SB FINANCIAL GROUP, INC.
Form 10-K
March 08, 2019

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, 2018

OR

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

For the transition period from ___________ to ____________

Commission File Number 001-36785

SB FINANCIAL GROUP, INC.

(Exact name of Registrant as specified in its charter)

Ohio	**34-1395608**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization)	Identification No.)
401 Clinton Street, Defiance, Ohio	**43512**
(Address of principal executive offices)	(Zip Code)

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

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

Title of each class	Name of each exchange on which registered
Common Shares, No Par Value	The NASDAQ Stock Market, LLC (NASDAQ Capital Market)
Depository Shares, each representing 1/100th 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 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 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, a smaller reporting company, or an emerging growth company. Accelerated Filer Smaller Reporting Company

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

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

The 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 $132.1 million.

The number of common shares of the registrant outstanding at February 21, 2019 was 6,476,942.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 17, 2019 are incorporated by reference into Part III of this Annual Report on Form 10-K.

SB FINANCIAL GROUP, INC.

2018 ANNUAL REPORT ON FORM 10-K

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PART I

Item 1. Business.

Certain statements contained in this Annual Report on Form 10-K which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. *See* "Cautionary Statement Regarding Forward-Looking Information" under Item 1A. Risk Factors on page 16 of this Annual Report on Form 10-K.

General

SB Financial Group, Inc., an Ohio corporation (the "Company"), is a financial holding company subject to regulation under the Bank Holding Company Act of 1956, as amended, and to inspection, examination and supervision 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.

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

State Bank and Trust Company

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 banking; private client group services; 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 nineteen banking centers, 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 seven loan production offices, located in Cuyahoga, Franklin, Lucas and Seneca Counties, Ohio, Hamilton and Steuben County, Indiana and Monroe County, Michigan. At December 31, 2018, State Bank had 250 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, 2018, RFCBC had no employees.

Rurbanc Data Services

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. Effective January 1, 2018, the Company completed the sale of the customer contracts and certain other assets of RDSI’s remaining check and statement processing business operated through the DCM division. As a result of the sale, RDSI is presently inactive and had no material operations or employees at December 31, 2018.

Rurban Mortgage Company

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, 2018, RMC had no employees.

SBT Insurance

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, 2018, SBI had no employees.

Rurban Statutory Trust 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 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 and convenience of office location. State Bank operates in the highly competitive wealth management services field and its competition consists primarily of other bank wealth management departments.

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 financial 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 financial or bank holding company may acquire direct or indirect ownership or control of more than 5 percent 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 another financial 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 financial or bank holding company from acquiring 5 percent or more 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.

As a result of the Gramm-Leach-Bliley Act of 1999 - also known as the Financial Services Modernization Act of 1999 - which amended the Bank Holding Company Act, bank holding companies that are financial holding companies may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (1) financial in nature or incidental to such financial activity (as determined by the FRB in consultation with the Secretary of the Treasury), or (2) complementary to a financial activity, and that does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. Activities that are financial in nature include securities underwriting and dealing, insurance underwriting and making merchant banking investments. On January 2, 2019, the Company elected, and received approval from the FRB, to become a financial holding company.

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 Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) established the Consumer Financial Protection Bureau (the “CFPB”), which regulates consumer financial products and services and certain financial services providers. The CFPB is authorized to prevent unfair, deceptive or abusive acts or practices and ensures consistent enforcement of laws so that consumers have access to fair, transparent and competitive markets for consumer financial products and services. Since it was established, the CFPB has exercised extensively its rulemaking and interpretative authority.

The Federal Home Loan Bank (“FHLB”) 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, 2018.

<u>Economic Growth, Regulatory Relief and Consumer Protection Act</u>

On May 25, 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Regulatory Relief Act") was signed into law. The Regulatory Relief Act was designed to provide regulatory relief for banking organizations, particularly for all but the very largest, those with assets in excess of $250 billion. Bank holding companies with assets of less than $100 billion are no longer subject to enhanced prudential standards, and those with assets between $100 billion and $250 billion will be relieved of those requirements in 18 months, unless the Federal Reserve Board takes action to maintain those standards. Certain regulatory requirements applied only to banks with assets in excess of $50 billion and so did not apply to the Company even before the enactment of the Regulatory Relief Act.

The Regulatory Relief Act also provides that the banking regulators must adopt regulations implementing the provision that banking organizations with assets of less than $10 billion are permitted to satisfy capital standards and be considered "well capitalized" under the prompt corrective action framework if their leverage ratios of tangible assets to average consolidated assets is between 8 percent and 10 percent, unless the bank's federal banking agency determines that the organization's risk profile warrants a more stringent leverage ratio. The Office of the Comptroller of the Currency ("OCC"), the FRB and the Federal Deposit Insurance Corporation ("FDIC") have proposed for comment the leverage ratio framework for any banking organization with total consolidated assets of less than $10 billion, limited amounts of certain types of assets and off-balance sheet exposures, and a community bank leverage ratio greater than 9 percent. The community bank leverage ratio would be calculated as the ratio of tangible equity capital divided by average total consolidated assets. Tangible equity capital would be defined as total bank equity capital or total holding company equity capital, as applicable, prior to including minority interests, and excluding accumulated other comprehensive income, deferred tax assets arising from net operating loss and tax credit carry forwards, goodwill and other intangible assets (other than mortgage servicing assets). Average total assets would be calculated in a manner similar to the current tier 1 leverage ratio denominator in that amounts deducted from the community bank leverage ratio numerator would also be excluded from the community bank leverage ratio denominator.

The OCC, the FRB and the FDIC also adopted a rule providing banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of new current expected credit loss methodology accounting under U. S. generally accepted accounting principles.

The Regulatory Relief Act also relieves bank holding companies and banks with assets of less than $100 billion in assets from certain record-keeping, reporting and disclosure requirements.

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 State Bank and its other 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. In addition, 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, 2018, State Bank had $32.9 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 funds to, or engaging in other "covered transactions" with, the Company (or any other affiliate), generally limiting such covered transactions with any one affiliate to 10 percent of State Bank's capital and surplus and limiting all such covered transactions with all affiliates to 20 percent of State Bank's capital and surplus. Covered 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.

A bank's authority to extend credit to executive officers, directors and greater than 10 percent shareholders, as well as entities such persons control, is subject to Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated thereunder by the Federal Reserve Board. Among other things, these loans must be made on terms (including interest rates charged and collateral required) that are substantially the same as those offered to unaffiliated individuals or be made as part of a benefit or compensation program and on terms widely available to employees, and must not involve a greater than normal risk of repayment. In addition, the amount of loans a bank may make to these persons is based, in part, on the bank's capital position, and certain approval procedures must be followed in making loans which exceed specified amounts.

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.

In July 2013, the FRB and the federal banking agencies published final rules that substantially amended 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 percent of adjusted total assets, total capital ratio of 8 percent of risk-weighted assets and Tier 1 capital ratio of 6.5 percent of risk-weighted assets. In addition, the Company will have to meet the new minimum CET1 capital ratio of 4.5 percent of risk-weighted assets.

Common equity for the CET1 capital ratio includes common stock (plus related surplus) and retained earnings, plus limited amounts of minority interests in the form of common stock, less the majority of certain regulatory deductions. Tier 1 capital includes common equity as defined for the CET1 capital ratio, plus certain non-cumulative preferred stock and related surplus, cumulative preferred stock and related surplus and trust preferred securities that have been grandfathered (but which are not permitted going forward), and limited amounts of minority interests in the form of additional Tier 1 capital instruments, less certain deductions. Tier 2 capital, which can be included in the total capital ratio, includes certain capital instruments (such as subordinated debt) and limited amounts of the allowance for loan and lease losses, subject to new eligibility criteria, less applicable deductions. The deductions from CET1 capital include goodwill and other intangibles, certain deferred tax assets, mortgage-servicing assets above certain levels, gains on sale in connection with a securitization, investments in a banking organization's own capital instruments and investments in the capital of unconsolidated financial institutions (above certain 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 percent risk weight (up from 100 percent) 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 percent (up from 0 percent) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less; a 250 percent risk-weight (up from 100 percent) for mortgage servicing and deferred tax assets that are not deducted from capital; and increased risk-weights (0 percent to 600 percent) 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 percent 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 began to phase in beginning in January 2016 at 0.625 percent of risk-weighted assets and increasing each year until fully phased in in January 2019 at 2.5 percent. The capital conservation buffer as of December 31, 2018 is 1.875 percent.

Under the new Basel III standards, in order to be considered well-capitalized, State Bank is required to have at least a CET1 ratio of 6.5 percent, a Tier 1 ratio of 8 percent, a total capital ratio of 10 percent and a leverage ratio of 5 percent and not be subject to specified requirements to meet and maintain a specific capital ratio for a capital measure.

State Bank conducted an analysis of the application of these new capital requirements as of December 31, 2018. Based on that analysis, State Bank determined that it met all of these requirements, including the full 2.5 percent capital conservation buffer, and would remain well capitalized if all of these new requirements had fully phased in as of that date. See Note 15 to the Consolidated Financial Statements under Item 8 of this report (the "Consolidated Financial Statements"). In addition, as noted above, if State Bank does not have the required capital conservation buffer, its ability to pay dividends to the Company would be limited.

In September 2017, the FRB along with other bank regulatory agencies, proposed amendments to their capital requirements to simplify certain aspects of the capital rules for community banks, including State Bank, in an attempt to reduce the regulatory burden for smaller financial institutions. Because the amendments were proposed with a request for comments and have not been finalized, we do not yet know what effect the final rules will have on State Bank and its regulatory capital calculations. In November 2017, the federal bank regulatory agencies extended for community banks the existing capital requirements for certain items that were scheduled to change effective January 1, 2018, in light of the simplification amendments being considered including extending the existing capital requirements for mortgage servicing assets and certain other items.

