SB FINANCIAL GROUP, INC.
Form 424B3
November 12, 2014
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Filed Pursuant to Rule 424(b)(3)
Registration No. 333-198879

PROSPECTUS

Up to 1,500,000 Depositary Shares Each Representing a 1/100th Interest in a

6.50% Noncumulative Convertible Perpetual Preferred Share, Series A

We are offering up to 1,500,000 depositary shares, each representing a 1/100th ownership interest in a 6.50% Noncumulative Convertible Perpetual Preferred Share, Series A, of SB Financial Group, Inc. with a liquidation preference of $1,000.00 per share (equivalent to $10.00 per depositary share) (the Series A Preferred Shares). We are offering the depositary shares for sale to the public in the following descending order of priority: (1) to our existing shareholders; (2) to our customers and members of the local communities we serve; and (3) to the extent that depositary shares remain available for purchase, in a syndicated offering managed by Keefe, Bruyette & Woods, Inc. See Plan of Distribution Offering Priorities.

We must sell a minimum of 1,000,000 depositary shares to complete the offering. The minimum number of depositary shares you may purchase in the offering is 100 depositary shares. The maximum number of depositary shares that you may purchase in the offering is the lesser of (i) 250,000 depositary shares or (ii) the number of depositary shares, assuming conversion of such depositary shares into our common shares, whereby your total beneficial ownership of our common shares (including any common shares currently owned) would not exceed 5% of our outstanding common shares after the offering.

The offering is expected to expire at 3:00 p.m., Eastern Time, on December 12, 2014. We may extend this expiration date without notice to you until January 26, 2015. Once submitted, orders are irrevocable. However, if the offering is extended beyond January 26, 2015, or the number of depositary shares to be sold is increased to more than 1,500,000 depositary shares or decreased to fewer than 1,000,000 depositary shares, we will resolicit subscribers, giving them an opportunity to change or cancel their orders. Funds received during the offering will be placed in a segregated account at U.S. Bank, which will serve as our escrow agent for the offering. If the closing of the offering does not occur for any reason, the funds will be promptly returned without interest. **U.S. Bank is acting only as an escrow agent in connection with the offering of securities described herein, and has not endorsed, recommended or guaranteed the purchase, value or repayment of such securities.**

As a holder of our depositary shares, you will be entitled to all proportional rights, preferences and privileges of the Series A Preferred Shares, including dividend, voting, conversion and liquidation rights. You must exercise these rights through the depositary.

We expect to pay noncumulative dividends on the Series A Preferred Shares (and, therefore, the depositary shares) at the rate of 6.50% of the liquidation preference per year. Such dividends will be payable quarterly in cash, when, as and if declared by our board of directors, on March 15, June 15, September 15 and December 15 of each year, commencing March 15, 2015. Dividends for the first dividend period ending March 15, 2015, if any, will be for less than a full quarter if the offering closes after December 15, 2014, and will be for greater than a full quarter if the offering closes before December 15, 2014. If our board of directors does not declare a dividend for any quarterly dividend period, you will not be entitled to receive any dividend for that quarterly dividend period and the undeclared dividend will not accumulate.

Each depositary share will be convertible at your option at any time into our common shares equal to the quotient achieved when $10.00 is divided by the conversion price then in effect. The initial conversion price is $10.34, which may be adjusted as described in this prospectus. We may, at our option, convert each depositary share into that number of our common shares equal to the quotient achieved when $10.00 is divided by the conversion price then in effect, on or after the fifth anniversary of the issue date of the Series A Preferred Shares. We may exercise this option only if (i) the closing sale price for our common shares equals or exceeds 120% of the conversion price then in effect for at least 20 trading days in a period of 30 consecutive trading days (including the last trading day of such period) ending on the fifth trading day immediately prior to our issuance of a press release announcing our exercise of this option; and (ii) we have paid full dividends on the depositary shares for four consecutive quarters prior to the issuance of the press release.

All of the depositary shares we are selling in this offering, and the common shares issued upon conversion of the depositary shares, if any, will be freely tradable without restriction under the Securities Act of 1933, as amended, except for shares purchased by our affiliates.

We have applied for the depositary shares to be listed on the NASDAQ Capital Market under the symbol SBFGP. If the application for listing is approved, trading of the depositary shares is expected to commence within 30 days following the initial issuance of the depositary shares.

