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".

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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

<u>Concentrations of Credit Risk</u>: 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. <u>Maturities and Sensitivities of Loans to Changes in Interest Rates:</u> 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:

	Allowance Amount	Percentage of Loans In Each Category to Total Loans		Allowance Amount	Percentage of Loans In Each Category to Total Loans		Allowance Amount	Percentage of Loans In Each Category to Total Loans		Allowance Amount	Percentage of Loans In Each Category to Total Loans		Allowance Amount	Percentage of Loans In Each Category to Total Loans	
($ in thousands)	2018			2017			2016			2015			2014		
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

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.

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 adjustab