In November 2018, the FRB, along with other bank regulatory agencies, proposed a rule that would give community banks, including State Bank, the option to calculate a simple leverage ratio, rather than multiple measures of capital adequacy, if they meet certain requirements. Under the proposal, a community bank would be eligible to elect the Community Bank Leverage Ratio ("CBLR") framework if it has less than $10 billion in total consolidated assets, limited amounts of certain assets and off-balance sheet exposures, and a CBLR greater than 9 percent. Provided it has a CBLR greater than 9 percent, a qualifying community bank that chooses the proposed framework would be considered to have met the capital ratio requirements to be well capitalized for the agencies' prompt corrective action rules.

The federal banking agencies also adopted a rule providing banking organizations the option to phase in over a three-year period the day-one adverse effects on regulatory capital that may result from the adoption of new current expected credit loss methodology accounting under United States generally accepted accounting principles.

In April 2015, the FRB issued a final rule which increased the size limitation for qualifying bank holding companies under the FRB's Small Bank Holding Company Policy Statement from $500 million to $1 billion of total consolidated assets. In August 2018, the FRB issued an interim final rule, as required by the Economic Growth Regulatory Relief, and consumer Protection Act of 2018, to further increase size limitations under the Small Bank Holding Company

Policy Statement to $3 billion of total consolidated assets. The Company continues to qualify 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

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. The general insurance limit is $250,000 per separately insured depositor. This insurance is backed by the full faith and credit of the United States Government.

As insurer, the FDIC is authorized to conduct examinations of and to require reporting by insured institutions, including State Bank, to prohibit any insured institution from engaging in any activity the FDIC determines to pose a threat to the Deposit Insurance Fund (“DIF”), and to take enforcement actions against insured institutions. The FDIC may terminate insurance of deposits of any institution if the FDIC finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or other regulatory agency.

The FDIC assesses a quarterly deposit insurance premium on each insured institution based on risk characteristics of the institution and may also impose special assessments in emergency situations, which fund the DIF. Pursuant to the Dodd-Frank Act, the FDIC has established 2 percent as the Designated Reserve Ratio ("DRR"), which is the amount in the DIF as a percentage of all DIF insured deposits. In March 2016, the FDIC adopted final rules designed to meet the statutory minimum DRR of 1.35 percent by September 30, 2020, the deadline imposed by the Dodd-Frank Act. The Dodd-Frank Act requires the FDIC to offset the effect on institutions with assets less than $10 billion of the increase in the statutory minimum DRR to 1.35 percent from the former statutory minimum of 1.15 percent. Although the FDIC's new rules reduced assessment rates on all banks, they imposed a surcharge on banks with assets of $10 billion or more to be paid until the DRR reaches 1.35 percent. The DRR reached 1.36 percent at September 30, 2018. The rules also provide assessment credits to banks with assets of less than $10 billion for the portion of their assessments that contribute to the increase of the DRR to 1.35 percent. Such credits will be applied when the DRR is at least 1.38 percent The rules further changed the method of determining risk-based assessment rates for established banks with less than $10 billion in assets to better ensure that banks taking on greater risks pay more for deposit insurance than banks that take on less risk.

In addition, all FDIC-insured institutions are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, which was established by the government to recapitalize a predecessor to the DIF. These assessments will continue until the Financing Corporation bonds mature in 2019.

Community Reinvestment Act

The Community Reinvestment Act (CRA) requires State Bank's primary federal regulatory agency, the FRB, to assess State Bank's record in meeting the credit needs of the communities served by State Bank. The FRB assigns one of four ratings: outstanding, satisfactory; needs to improve or substantial noncompliance. The rating assigned to a financial institution is considered in connection with various applications submitted by the financial institution or its holding company to its banking regulators, including applications to acquire another financial institution or to open or close a branch office. In addition, all subsidiary banks of a financial holding company must maintain a satisfactory or outstanding rating in order for the financial holding company to avoid limitations on its activities. State Bank currently maintains a satisfactory rating.

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 ("NASDAQ") under the symbol "SBFG", and the Company's depository shares, each representing a 1/100th interest in the Company's Series A Preferred Shares, are listed on NASDAQ under the symbol "SBFGP". As a result, the Company is subject to NASDAQ rules and regulations applicable to listed companies.

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 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.

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.

In 2011, federal banking regulatory agencies jointly issued proposed rules on incentive-based compensation arrangements under applicable provisions of the Dodd-Frank Act (the “First Proposed Rules”). The First Proposed Rules generally would have applied to financial institutions with $1 billion or more in assets that maintain incentive-based compensation arrangements for certain covered employees. In May 2016, the federal bank regulatory agencies approved a second joint notice of proposed rules (the “Second Proposed Joint Rules”) designed to prohibit incentive-based compensation arrangements that encourage inappropriate risks at financial institutions. The Second Proposed Joint Rules would apply to covered financial institutions with total assets of $1 billion or more. The requirements of the Second Proposed Joint Rules would differ for each of three categories of financial institutions:

Level 1 consists of institutions with assets of $250 billion or more;
Level 2 consists of institutions with assets of at least $50 billion and less than $250 billion; and
Level 3 consists of institutions with assets of at least $1 billion and less than $50 billion.

Some of the requirements would apply only to Level 1 and Level 2 institutions. For all covered institutions, including Level 3 institutions like us, the Second Proposed Rules would:

prohibit incentive-based compensation arrangements that are “excessive” or “could lead to material financial loss”;
require incentive-based compensation that is consistent with a balance of risk and reward, effective management and control of risk, and effective governance; and
require board oversight, recordkeeping and disclosure to the appropriate regulatory agency.

Level 1 and Level 2 institutions would have additional requirements, including deferrals of awards to certain covered persons; potential downward adjustments, forfeitures or clawbacks; and additional risk-management and control standards, policies and procedures. In addition, certain practices and types of incentive compensation would be prohibited.

Public company compensation committee members must meet heightened independence requirements and consider the independence of compensation consultants, legal counsel and other advisors to the compensation committee. A compensation committee must have the authority to hire advisors and to have the public company fund reasonable compensation of such advisors.

SEC regulations require public companies to provide various disclosures about executive compensation in annual reports and proxy statements and to present to their shareholders a non-binding vote on the approval of executive compensation.

Public companies will be required, once stock exchanges impose additional listing requirements under the Dodd-Frank Act, 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.

Consumer Protection Laws and Regulations

Banks are subject to regular examination to ensure compliance with federal consumer protection statutes and regulations, including, but not limited to, the following:

- The Equal Credit Opportunity Act (prohibiting discrimination in any credit transaction on the basis of any of various criteria);
- The Truth in Lending Act (requiring that credit terms are disclosed in a manner that permits a consumer to understand and compare credit terms more readily and knowledgeably);
- The Fair Housing Act (making it unlawful for a lender to discriminate in housing-related lending activities against any person on the basis of certain criteria);
- The Home Mortgage Disclosure Act (requiring financial institutions to collect data that enables regulatory agencies to determine whether financial institutions are serving the housing credit needs of the communities in which they are located); and
- The Real Estate Settlement Procedures Act (requiring that lenders provide borrowers with disclosures regarding the nature and cost of real estate settlements and prohibits abusive practices that increase borrowers' costs);
- Privacy provisions of the Gramm-Leach-Bliley Act (requiring financial institutions to establish policies and procedures to restrict the sharing of non-public customer data with non-affiliated parties and to protect customer information from unauthorized access).

The banking regulators also use their authority under the Federal Trade Commission Act to take supervisory or enforcement action with respect to unfair or deceptive acts or practices by banks that may not necessarily fall within the scope of a specific banking or consumer finance law.

In October 2017, the CFPB issued a final rule (the "Payday Rule") with respect to certain consumer loans to be effective on January 16, 2018, although compliance with most sections is not required until August 19, 2019. The first major part of the rule makes it an unfair and abusive practice for a lender to make short-term and longer-term loans with balloon payments (with certain exceptions) without reasonably determining that the borrower has the ability to repay the loan. The second major part of the rule applies to the same types of loans as well as longer-term loans with an annual percentage rate greater than 36 percent that are repaid directly from the borrower's account. The rule states that it is an unfair and abusive practice for the lender to withdraw payment from the borrower's account after two consecutive payment attempts have failed, unless the lender obtains the consumer’s new and specific authorization to make further withdrawals from the account. The rule also requires lenders to provide certain notices to the borrower before attempting to withdraw payment on a covered loan from the borrower’s account.

On February 6, 2019, the CFPB issued two proposals with respect to the Payday Rule. First, the CFPB proposed to delay the compliance date for the mandatory underwriting provisions of the Payday Rule to November 19, 2020. The CFPB has requested comments on the proposed delay to be made within 30 days. Second, the CFPB proposed to rescind provisions of the Payday Rule that (1) provide that it is an unfair and abusive practice for a lender to make a covered short-term or longer-term balloon-payment loan without reasonably determining that the consumer has the ability to repay the loan according to its terms; (2) prescribe mandatory underwriting requirements for making the ability-to-repay determination; (3) provide exemptions of certain loans from the mandatory underwriting requirements; and (4) provide related definitions, reporting and recordkeeping requirements. The CFPB has requested comments to be made within 90 days on this proposal. These proposals do not change the provisions of the Payday Rule that address lender payment practices with respect to covered loans. The CFPB also stated that the CFPB will be considering other changes to the Payday Rule in response to requests received for exemptions of certain types of lenders or loan products and may commence separate additional rulemaking initiatives.

The Company does not currently expect the Payday Rule to have a material effect on the Company’s financial condition or results of operations on a consolidated basis.

