agreement, dated as of July 20, 2015 by and between the company and Mark A. Klein	Incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report 10-Q for the quarter ended September 30, 2015.
10.12*	Non-Qualified Deferred Compensation Plan of the Company effective as of January 1, 2007	Incorporated herein by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (File No. 0-13507)
10.13*	Long-Term Incentive Compensation Plan for the Company and Affiliates	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 20, 2012 (File No. 0-13507)

Exhibit No.	Description	Location
11	Statement re: Computation of Per Share Earnings	Included in Note 1 of the Notes to Consolidated Financial Statements of Registrant filed herewith as Exhibit 13.
13	2015 Annual Report of Registrant (not deemed filed except for portions thereof which are specifically incorporated by reference in this Annual Report on Form 10-K)	Specified portions filed herewith.
21	Subsidiaries of Registrant	Filed herewith.
23	Consent of BKD, LLP	Filed herewith.
24	Power of Attorney of Directors and Executive Officers	Included on signature page of this Annual Report on Form 10-K
31.1	Rule 13a-14(a)/15d-14(a) Certification – Principal Executive Officer	Filed herewith.
31.2	Rule 13a-14(a)/15d-14(a) Certification – Principal Financial Officer	Filed herewith.
32.1	Section 1350 Certification – Principal Executive Officer and Principal Financial Officer	Filed herewith.
101	The following materials from SB Financial Group Inc.'s 2015 Annual Report and incorporated therefrom in SB Financial Group, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2015, formatted in XBRL (extensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of December 31, 2015 and 2014; (ii) the Consolidated Statements of Income for the years ended December 31, 2015 and 2014; (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2015 and 2014; (iv) the Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2015 and 2014; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2015 and 2014; and (vi) the Notes to Consolidated Financial Statements (electronically submitted herewith).	

*Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SB FINANCIAL GROUP, INC.

Date: March 11, 2016 By: /s/ Anthony V. Cosentino
Anthony V. Cosentino,
Executive Vice President and Chief Financial Officer

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS, that each undersigned officer and/or director of SB Financial Group, Inc., an Ohio corporation (the "Corporation"), which is about to file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2015, hereby constitutes and appoints Mark A. Klein and Anthony V. Cosentino, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign both the Annual Report on Form 10-K and any and all amendments and documents related thereto, and to file the same, and any and all exhibits, financial statements and schedules related thereto, and other documents in connection therewith, with the Securities and Exchange Commission and the NASDAQ Stock Market, granting unto said attorneys-in-fact and agents, and substitute or substitutes, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all things that each of said attorneys-in-fact and agents, or either of them or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Name	Date	Capacity
/s/ Mark A. Klein Mark A. Klein	March 11, 2016	Chairman, President and Chief Executive Officer
/s/ Anthony V. Cosentino	March 11, 2016	Executive Vice President and Chief Financial Officer

Anthony V. Cosentino

/s/ George W. Carter March 11, 2016 Director
George W. Carter

/s/ Gary M. Cates March 11, 2016 Director
Gary M. Cates

/s/ Robert A. Fawcett, Jr. March 11, 2016 Director
Robert A. Fawcett, Jr.

/s/ Gaylyn J. Finn March 11, 2016 Director
Gaylyn J. Finn

/s/ Richard L. Hardgrove March 11, 2016 Director
Richard L. Hardgrove

/s/ Rita A. Kissner March 11, 2016 Director
Rita A. Kissner

/s/ Mark A. Klein March 11, 2016 Director
Mark A. Klein

/s/ William G. Martin March 11, 2016 Director
William G. Martin

/s/ Timothy J. Stolly March 11, 2016 Director
Timothy J. Stolly

Date: March 11, 2016

Board of Directors

Mark A. Klein

Chairman, President and CEO

SB Financial Group, Inc. and

The State Bank and Trust Company

Richard L. Hardgrove

Lead Director

Retired Chairman and CEO

Sky Bank, Salinesville, OH

Retired CEO, FirstMerit Bank

Former Deputy Superintendent of Banks, Ohio

Gary M. Cates

Chief Philanthropy Officer

ProMedica Health System

George W. Carter

CEO and General Manager

Paulding Putnam Electric Cooperative

Robert A. Fawcett, Jr.

Insurance Sales Consultant

FLR/United insurance Service

Gaylyn J. Finn

Retired Treasurer and Associate Vice President for Finance

Bowling Green State University

Rita A. Kissner

Retired Finance Director and Mayor

City of Defiance

William G. Martin

President and CFO

Spangler Candy Company

Timothy J. Stolly

President

Stolly Insurance Company