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 near 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 includes the interest earned or paid, and the average interest rate, on each asset and liability:

($ in thousands)	2018 Average Balance	Interest	Average Rate	2017 Average Balance	Interest	Average Rate	2016 Average Balance	Interest	Average Rate
Assets									
Taxable securities	$85,238	$2,618	3.07 %	$84,918	$2,076	2.44 %	$79,301	$1,536	1.94 %
Non-taxable securities	11,379	439	3.86 %	14,088	527	3.74 %	15,365	594	3.87 %
Loans, net (1)	749,055	36,422	4.86 %	660,675	29,877	4.52 %	603,875	26,921	4.46 %
Total earning assets	845,672	39,479	4.67 %	759,681	32,480	4.28 %	698,541	29,051	4.16 %
Cash and due from banks	38,990			35,337			34,999		
Allowance for loan losses	(8,361)			(7,828)			(7,389)		
Premises and equipment	21,795			21,084			19,124		
Other assets	49,170			46,295			43,770		
Total assets	$947,266			$854,569			$789,045		
Liabilities									
Savings and interest-bearing demand deposits	$401,577	$1,754	0.44 %	$369,114	$795	0.22 %	$345,302	$524	0.15 %
Time deposits	225,467	3,560	1.58 %	214,639	2,661	1.24 %	184,640	2,054	1.11 %
Repurchase agreements & other	16,458	37	0.22 %	12,350	15	0.12 %	15,027	16	0.11 %
Advances from FHLB	22,108	460	2.08 %	20,000	320	1.60 %	23,892	352	1.47 %
Trust preferred securities	10,310	401	3.89 %	10,310	303	2.94 %	10,310	252	2.44 %
Total interest-bearing liabilities	675,920	6,212	0.92 %	626,413	4,094	0.65 %	579,171	3,198	0.55 %
Demand deposits	137,253			127,747			115,905		
Other liabilities	12,999			10,871			9,429		
Total liabilities	826,172			765,031			704,505		
Shareholders' equity	121,094			89,538			84,540		

Total liabilities and shareholders’ equity	$947,266	$854,569	$789,045
Net interest income (tax equivalent basis)	$33,267	$28,386	$25,853
Net interest income as a percent of average interest-earning assets - GAAP measure	3.93 %	3.74 %	3.70 %
Net interest income as a percent of average interest-earning assets - Non-GAAP measure (2)(3) -- Computed on a fully tax equivalent basis (FTE)	3.95 %	3.78 %	3.75 %

(1) Nonaccruing loans and loans held for sale are included in the average balances.

(2) Interest on tax exempt securities is computed on a tax equivalent basis using a 21 (2018) and 34 percent (2017/2016) statutory tax rate, and added to the net interest income. The tax equivalent adjustment was $0.17, $0.27 and $0.31 million in 2018, 2017 and 2016, respectively.

(3) Interest on tax exempt loans is computed on a tax equivalent basis using a 21 (2018) and 34 percent (2017/2016) statutory tax rate, and added to the net interest income. The tax equivalent adjustment was $0.03, $0.04 and $0.04 million in 2018, 2017 and 2016, respectively.

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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 allocates the volume variance and rate variance in proportion to the relationship of the absolute dollar amount of the change in each.

($ in thousands)	Total Variance 2018/2017	Variance Attributable To Volume	Rate
Interest income			
Taxable securities	$ 542	$ 8	$ 534
Non-taxable securities*	(241)	(153)	(88)
Loans, net of unearned income and deferred fees *	6,531	4,002	2,529
Total interest income	6,832	3,857	2,975
Interest expense			
Savings and interest-bearing demand deposits	$ 959	$ 70	$ 889
Time deposits	899	134	765
Repurchase agreements & other	22	5	17
Advances from FHLB	140	34	106
Trust preferred securities	98	-	98
Total interest expense	2,118	243	1,875
Net interest income	$ 4,714	$ 3,614	$ 1,100

* Interest on non-taxable securities and 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)	2018	2017	2016
U.S. Treasury and government agencies	$ 18,670	$ 12,708	$ 13,358
Mortgage-backed securities	60,943	56,762	61,603

State and political subdivisions	11,356	13,250	15,097
Equity securities	-	70	70
Totals	$90,969	$82,790	$90,128

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B. The maturity distribution and weighted-average interest rates of securities available-for-sale at December 31, 2018, 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	Total
U.S. Treasury and government agencies	$-	$7,276	$11,394	$-	$18,670
Mortgage-backed securities	-	6,714	12,913	41,316	60,943
State and political subdivisions	2,223	2,176	2,313	4,644	11,356
Total securities by maturity	$2,223	$16,166	$26,620	$45,960	$90,969
Weighted-average yield by maturity (1)	5.38 %	2.23 %	2.71 %	2.81 %	2.74 %

(1) Yields are presented on a tax-equivalent basis.

C. Excluding those holdings of the investment portfolio in U.S. Treasury securities and other agencies of the U.S. Government, there were no other securities of any one issuer, which exceeded 10 percent of the shareholders’ equity of the Company at December 31, 2018.

III. LOAN PORTFOLIO

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

($ in thousands)	2018	2017	2016	2015	2014
Loans held for investment (HFI)					
Commercial Business & Agricultural	$179,053	$153,501	$161,227	$130,377	$134,702
Commercial RE & Construction	340,791	332,154	284,084	242,208	217,030
Residential Real Estate	187,104	150,854	142,452	130,806	113,214
Consumer & Other	64,336	59,619	56,335	54,224	51,546
Total Loans	771,284	696,128	644,098	557,615	516,492

Unearned Income	599	487	335	44	(156)
Total Loans, net of unearned income	$771,883	$696,615	$644,433	$557,659	$516,336

Concentrations of Credit Risk: The Company grants commercial, real estate and installment loans to customers located mainly in the Tri-State region of Ohio, Indiana and Michigan. 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, 2018, commercial business and agricultural loans made up approximately 23.3 percent of the HFI loan portfolio while commercial real estate loans accounted for approximately 44.2 percent of the HFI loan portfolio. As of December 31, 2018, residential first mortgage loans made up approximately 24.2 percent of the HFI loan portfolio and are secured by first mortgages on residential real estate, while consumer loans to individuals made up approximately 8.3 percent of the HFI loan portfolio and are primarily secured by consumer assets.

B. Maturities and Sensitivities of Loans to Changes in Interest Rates: The following table shows the amounts of commercial, business and agricultural loans and commercial real estate outstanding as of December 31, 2018, 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 loans due after one year. (Variable-rate loans are those loans with floating or adjustable interest rates.)

($ in thousands)	Maturing Commercial Business & Ag.	Commercial Real Estate	Total
Within one year	$23,203	$ 27,870	$51,073
After one year but within five years	60,583	104,903	165,486
After five years	95,267	208,018	303,285
Totals	$179,053	$ 340,791	$519,844

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($ in thousands)	Interest Sensitivity Fixed Rate	Variable Rate	Total
Commercial Business & Agricultural			
Within one year	$10,025	$13,178	$23,203
Due after one year but within five years	23,478	37,105	60,583
Due after five years	14,016	81,251	95,267
Totals	47,519	131,534	179,053
Commercial RE & Construction			
Within one year	11,651	16,219	27,870
Due after one year but within five years	52,863	52,040	104,903
Due after five years	63,021	144,997	208,018
Totals	127,535	213,256	340,791
Total			
Within one year	21,676	29,397	51,073
Due after one year but within five years	76,341	89,145	165,486
Due after five years	77,037	226,248	303,285
Totals	$175,054	$344,790	$519,844

C. Risk Elements:

1. 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 that are past due 90 days or more as to interest or principal payments are considered for nonaccrual status. The following schedule summarizes nonaccrual, past due, and troubled debt restructured (TDR) loans at December 31 for the years indicated:

($ in thousands)	2018	2017	2016	2015	2014
Loans accounted for on a nonaccrual basis	$2,906	$2,704	$2,737	$6,646	$4,609
Accruing loans 90 days past due	-	-	-	-	-
Accruing troubled debt restructurings	928	1,129	1,590	1,500	1,384
Total nonperforming loans and TDRs	$3,834	$3,833	$4,327	$8,146	$5,993

Listed below is the interest income on impaired and nonaccrual loans greater than $100k at December 31 for the years indicated:

($ in thousands)	2018	2017
Cash basis interest income recognized on impaired loans outstanding	$192	$155
Interest income actually recorded on impaired loans and included in net income for the period	188	159

Unrecorded interest income on nonaccrual loans	87	72

2. As of December 31, 2018, in addition to the $3.8 million of nonperforming loans reported under Item III.C above (which amount includes all loans classified by management as doubtful or loss), there were approximately $7.3 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 for loan losses.

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3. Foreign Loans Outstanding

None

4. Loan Concentrations

At December 31, 2018, loans outstanding related to agricultural operations or collateralized by agricultural real estate and equipment aggregated approximately $52.0 million, or 6.7 percent of total HFI loans.

D. Other Interest-Bearing Assets

There were no other interest-bearing assets as of December 31, 2018, which would be required to be disclosed under Item III.C.1 or Item III.C.2. if such assets were loans.

Management believes the allowance for loan losses at December 31, 2018 was adequate to absorb any losses on nonperforming 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.

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)	2018	2017	2016	2015	2014
Loans					
Loans outstanding at end of period	$771,883	$696,615	$644,433	$557,659	$516,336
Average loans outstanding during period	$749,055	$660,675	$603,875	$531,614	$501,486
Allowance for loan losses					
Balance at beginning of period	$7,930	$7,725	$6,990	$6,771	$6,964

Loans charged off:					
Commercial business and agricultural	(227)	(50)	(135)	(497)	(607)
Commercial real estate	(42)	(26)	(241)	(303)	(13)
Residential real estate	(30)	(61)	(20)	(56)	(92)
Consumer & other loans	(108)	(94)	(105)	(96)	(135)
	(407)	(231)	(501)	(952)	(847)
Recoveries of loans previously charged off:					
Commercial business and agricultural	1	10	420	29	22
Commercial real estate	28	2	5	3	125
Residential real estate	2	6	2	29	32
Consumer & other loans	13	18	59	10	25
	44	36	486	71	204
Net loans charged off	(363)	(195)	(15)	(881)	(643)
Provision for loan losses	600	400	750	1,100	450
Balance at end of period	$8,167	$7,930	$7,725	$6,990	$6,771
Ratio of net charge offs to average loans	0.05 %	0.03 %	0.00 %	0.17 %	0.13 %

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.

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:

($ in thousands)	Allowance Amount 2018	Percentage of Loans In Each Category to Total Loans		Allowance Amount 2017	Percentage of Loans In Each Category to Total Loans		Allowance Amount 2016	Percentage of Loans In Each Category to Total Loans		Allowance Amount 2015	Percentage of Loans In Each Category to Total Loans		Allowance Amount 2014	Percentage of Loans In Each Category to Total Loans	
Commercial and agricultural	$1,917	23.3	%	$1,328	22.1	%	$1,551	25.1	%	$1,118	23.4	%	$1,838	26.1	%
Commercial real estate	2,923	44.2	%	3,779	47.7	%	3,321	44.1	%	3,886	43.4	%	2,857	42.0	%
Residential real estate	2,567	24.2	%	2,129	21.7	%	1,963	22.1	%	1,312	23.5	%	1,308	21.9	%
Consumer & other loans	760	8.3	%	694	8.6	%	890	8.7	%	674	9.7	%	768	10.0	%
	$8,167	100.0	%	$7,930	100.0	%	$7,725	100.0	%	$6,990	100.0	%	$6,771	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:

2018		2017		2016	
Average	Average	Average	Average	Average	Average

($ in thousands)	Amount	Rate		Amount	Rate		Amount	Rate	
Savings and interest-bearing demand deposits	$401,577	0.44	%	$369,114	0.22	%	$345,302	0.15	%
Time deposits	225,467	1.58	%	214,639	1.24	%	184,640	1.11	%
Demand deposits (non interest bearing)	137,253	-		127,747	-		115,905	-	
Totals	$764,297			$711,500			$645,847		

Maturities of time certificates of deposit and other time deposits of $100,000 or more outstanding at December 31, 2018, are summarized as follows:

($ in thousands)	Amount
Three months or less	$21,469
Over three months through six months	23,813
Over six months and through twelve months	46,754
Over twelve months	46,588
Total	$138,624

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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)	2018	2017	2016
Average total assets	$947,266	$854,569	$789,045
Average shareholders' equity	$121,094	$89,538	$84,540
Net income	$11,638	$11,065	$8,784
Net income available to common shareholders	$10,663	$10,090	$7,809
Cash dividends declared	$0.32	$0.28	$0.24
Return on average total assets	1.23 %	1.29 %	1.11 %
Return on average shareholders' equity	9.61 %	12.36 %	10.39 %
Dividend payout ratio (1)	19.60 %	13.50 %	15.11 %
Average shareholders' equity to average assets	12.78 %	10.48 %	10.71 %

(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, which are comprised of retail repurchase agreements for the periods noted:

($ in thousands)	2018	2017	2016
Amount outstanding at end of year	$15,184	$15,082	$10,532
Weighted-average interest rate at end of year	0.49 %	0.10 %	0.10 %
Maximum amount outstanding at any month end	$18,312	$18,444	$20,560
Average amount outstanding during the year	$16,458	$12,350	$15,027
Weighted-average interest rate during the year	0.22 %	0.12 %	0.11 %

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”, “estimates”, “expects”, “intends”, “may”, “plans”, “projects”, “should”, “will allow”, “will continue”, “will likely result”, “will “would be”, 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. The election of a new United States President in 2016 has resulted in substantial, unpredictable changes in economic and political conditions for the United States and the remainder of the world. Disruptions in United States and global financial markets 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. In addition, the timing and circumstances of the United Kingdom leaving the European Union (Brexit) and their effects on the United States are unknown. Because we have a significant amount of real estate loans, 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 may be compressed, and our net interest income may continue to be adversely impacted by changing 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 paid for deposits rises more quickly than the interest received on loans and other investments.

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. While the bulk of our variable rate commercial assets have interest rate floors, 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 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 a change 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 guarantee 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.

Moreover, the Financial Accounting Standards Board (“FASB”) has changed its requirements for establishing the allowance for loan losses.

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On June 16, 2016, the FASB issued Accounting Standard Update (“ASU”) 2016-13 “Financial Instruments - Credit Losses”, which replaces the incurred loss model with an expected loss model, and is referred to as the current expected credit loss (“CECL”) model. Under the incurred loss model, loans are recognized as impaired when there is no longer an assumption that future cash flows will be collected in full under the originally contracted terms. The new accounting guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2019. Under the CECL model, financial institutions will be required to use historical information, current conditions and reasonable forecasts to estimate the expected loss over the life of the loan. The transition to the CECL model will bring with it significantly greater data requirements and changes to methodologies to accurately account for expected losses under the new parameters.

Any significant increase in the allowance for loan losses or loan charge offs, as required by these regulatory authorities, might have a material adverse effect on the Company’s 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. The FDIC recently adopted rules revising the assessments in a manner benefiting banks with assets totaling less than $10 billion. There can be no assurance, however, that assessments will not be changed in the future.

A transition away from LIBOR as a reference rate for financial contracts could negatively affect our income and expenses and the value of various financial contracts.

LIBOR is used extensively in the U.S. and globally as a benchmark for various commercial and financial contracts, including adjustable rate mortgages, corporate debt, interest rate swaps and other derivatives. LIBOR is set based on interest rate information reported by certain banks, which may stop reporting such information after 2021. It is uncertain at this time whether LIBOR will change or cease to exist or the extent to which those entering into financial contracts will transition to any other particular benchmark. Other benchmarks may perform differently than LIBOR or alternative benchmarks have performed in the past or have other consequences that cannot currently be anticipated. It is also uncertain what will happen with instruments that rely on LIBOR for future interest rate adjustments and which remain outstanding if LIBOR ceases to exist. The Company has limited exposure to LIBOR based lending and any change will not have a material impact on the Company’s financial statement.

A default by another larger financial institution could adversely affect financial markets generally.

The commercial soundness of many financial institutions may be closely interrelated as a result of relationships between and among the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as “systemic risk” and may adversely affect our business

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. Even the reduction of regulatory restrictions could have an adverse impact on us if such lessening of restrictions increases competition within our industry or market areas.

In light of conditions in the global financial markets and the global economy that occurred in the last decade, 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.

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.

On December 22, 2017, H.R. 1, formally known as the "Tax Cuts and Jobs Act" ("TCJA"), was enacted into law. This new tax legislation, among other changes, limits the amount of state, federal and local taxes that taxpayers are permitted to deduct on their individual tax returns and eliminates other deductions in their entirety. Such limits and eliminations may result in customer defaults on loans we have made and decrease the value of mortgage-backed securities in which we have invested.

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 guarantee 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 to 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 depositary 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.

We may not be able to grow, and if we do, we may have difficulty managing that growth.

Our business strategy is to continue to grow our assets and expand our operations, including through potential strategic acquisitions. Our ability to grow depends, in part, upon our ability to expand our market share, successfully attract core deposits, and to identify loan and investment opportunities as well as opportunities to generate fee-based income. We can provide no assurance that we will be successful in increasing the volume of our loans and deposits at acceptable levels and upon terms acceptable to us. We also can provide no assurance that we will be successful in expanding our operations organically or through strategic acquisitions while managing the costs and implementation risks associated with this growth strategy.

We expect to continue to experience growth in the number of our employees and customers and the scope of our operations, but we may not be able to sustain our historical rate of growth or continue to grow our business at all. Our success will depend upon the ability of our officers and key employees to continue to implement and improve our operational and other systems, to manage multiple, concurrent customer relationships, and to hire, train and manage our employees. In the event that we are unable to perform all these tasks and meet these challenges effectively, including continuing to attract core deposits, our operations, and consequently our earnings, could be adversely impacted.

Any future acquisitions will be subject to a variety of risks, including execution risks, failure to realize anticipated transaction benefits, and failure to overcome integration risks, which could aversely affect our growth and profitability.

Although we do not currently have any plans, arrangements or understandings to make any acquisitions in the near-term, from time to time in the future we may consider acquisition opportunities that we believe support our businesses and enhance our profitability. In the event that we do pursue acquisitions, we may have difficulty executing on acquisitions and may not realize the anticipated benefits of any transactions we complete.

Generally, any acquisition of target financial institutions, branches or other banking assets by us will require approval by, and cooperation from, a number of governmental regulatory agencies, possibly including the FRB, the FDIC and the regulatory authorities in a state in which an acquisition is consummated. Such regulators could deny our application, which would restrict our growth, or the regulatory approvals may not be granted on terms that are acceptable to us. For example, we could be required to sell branches as a condition to receiving regulatory approvals, and such a condition may not be acceptable to us or may reduce the benefit of an acquisition.

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

The ability to sell our common and depositary shares depends upon the existence of an active trading market for those shares. While both of our shares are listed for trading on the NASDAQ Capital Market, there is moderate trading volume in these shares. As a result, shareholders may be unable to sell our shares at the volume, price and time desired. 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. In addition, even if a more active market of our shares should develop, we cannot guarantee that such a market will continue.

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

The market price of our common 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. Certain events or changes in the market or banking industry generally are beyond our control. In addition to the other risk factors contained or incorporated by reference herein, factors that could affect our trading price:

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

- changes in financial estimates or publications of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to us or other financial institution;

- failure to declare dividends on our common shares from time to time;

- reports in the press or investment community generally or relating to our reputation or the financial services industry;

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

- any future offerings by us of our common shares;

- 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 share price performance of companies that investors consider to be comparable to us;

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

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

- proposed or final regulatory changes or developments;

- anticipated or pending regulatory investigations, proceedings, or litigation that may involve or affect us; 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 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, which 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 percent 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 29 of this Annual Report on Form 10-K.

Changes in accounting standards could influence our results of operations.

The accounting standard setters, including the FASB, 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.

Unauthorized disclosure of sensitive or confidential client information, or breaches in security of our systems, could severely harm our business.

We collect, process and store sensitive consumer data by utilizing computer systems and telecommunications networks operated by both third-party service providers and us. State Bank's necessary dependence upon automated systems to record and process State Bank's transactions poses the risk that technical system flaws, employee errors, tampering or manipulation of those systems, or attacks by third parties will result in losses and may be difficult to detect. We have security and backup and recovery systems in place, as well as a business continuity plan, to ensure the computer systems will not be inoperable, to the extent possible. Our inability to use or access these information systems at critical points in time could unfavorably impact the timeliness and efficiency of our business operations. In recent years, some banks have experienced denial of service attacks in which individuals or organizations flood the bank's website with extraordinarily high volumes of traffic, with the goal and effect of disrupting the ability of the bank to process transactions. We could be adversely affected if one of our employees causes a significant operational breakdown or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. State Bank is further exposed to the risk that the third-party service providers may be unable to fulfill their contractual obligations (or will be subject to the same risks as we are). These disruptions may interfere with service to our customers, cause additional regulatory scrutiny and result in a financial loss or liability.

Misconduct by employees could include fraudulent, improper or unauthorized activities on behalf of clients or improper use of confidential information. We may not be able to prevent employee errors or misconduct, and the precautions we take to detect this type of activity might not be effective in all cases. Employee errors or misconduct could subject us to civil claims for negligence or regulatory enforcement actions, including fines and restrictions on our business.

In addition, there have been instances where financial institutions have been victims of fraudulent activity in which criminals pose as customers to initiate wire and automated clearinghouse transactions out of customer accounts. Although we have policies and procedures in place to verify the authenticity of our customers, we cannot assure that such policies and procedures will prevent all fraudulent transfers. Such activity can result in financial liability and harm to our reputation.

We have implemented security controls to prevent unauthorized access to the computer systems and require our third-party service providers to maintain similar controls. However, management cannot be certain that these measures will be successful. A security breach of the computer systems and loss of confidential information, such as customer account numbers and related information could result in a loss of customers' confidence and, thus, loss of business. In addition, unauthorized access to or use of sensitive data could subject us to litigation, liability, and costs to prevent further such occurrences.

Further, we may be affected by data breaches at retailers and other third parties who participate in data interchanges with us and our customers that involve the theft of customer credit and debit card data, which may include the theft of our debit card PIN numbers and commercial card information used to make purchases at such retailers and other third parties. Such data breaches could result in us incurring significant expenses to reissue debit cards and cover losses, which could result in a material adverse effect on our results of operations.

Our assets at risk for cyber-attacks include financial assets and non-public information belonging to customers. We use several third-party vendors who have access to our assets via electronic media. Certain cyber security risks arise due to this access, including cyber espionage, blackmail, ransom, and theft. As cyber and other data security threats continue to evolve, we may be required to expend significant additional resources to continue to modify and enhance our protective measures or to investigate and remediate any security vulnerabilities.

We may be compelled to seek additional capital in the future, but capital may not be available when 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. 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 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 due to 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.

We could face legal and regulatory risk arising out of our residential mortgage business.

Numerous federal and state governmental, legislative and regulatory authorities are investigating practices in the business of mortgage and home equity lending and servicing and in the mortgage-related insurance and reinsurance industries. We could face the risk of class actions, other litigation and claims from: the owners of or purchasers of such loans originated or serviced by us, homeowners involved in foreclosure proceedings or various mortgage-related insurance programs, downstream purchasers of homes sold after foreclosure, title insurers, and other potential claimants. Included among these claims are claims from purchasers of mortgage and home equity loans seeking the repurchase of loans where the loans allegedly breached origination covenants, representations, and warranties made to the purchasers in the purchase and sale agreements. The CFPB has issued new rules for mortgage origination and mortgage servicing. Both the origination and servicing rules create new private rights of action for consumers against lenders and servicers in the event of certain violations.

We may be required to repurchase loans we have sold or indemnify loan purchasers under the terms of the sale agreements, which could adversely affect our liquidity, results of operations and financial statements.

When State Bank sells a mortgage loan, it agrees to repurchase or substitute a mortgage loan if it is later found to have breached any representation or warranty State Bank made about the loan or if the borrower is later found to have committed fraud in connection with the origination of the loan. While we have underwriting policies and procedures designed to avoid breaches of representations and warranties as well as borrower fraud, there can be no assurance that no breach or fraud will ever occur. Required repurchases, substitutions or indemnifications could have an adverse impact on our liquidity, results of operations and financial statements.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company's principal executive offices are located at 401 Clinton Street, Defiance, Ohio. State Bank owns this facility, with a portion of the facility utilized as a retail banking center. In addition, State Bank owns the land and buildings occupied by nineteen of its banking centers and leases one other property used as a banking center. The Company also occupies office space from various parties for loan production and other business purposes on varying lease terms. There is no outstanding mortgage debt on any of the properties, which are owned by State Bank.

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, Cuyahoga, Defiance, Delaware, Fulton, Franklin, Hancock, Lucas, Paulding, Seneca, Williams and Wood counties of Ohio; Allen, Hamilton and Steuben counties of Indiana; and Monroe county of Michigan:

SB Financial Group, Inc. Property List as of December 31, 2018

Description/Address		Leased/ Owned	Deposits 12/31/18
		($ in thousands)	
Main Banking Center & Corporate Office			
401	Clinton Street, Defiance, OH	Owned	$211,129
Banking Centers/Drive-Thru's			
1419	West High Street, Bryan, OH	Owned	44,642
510	Third Street, Defiance, OH (Drive-thru)	Owned	N/A
1600	North Clinton Street, Defiance, OH	Leased	34,719
312	Main Street, Delta, OH	Owned	16,326
4080	West Dublin Granville Road, Dublin, OH	Owned	51,076
201	East Lincoln Street, Findlay, OH	Owned	11,506
12832	Coldwater Road, Fort Wayne, IN	Owned	43,777
1232	North Main Street, Bowling Green, OH	Owned	5,595
235	Main Street, Luckey, OH	Owned	34,802
133	East Morenci Street, Lyons, OH	Owned	22,302
930	West Market Street, Lima, OH	Owned	52,521
1201	East Main Street, Montpelier, OH	Owned	39,982
218	North First Street, Oakwood, OH	Owned	22,372
220	North Main Street, Paulding, OH	Owned	48,475
610	East South Boundary Street, Perrysburg, OH	Owned	17,177
119	South State Street, Pioneer, OH	Owned	28,844
6401	Monroe Street, Sylvania, OH	Owned	51,040

311	Main Street, Walbridge, OH	Owned	29,121
515	Parkview, Wauseon, OH	Owned	37,147
Loan Production Offices			
307	North Wayne Street, Angola, IN	Owned	N/A
10100	Lantern Road, Suite 240, Fishers, IN	Leased	N/A
94	Granville Street, Gahanna, OH	Owned	N/A
206	South Washington Street, Tiffin, OH	Leased	N/A
8194	Secor Road, Lambertville, MI	Leased	N/A
1900	Monroe Street, Suite 108, Toledo, OH	Leased	N/A
29580	Center Ridge Road, Westlake, OH	Leased	N/A
Service Facilities (RDSI/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
1911	Baltimore Road, Defiance, OH	Leased	N/A
573	Carle Ave Office C, Lewis Center, OH	Leased	N/A
Total Deposits			$802,552

The Company's subsidiaries have several noncancellable leases for business use that expire over the next five years. Aggregate rental expense for these leases was $0.15 and $0.16 million for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease payments under operating leases are:

($ in thousands)	
2019	$184
2020	144
2021	55
2022	18
2023	4
Thereafter	-
Total minimum lease payments	$405

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 21, 2019, the positions presently held by each executive officer, and the business experience of each executive officer during their employment at the Company. Unless otherwise indicated, each person has held his principal occupation(s) for more than five years.

Name	Age	Position(s) Held with the Company and its Subsidiaries and Principal Occupation(s)
Mark A. Klein	64	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 Trust Investment Review Committee since March 2007.
Anthony V. Cosentino	57	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 Trust Investment Review Committee since June 2010.
Ernesto Gaytan	47	Executive Vice President and Chief Technology Innovation and Operations Officer of the Company since July 2018; Chief Technology Innovation Officer since November 2017.
Jonathan R. Gathman	45	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”. There were 6,503,250 common shares outstanding as of December 31, 2018, which were held by approximately 1,400 record holders. Our depositary shares, representing a 1/100th interest in our Series A Preferred Shares, are traded on the NASDAQ Capital Market under the symbol ”SBFGP” and there were 1,499,500 depositary shares outstanding as of December 31, 2018. The Series A Preferred Shares (and, therefore, depositary shares) are convertible into common shares at the election of the holder. The conversion ratio is calculated based upon a current common share conversion price of $10.19 per common share, which may be adjusted due to certain events. 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, depositary shares) to convert their shares into common shares of the Company provided the Company’s common share price exceeds 120 percent of the then applicable conversion price ($12.23, based on the current conversion price of $10.19). At December 31, 2018, the aggregate number of common shares issuable upon the conversion of outstanding Series A Preferred Shares (and, therefore, depositary shares) was 1,472,125. On February 9, 2018, the Company closed a common capital raise (see Note 20), pursuant to which the Company issued and sold an aggregate of 1,666,666 common shares in a public offering.

The following table presents quarterly market price information and cash dividends paid per share for our common shares for 2018 and 2017:

	2018				2017			
Quarter ended:	31-Dec	30-Sep	30-Jun	31-Mar	31-Dec	30-Sep	30-Jun	31-Mar
High	$20.53	$20.51	$20.45	$19.58	$18.49	$17.84	$17.85	$20.75
Low	16.05	19.22	18.25	17.15	16.60	15.61	16.15	14.44
Dividend	0.085	0.080	0.080	0.075	0.075	0.070	0.070	0.065

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 State Bank, rather than for dividends to shareholders of the Company.

	Period Ending					
Index	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
SB Financial Group, Inc.	100.00	121.56	146.79	216.09	252.93	228.87
NASDAQ Composite Index	100.00	114.75	122.74	133.62	173.22	168.30
SNL U.S. Bank NASDAQ Index	100.00	103.57	111.80	155.02	163.20	137.56

Source: S&P Global Market Intelligence

There were no purchases of the Company’s common shares during the three months ended December 31, 2018.

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Item 6. Selected Financial Data.

Financial Highlights

Year Ended December 31

($ in thousands, except per share data)

Earnings	2018	2017	2016	2015	2014
Interest income	$39,479	$32,480	$29,051	$25,927	$24,408
Interest expense	6,212	4,094	3,198	2,584	3,480
Net interest income	33,267	28,386	25,853	23,343	20,928
Provision for loan losses	600	400	750	1,100	450
Noninterest income	16,624	17,217	17,889	15,707	12,827
Noninterest expense	34,847	31,578	30,091	26,927	25,957
Provision for income taxes	2,806	2,560	4,117	3,404	2,085
Net income	11,638	11,065	8,784	7,619	5,263
Preferred stock dividends	975	975	975	956	-
Net income available to common	10,663	10,090	7,809	6,663	5,263
Per Common Share Data					
Basic earnings	$1.72	$2.10	$1.60	$1.36	$1.08
Diluted earnings	1.51	1.74	1.38	1.19	1.07
Cash dividends declared	0.32	0.28	0.24	0.20	0.16
Total equity per share	16.36	15.03	13.75	12.81	11.96
Total tangible equity per share	15.39	13.27	11.59	10.39	9.24
Average Balances					
Average total assets	$947,266	$854,569	$789,045	$719,586	$672,277
Average equity	121,094	89,538	84,540	78,618	60,186
Ratios					
Return on average total assets	1.23 %	1.29 %	1.11 %	1.06 %	0.78 %
Return on average equity	9.61	12.36	10.39	9.69	8.74
Cash dividend payout ratio*	19.60	13.50	15.11	14.71	14.81
Average equity to average assets	12.78	10.48	10.71	10.93	8.95
Period End Totals					
Total assets	$986,828	$876,627	$816,005	$733,071	$684,228
Total investments; fed funds sold	90,969	82,790	90,128	89,789	85,240
Total loans & leases	771,883	696,615	644,433	557,659	516,336

Loans held for sale	4,445	3,940	4,434	7,516	5,168
Allowance for loan losses	8,167	7,930	7,725	6,990	6,771
Total deposits	802,552	729,600	673,073	586,453	550,906
Advances from FHLB	16,000	18,500	26,500	35,000	30,000
Trust preferred securities	10,310	10,310	10,310	10,310	10,310
Total equity	130,435	94,000	86,548	81,241	75,683

*Cash dividends on common shares divided by net income available to common

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

SB Financial Group, Inc. ("SB Financial"), is a financial holding company registered with the Federal Reserve Board and subject to regulation under the Bank Holding Company Act of 1956, as amended. Through its direct and indirect subsidiaries, SB Financial is engaged in commercial and retail banking, wealth management and private client 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, 2018 and 2017.

Strategic Discussion

The focus and strategic goal of the Company is to grow into and remain a top decile (>90th percentile) independent financial services company. The Company intends to achieve and maintain that goal by executing our five key initiatives.

Increase profitability through ongoing diversification of revenue streams: For the twelve months ended December 31, 2018, the Company generated $16.6 million in revenue, or 33.3 percent of total operating revenue from fee-based products. These revenue sources include fees generated from saleable residential mortgage loans, retail deposit products, wealth management services, saleable business-based loans (small business and farm service) and the sale of our item processing subsidiary. For the twelve months ended December 31, 2017, the Company generated $17.2 million in revenue from fee-based products, or 37.2 percent of total operating revenue.

Strengthen our penetration in all markets served: Over our 116-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 Bowling Green, Columbus, Findlay, Toledo (Ohio) and Ft. Wayne (Indiana), our current market penetration is minimal but we believe our potential for growth is significant. We continue to seek to expand this presence and penetration in all of our markets.

Expand product utilization by new and existing customers: As of December 31, 2018, we served 29,562 households and provided 87,202 products and services 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. As of December 31, 2017, we served 28,590 households and provided 83,593 products and services to these households.

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, as demonstrated by the Company's leadership in the origination and servicing of residential mortgage loans. As of December 31, 2018, the Company serviced 7,586 residential mortgage loans with a principal balance of $1,084.7 million. As of December 31, 2017, the Company serviced 7,051 loans with a principal balance of $994.9 million.

Sustain asset quality: As of December 31, 2018, the Company's asset quality metrics remained strong. Specifically, total nonperforming assets were $4.0 million, or 0.40 percent of total assets. Total delinquent loans at December 31, 2018 were 0.65 percent of total loans. As of December 31, 2017, the Company had total nonperforming assets of $3.9

million, or 0.44 percent of total assets. Total delinquent loans at December 31, 2017 were 0.42 percent of total loans.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with generally accepted accounting principles in the United States and conform to general practices within the banking industry. The Company's significant accounting policies are described in detail in the notes to the Company's consolidated financial statements for the years ended December 31, 2018 and 2017. 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.

Deferred Tax Liability: The Company has evaluated its deferred tax liability to determine if it is more likely than not that the liability will be realized in the future. The Company's most recent evaluation has determined that the Company will more likely than not be able to realize the remaining deferred tax liability.

Income Tax Accounting: The Company files a consolidated federal income tax return. The provision for income taxes is based upon income in the consolidated financial statements, rather than amounts reported on our income tax return. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in rates on the deferred tax assets and liabilities is recognized as income or expense in the period that includes the enactment date.

Changes in Financial Condition

Total assets at December 31, 2018, were $986.8 million, compared to $876.6 million at December 31, 2017. Loans (excluding loans held for sale) were $771.9 million at December 31, 2018, compared to $696.6 million at December 31, 2017. Total deposits were $802.6 million at December 31, 2018, compared to $729.6 million at December 31, 2017.

Total equity was $130.4 million at December 31, 2018, up from $94.0 million at December 31, 2017. The $36.4 million increase in equity, which reflected a 38.8 percent increase over 2017, was primarily the result of a common capital raise completed in February 2018, which netted $28.0 million. In addition, net income less dividends increase retained earnings by $8.6 million for 2018.

Total loans	Years Ended December 31,			
($ in thousands)	2018	2017	% Change	
Commercial business & agriculture	$179,652	$153,988	16.7	%
Commercial real estate	340,791	332,154	2.6	%
Residential real estate	187,104	150,854	24.0	%
Consumer & other	64,336	59,619	7.9	%
Loans held for investment	$771,883	$696,615	10.8	%
Loans held for sale	$4,445	$3,940	12.8	%

Total deposits	2018	2017	% Change	
Noninterest bearing demand	$144,592	$135,592	6.6	%
Interest-bearing demand	130,628	131,079	-0.3	%
Savings & money market	285,870	245,111	16.6	%
Time deposits	241,462	217,818	10.9	%
Total deposits	$802,552	$729,600	10.0	%
Total shareholders’ equity	$130,435	$94,000	38.8	%

Loans held for investment increased $75.3 million, or 10.8 percent, to $771.9 million at December 31, 2018. The largest component of this increase was in residential real estate loans, which rose $36.3 million, followed by commercial loans, which rose $25.6 million.

Deposits increased $73.0 million, or 10.0 percent, to $802.6 million at December 31, 2018. Deposit growth for the year included $9.0 million in noninterest demand deposits and $39.6 million in money market deposits.

Stockholders’ equity at December 31, 2018, was $130.4 million or 13.2 percent of total assets compared to $94.0 million or 10.7 percent of total assets at December 31, 2017.

Asset Quality	Years Ended December 31,		
($ in thousands)	2018	2017	% Change
Nonaccruing loans	$2,906	$2,704	7.5 %
Accruing restructured loans (TDRs)	928	1,129	-17.8 %
OREO & repossessed assets	131	26	403.8 %
Nonperforming assets	3,965	3,859	2.7 %
Net charge offs	362	196	84.7 %
Loan loss provision	600	400	50.0 %
Allowance for loan losses	8,167	7,930	3.0 %
Nonperforming assets/total assets	0.40 %	0.44 %	-9.1 %
Net charge offs/average loans	0.05 %	0.03 %	66.7 %
Allowance/loans	1.06 %	1.14 %	-7.1 %
Allowance/nonperforming loans	213.02 %	206.89 %	3.0 %

Nonperforming assets consisting of loans, Other Real Estate Owned ("OREO") and accruing TDRs totaled $4.0 million, or 0.40 percent of total assets at December 31, 2018, an increase of $0.1 million or 2.7 percent from 2017. Net charge offs were up during 2018, at $0.36 million, which was a $0.17 million increase compared to 2017. The Company's loan loss allowance at December 31, 2018, now covers nonperforming loans at 213 percent, up from 207 percent at December 31, 2017.

Regulatory capital reporting is required for State Bank only, as the Company is now exempt from quarterly regulatory capital level measurement pursuant to the Small Banking Holding Company Policy Statement. As of December 31, 2018, State Bank met all regulatory capital levels required to be considered well-capitalized (See Note 15 to the Consolidated Financial Statements).

Earnings Summary – 2018 vs. 2017

Net income for 2018 was $11.6 million, and net income available to common shareholders was $10.7 million, or $1.51 per diluted share, compared with net income of $11.1 million and net income available to common of $10.1 million, or $1.74 per diluted share, for 2017. The Company's 2018 results reflect the issuance of 1.66 million new shares in the first quarter. The Company's 2017 results included a $1.7 million one-time reduction in tax expense due to the enactment in December 2017 of the TCJA. State Bank reported net income for 2018 of $12.9 million, which was up from the $12.3 million in net income in 2017. RDSI reported net income for 2018 of $0.1 million, compared to a net loss of $0.2 million reported for 2017.

Positive results for 2018 included loan growth of $75.3 million, and deposit growth of $73.0 million. The mortgage banking business line continues to contribute significant revenues, with residential real estate loan production of $342.1 million for the year, resulting in $6.9 million of revenue from gains on sale. The level of mortgage origination was up from the $315.8 million in 2017. The Company’s loans serviced for others ended the year at $1,084.7 million, up from $994.9 million at December 31, 2017.

Operating revenue was up compared to the prior year by $4.3 million, or 9.4 percent, due to higher margin income due to $75.3 million in balance sheet loan growth, in addition to the sale of our item processing business netted $0.4 million in revenue. Net interest margin on a fully tax equivalent basis (“FTE”) for 2018 was 3.95 percent, up 17 basis points from 2017.

Operating expense was up compared to the prior year by $3.3 million, or 10.4 percent, due to compensation and fringe benefit cost increases as a result of higher staffing levels. Net charge offs for 2018 of $0.4 million resulted in a loan loss provision of $0.6 million, which was up from the $0.2 million of chargeoffs and $0.4 million of loan loss provision in 2017.

Results of Operations

	Years Ended December 31,		
($ in thousands, except per share data)	2018	2017	% Change
Total assets	$986,828	$876,627	12.6 %
Total investments	90,969	82,790	9.9 %
Loans held for sale	4,445	3,940	12.8 %
Loans, net of unearned income	771,883	696,615	10.8 %
Allowance for loan losses	8,167	7,930	3.0 %
Total deposits	802,552	729,600	10.0 %
Total operating revenue	$49,891	$45,603	9.4 %
Net interest income	33,267	28,386	17.2 %
Loan loss provision	600	400	50.0 %
Noninterest income	16,624	17,217	-3.4 %
Noninterest expense	34,847	31,578	10.4 %
Net income	11,638	11,065	5.2 %
Net income available to common shareholders	10,663	10,090	5.7 %
Diluted earnings per share	1.51	1.74	-13.1 %

Net Interest Income

Net Interest Income	Years Ended December 31,		
($ in thousands)	2018	2017	% Change
Total net interest income	$33,267	$28,386	17.2 %

Net interest income was $33.3 million for 2018 compared to $28.4 million for 2017, an increase of $4.9 million or 17.2 percent. Average earning assets increased to $845.7 million in 2018, compared to $759.7 million in 2017, an increase of $86.0 million or 11.3 percent due to higher loan volume. The consolidated 2018 full year net interest margin (FTE) increased 17 basis points to 3.95 percent compared to 3.78 percent for the full year of 2017.

Provision for loan losses of $0.6 million was taken in 2018 compared to $0.4 million taken for 2017. The $0.2 million increase was due to the higher level of net charge offs. For 2018, net charge offs totaled $0.4 million, or 0.05 percent of average loans. This charge off level was higher than 2017, in which net charge offs were $0.2 million or 0.03 percent of average loans.

Noninterest Income	Years Ended December 31,			
($ in thousands)	2018	2017	% Change	
Wealth management fees	$2,871	$2,777	3.4	%
Customer service fees	2,670	2,671	0.0	%
Gains on sale of residential loans & OMSR's	6,870	7,132	-3.7	%
Mortgage loan servicing fees, net	1,296	1,316	-1.5	%
Gains on sale of non-mortgage loans	1,230	1,272	-3.3	%
Data service fees	-	738	N/M	
Gains on sale of securities	70	119	-41.2	%
Other	1,617	1,192	35.7	%
Total noninterest income	$16,624	$17,217	-3.4	%

Total noninterest income was $16.6 million for 2018 compared to $17.2 million for 2017, representing a decline of $0.6 million, or 3.5 percent, year-over-year. This decrease was driven by a 3.7 percent decrease in gains on sale of residential real estate loans and the sale of our item processing business. The Company sold $260.7 million of originated mortgages into the secondary market, which allowed our serviced loan portfolio to grow to $1,084.7 million at December 31, 2018 from $994.9 million at December 31, 2017. The higher servicing balance of the portfolio led to the 9.1 percent increase in mortgage loan serving income.

Noninterest Expense	Years Ended December 31,		
($ in thousands)	2018	2017	% Change
Salaries & employee benefits	$20,620	$18,646	10.6 %
Professional fees	1,848	1,774	4.2 %
Occupancy & equipment expense	5,286	5,020	5.3 %
Marketing expense	884	734	20.4 %
All other	6,209	5,404	14.9 %
Total noninterest expense	$34,847	$31,578	10.4 %

Total noninterest expense was $34.8 million for 2018 compared to $31.6 million for 2017, representing a $3.2 million, or 10.4 percent, increase year-over-year. Total full-time equivalent employees ended 2018 at 250, which was up 10 from year end 2017.

Salaries and benefits were driven by higher personnel in small business lending, compliance and operations. Marketing costs were higher due to expanded campaigns and higher sales staff needing support. Our professional fees were higher due to greater regulatory requirements based on market capitalization thresholds and costs associated with the sale of the DCM division of RDSI.

Earnings Summary – 2017 vs. 2016

Net income for 2017 was $11.1 million, and net income available to common shareholders was $10.1 million, or $1.74 per diluted share, compared with net income of $8.8 million and net income available to common of $7.8 million, or $1.38 per diluted share, for 2016. The Company’s 2017 results included a $1.7 million one-time reduction in tax expense due to the recently enacted TCJA. State Bank reported net income for 2017 of $12.3 million, which was up from the $9.7 million in net income in 2016. RDSI reported a net loss for 2017 of $0.2 million, compared to a net loss of $0.08 million reported for 2016.

Positive results for 2017 included loan growth of $52.2 million, and deposit growth of $56.5 million. The mortgage banking business line continued to contribute significant revenues, with residential real estate loan production of $315.8 million for the year, resulting in $7.1 million of revenue from gains on sale. The level of mortgage origination was down from the $382.8 million in 2016. The Company’s loans serviced for others ended the year at $994.9 million, up from $899.7 million at December 31, 2016.

Operating revenue was up compared to the prior year by $1.9 million, or 4.3 percent, due to SBA gains, wealth management income and $52.2 million in balance sheet loan growth. Net interest margin (FTE) for 2017 was 3.78 percent, up 3 basis points from 2016.

Operating expense was up compared to the prior year by $1.50 million, or 4.90 percent, due to compensation and fringe benefit cost increases as a result of higher staffing levels. Net charge offs for 2017 of $0.20 million resulted in a loan loss provision of $0.40 million, which was down from the $0.02 million and $0.75 million, respectively, in 2016.

Goodwill, Intangibles and Capital Purchases

The Company completed its most recent annual goodwill impairment test as of December 31, 2018. At December 31, 2018, the Company's reporting unit had positive equity and the Company elected to perform a qualitative assessment to determine if it was more likely than not that the fair value of the reporting unit exceeded its carrying value, including goodwill. The qualitative assessment indicated that it was more likely than not that the fair value of the reporting unit exceeded its carrying value, resulting in no impairment.

Management plans to purchase additional premises and equipment and improve current facilities to meet the current and future needs of the Company's customers. These purchases will include buildings, leasehold improvements, furniture and equipment. Management expects that cash on hand and cash generated from current operations will fund these capital expenditures and purchases.

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. These assets, excluding the borrowings, are commonly referred to as liquid assets. Liquid assets were $143.8 million at December 31, 2018, compared to $113.3 million at December 31, 2017.

The Company's commercial real estate, first mortgage residential, agricultural and multi-family mortgage portfolio of $579.9 million at December 31, 2018, can and is 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, 2018, all eligible commercial real estate, residential first, multi-family mortgage and agricultural loans were pledged under a 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 $98.9 million of additional borrowing capacity existed at December 31, 2018.

At December 31, 2018 and 2017, the Company had $41.0 and $38.0 million in federal funds lines available, respectively. The Company also had $42.3 million in unpledged securities at December 31, 2018 available 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 2018 and 2017 follows:

The Company experienced positive cash flows from operating activities in 2018 and 2017. Net cash from operating activities was $13.9 and $9.8 million for the years ended December 31, 2018 and 2017, respectively. Significant operating items for 2018 included gain on sale of loans of $8.1 million and net income of $11.6 million. Cash provided by the sale of loans held for sale were $275.6 million. Cash used in the origination of loans held for sale were $271.1 million.

The Company experienced negative cash flows from investing activities in 2018 and 2017. Net cash used in investing activities was $87.6 and $49.5 million for the years ended December 31, 2018 and 2017, respectively. The changes for 2018 include the purchase of available-for-sale securities of $29.3 million, and net increase in loans of $76.5 million. The changes for 2017 include the purchase of available-for-sale securities of $29.8 million and net increase in loans of $51.2 million. The Company had proceeds from repayments, maturities, sales and calls of securities of $20.2 and $36.5 million in 2018 and 2017, respectively. The Company purchased $3.0 million in bank owned life insurance in 2017 and had proceeds from life insurance contracts of $0.7 million.

The Company experienced positive cash flows from financing activities in 2018 and 2017. Net cash from financing activities was $95.5 and $49.3 million for the years ended December 31, 2018 and 2017, respectively. Positive cash flows of $72.9 and $56.5 million is attributable to the change in deposits for 2018 and 2017, respectively.

The Company uses an Economic Value of Equity ("EVE") analysis to measure risk in the balance sheet incorporating all cash flows over the estimated remaining life of all balance sheet positions. The EVE analysis calculates the net present value of the Company's assets and liabilities in rate shock environments that range from -400 basis points to +400 basis points. The likelihood of a decrease in rates is remote given the current interest rate environment and therefore, only the minus 100 & 200 basis point rate change was included in the EVE analysis for 2018. Due to the interest rate environment experienced for 2017, the minus 200 basis point rate change was not considered. The results of this analysis are reflected in the following table.

Economic Value of Equity
December 31, 2018
($ in thousands)

Change in rates	$ Amount	$ Change	% Change
+400 basis points	$213,477	$19,568	10.09 %
+300 basis points	210,068	16,158	8.33 %
+200 basis points	205,673	11,763	6.07 %
+100 basis points	200,400	6,490	3.35 %
Base Case	193,910	-	-
-100 basis points	184,172	(9,738)	-5.02 %
-200 basis points	170,293	(23,617)	-12.18 %

Economic Value of Equity
December 31, 2017
($ in thousands)

Change in rates	$ Amount	$ Change	% Change
+400 basis points	$182,859	$27,297	17.55 %
+300 basis points	177,619	22,058	14.18 %
+200 basis points	171,759	16,197	10.41 %
+100 basis points	164,348	8,786	5.65 %
Base Case	155,562	-	-
-100 basis points	145,678	(9,884)	-6.35 %

Tabular Disclosure of Contractual Obligations

The following table details the Company's contractual obligations as of December 31, 2018, 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 $16.0 million. Other debt obligations are comprised of Trust Preferred securities of $10.3 million and operating leases of $0.4 million. The other long-term liabilities include time deposits of $241.5 million.

($ in thousands)	Payment due by period				
Contractual obligations	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
Long-term debt obligations	$16,000	$-	$10,500	$5,500	$-
Other debt obligations	10,310	-	-	-	10,310
Operating lease obligations	405	184	199	22	-
Other long-term liabilities					
Reflected on the registrant’s balance sheet under GAAP	241,462	144,833	77,947	18,299	383
Total	$268,177	$145,017	$88,646	$23,821	$10,693

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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 FRB together with the OCC and the FDIC 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 2018 and 2017 the Company entered into interest rate swap agreements as an accommodation to certain loan customers (see Note 6 to the Consolidated 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, 2018. 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)	2019	2020	2021	2022	2023	Thereafter	Total
Rate sensitive assets							
Variable rate loans	$62,787	$27,542	$15,063	$13,284	$5,554	$44,520	$168,750
Average interest rate	5.76 %	5.70 %	5.62 %	5.39 %	5.27 %	4.93 %	5.47 %
Adjustable rate loans	36,058	29,329	28,495	25,167	23,607	229,420	372,076
Average interest rate	4.62 %	4.66 %	4.47 %	4.53 %	4.58 %	4.43 %	4.48 %
Fixed rate loans	31,493	27,142	17,795	29,618	18,744	106,266	231,057
Average interest rate	5.28 %	4.37 %	4.43 %	4.30 %	4.56 %	4.66 %	4.64 %
Total loans	130,338	84,013	61,352	68,069	47,905	380,206	771,883
Average interest rate	5.33 %	4.91 %	4.74 %	4.60 %	4.65 %	4.55 %	4.75 %
Fixed rate investment securities	15,292	13,204	12,310	7,478	9,677	30,774	88,735
Average interest rate	2.01 %	2.11 %	2.58 %	2.53 %	2.62 %	3.05 %	2.57 %
Variable rate investment securities	924	156	164	172	176	4,835	6,427
Average interest rate	-1.94 %	3.58 %	3.55 %	3.55 %	3.58 %	2.88 %	2.26 %
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	$146,554	$97,373	$73,826	$75,719	$57,762	$415,810	$867,045
Average interest rate	4.94 %	4.53 %	4.37 %	4.39 %	4.31 %	4.42 %	4.51 %
Rate sensitive liabilities							
Demand - noninterest bearing	$20,410	$17,528	$15,053	$12,929	$11,103	$67,569	$144,592
Demand - interest-bearing	15,541	13,691	12,062	10,627	9,364	69,343	130,628
Average interest rate	0.05 %	0.05 %	0.05 %	0.05 %	0.05 %	0.05 %	0.05 %
Money market accounts	22,743	19,891	17,400	15,217	13,311	92,864	181,426
Average interest rate	1.21 %	1.21 %	1.21 %	1.21 %	1.21 %	1.21 %	1.21 %
Savings	37,848	8,632	7,515	6,540	5,692	38,217	104,444

Average interest rate	0.48 %	0.48 %	0.48 %	0.48 %	0.48 %	0.48 %	0.48 %
Certificates of deposit	149,497	52,042	21,368	16,592	1,579	384	241,462
Average interest rate	1.77 %	1.89 %	1.84 %	2.49 %	0.92 %	2.53 %	1.85 %
Fixed rate FHLB advances	6,500	9,500	-	-	-	-	16,000
Average interest rate	1.85 %	1.84 %	0.00 %	0.00 %	0.00 %	0.00 %	1.84 %
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 %	4.59 %	4.59 %
Fed funds purchased, repos & other	15,184	-	-	-	-	-	15,184
Average interest rate	0.49 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.49 %
Total rate sensitive liabilities	$267,723	$121,284	$73,398	$61,905	$41,049	$278,687	$844,046
Average interest rate	1.24 %	1.19 %	0.88 %	1.03 %	0.51 %	0.65 %	0.96 %

Comparison of 2018 to 2017

($ in thousands)	First Year	Years 2 - 5	Thereafter	Total
Total rate sensitive assets:				
December 31, 2018	$146,554	$304,681	$415,810	$867,045
December 31, 2017	148,826	281,408	356,859	787,094
Increase (decrease)	$(2,272)	$23,273	$58,951	$79,951
Total rate sensitive liabilities:				
December 31, 2018	$267,723	$297,636	$278,687	$844,046
December 31, 2017	215,854	302,534	255,104	773,492
Increase (decrease)	$51,869	$(4,898)	$23,583	$70,554

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) FHLB 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 noninterest expense, which tends to rise during periods of general inflation.

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

Item 8. Financial Statements and Supplementary Data.

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

SB Financial Group, Inc.

Consolidated Balance Sheets

at December 31,

($ in thousands)

Assets	2018	2017
Cash and due from banks	$48,363	$26,616
Available-for-sale securities	90,969	82,790
Loans held for sale	4,445	3,940
Loans, net of unearned income	771,883	696,615
Allowance for loan losses	(8,167)	(7,930)
Premises and equipment, net	22,084	21,277
Federal Reserve and Federal Home Loan Bank Stock, at cost	4,123	3,748
Foreclosed assets held for sale, net	131	26
Interest receivable	2,822	1,825
Goodwill and other intangibles	16,401	16,411
Cash value of life insurance	16,834	16,479
Mortgage servicing rights	11,365	9,907
Other assets	5,575	4,923
Total assets	$986,828	$876,627
Liabilities and shareholders' equity		
Liabilities		
Deposits		
Non interest bearing demand	$144,592	$135,592
Interest bearing demand	130,628	131,079
Savings	104,444	103,267
Money market	181,426	141,844
Time deposits	241,462	217,818
Total deposits	802,552	729,600
Repurchase agreements	15,184	15,082
Federal Home Loan Bank advances	16,000	18,500
Trust preferred securities	10,310	10,310
Interest payable	909	592
Other liabilities	11,438	8,543
Total liabilities	856,393	782,627
Commitments & Contingent Liabilities		

Stockholders' Equity		
Preferred shares, no par value; authorized 200,000 shares; 2018 - 14,995 shares outstanding, 2017 - 15,000 shares outstanding	13,979	13,983
Common shares, no par value; 10,000,000 shares; 5,027,433 shares issued authorized 10,000,000 shares; 2018 - 6,694,598 shares issued, 2017 - 5,027,433 shares issued	40,485	12,569
Additional paid-in capital	15,226	15,405
Retained earnings	64,012	55,439
Accumulated other comprehensive loss	(552)	(141)
Treasury stock, at cost;		
(2018 - 191,348 common shares, 2017 - 234,787 common shares)	(2,715)	(3,255)
Total stockholders' equity	130,435	94,000
Total liabilities and stockholders' equity	$986,828	$876,627

See Notes to Consolidated Financial Statements

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SB Financial Group, Inc.

Consolidated Statements of Income

Years Ended December 31,

($ in thousands except per share data)	2018	2017
Interest Income		
Loans		
Taxable	$36,268	$29,792
Tax exempt	154	85
Securities		
Taxable	2,618	2,076
Tax exempt	439	527
Total interest income	39,479	32,480
Interest Expense		
Deposits	5,314	3,456
Repurchase agreements & other	37	15
Federal Home Loan Bank advances	460	320
Trust preferred securities	401	303
Total interest expense	6,212	4,094
Net Interest Income	33,267	28,386
Provision for loan losses	600	400
Net interest income after provision for loan losses	32,667	27,986
Noninterest Income		
Wealth management fees	2,871	2,777
Customer service fees	2,670	2,671
Gain on sale of mortgage loans & OMSR’s	6,870	7,132
Mortgage loan servicing fees, net	1,296	1,316
Gain on sale of non-mortgage loans	1,230	1,272
Data service fees	-	738
Net gain on sales of securities	70	119
Gain on sale of assets	35	6
Other	1,582	1,186
Total noninterest income	16,624	17,217
Noninterest Expense		
Salaries and employee benefits	20,620	18,646
Net occupancy expense	2,397	2,260
Equipment expense	2,889	2,760
Data processing fees	1,811	1,558
Professional fees	1,848	1,774

Marketing expense	884	734
Telephone and communications	495	462
Postage and delivery expense	286	454
State, local and other taxes	719	699
Employee expense	912	797
Other expenses	1,986	1,434
Total noninterest expense	34,847	31,578
Income before income tax	14,444	13,625
Provision for income taxes	2,806	2,560
Net income	$11,638	$11,065
Preferred Share Dividends	975	975
Net Income available to Common Shareholders	$10,663	$10,090
Basic Earnings Per Common Share	$1.72	$2.10
Diluted Earnings Per Common Share	$1.51	$1.74

See Notes to Consolidated Financial Statements

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Consolidated Statements of Comprehensive Income

Years Ended December 31,

($ in thousands)	2018	2017	2016
Net income	$11,638	$11,065	$8,784
Other comprehensive income:			
Available-for-sale investment securities:			
Gross unrealized holding loss arising in the period	(590)	(374)	(1,170)
Related tax benefit	124	126	398
Less: reclassification adjustment for gain realized in income	70	119	262
Related tax expense	(15)	(40)	(89)
Net effect on other comprehensive income	(411)	(169)	(599)
Total comprehensive income	$11,227	$10,896	$8,185

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

Years Ended December 31,

($ in thousands, except per share data)	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, January 1, 2018	$ 13,983	$ 12,569	$ 15,405	$ 55,439	$ (141)	$ (3,255)	$ 94,000
Net income				11,638			11,638
Common stock issuance (1,666,666 shares)		27,912					27,912
Conversion of preferred to common	(4)	4					-
Other comprehensive loss					(411)		(411)
Dividends on common, $0.32 per share				(2,090)			(2,090)
Dividends on preferred, $0.65 per share				(975)			(975)
Restricted stock vesting			(257)			257	-
Stock options exercised			(200)			392	192
Repurchased stock						(109)	(109)
Stock based compensation expense			278				278
Balance, December 31, 2018	$ 13,979	$ 40,485	$ 15,226	$ 64,012	$ (552)	$ (2,715)	$ 130,435
Balance, January 1, 2017	$ 13,983	$ 12,569	$ 15,362	$ 46,688	$ 51	$ (2,105)	$ 86,548
Net income				11,065			11,065
Reclassification of stranded tax effects due to TCJA				23	(23)		-
Other comprehensive loss					(169)		(169)
Dividends on common, $0.28 per share				(1,362)			(1,362)
Dividends on preferred, $0.65 per share				(975)			(975)
Restricted stock vesting			(144)			144	-
Stock options exercised			(116)			491	375
Stock buyback						(1,785)	(1,785)
Share based compensation expense			303				303
Balance, December 31, 2017	$ 13,983	$ 12,569	$ 15,405	$ 55,439	$ (141		