Our common shares are currently listed on the NASDAQ Capital Market under the symbol SBFG. The last reported sale price of our common shares on the NASDAQ Capital Market on November 5, 2014 was $8.80.

Investing in our depositary shares involves risks. You should read the Risk Factors section beginning on page 22 of this prospectus and in our Annual Report on Form 10-K for the year ended December 31, 2013, before making a decision to invest in the depositary shares.

	Per Depositary Share	Total Minimum Offering	Total Maximum Offering
Public offering price	$ 10.000	$ 10,000,000	$ 15,000,000
Placement agent fee in shareholder and customer/local community offerings [1]	$ 0.175	$ 175,000	$ 262,500
Placement agent fee in syndicated offering [1]	$ 0.275	$ 275,000	$ 412,500
Proceeds to us, before expenses	$ 9.550	$ 9,550,000	$ 14,325,000

(1) Represents fees payable to Keefe, Bruyette & Woods, Inc. equal to 3.5% of the aggregate dollar amount of depositary shares sold in the shareholder and customer/local community offerings and 5.5% of the aggregate dollar amount of depositary shares sold in the syndicated offering. We have assumed that 50% of the depositary shares will be sold in the shareholder and customer/local community offerings and 50% of the depositary shares will be sold in the syndicated offering. See Plan of Distribution Marketing and Distribution; Compensation for a discussion of Keefe, Bruyette & Woods, Inc. s compensation in this offering.

None of the Securities and Exchange Commission (the SEC), the Federal Deposit Insurance Corporation (the FDIC), the Board of Governors of the Federal Reserve System (the Federal Reserve), any state or other securities commission or any other federal or state bank regulatory agency has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The depositary shares are not savings accounts, deposits or other obligations of any bank, thrift or other depositary institution and are not insured or guaranteed by the FDIC or any other governmental agency or instrumentality.

The depositary shares are being offered and sold in a best efforts underwritten offering. We are offering the depositary shares through a placement agent, Keefe, Bruyette & Woods, Inc. (KBW). KBW is not required to sell any specific number or dollar amount of depositary shares but will use its best efforts to sell the depositary shares offered.

We will issue the depositary shares in book-entry or uncertificated form, except under limited circumstances. Our depositary and transfer agent, Computershare, Inc. and its wholly-owned subsidiary, Computershare Trust Company, N.A., will deliver written confirmation to purchasers of depositary shares in the offering.

Keefe, Bruyette & Woods

A Stifel Company

The date of this prospectus is November 10, 2014.

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ABOUT THIS PROSPECTUS

You should read this prospectus and the additional information described under the headings Where You Can Find More Information and Incorporation of Certain Information by Reference before you make a decision to invest in the depositary shares. In particular, you should review the information under the heading Risk Factors set forth on page 22 of this prospectus and the information under the heading Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2013, which is incorporated by reference herein. You should rely only on the information contained or incorporated by reference in this prospectus and any related free writing prospectus required to be filed with the SEC. We have not authorized any person to provide you with different or additional information. You should assume that the information in this prospectus, any such free writing prospectus and the documents incorporated by reference herein and therein is accurate only as of its date or the date which is specified in those documents. Our business, financial condition, results of operations and prospects may have changed since any such date.

Neither we nor the placement agent are making an offer to sell the depositary shares (or the underlying Series A Preferred Shares) in any manner in which, or in any jurisdiction where, the offer or sale thereof is not permitted.

Unless the context otherwise requires, references to SB Financial, the Company, we, our and us and similar term mean SB Financial Group, Inc. and its subsidiaries. Also, as used in this prospectus, State Bank refers to our wholly-owned banking subsidiary, The State Bank and Trust Company.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). 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 regarding future customer attraction or retention; and (e) statements of assumptions underlying these statements. Forward-looking statements reflect our expectations, estimates or projections concerning future results or events. These statements are generally identified by the use of forward-looking words or phrases such as anticipates , believes , plans , intends , expects , projects , estimates , should , may , would be , will allow , will lik continue , will remain , or similar expressions.

Forward-looking statements involve risks and uncertainties. Actual results may differ materially from those predicted by the forward-looking statements because of various factors and possible events, including those risk factors identified below. These risks and uncertainties include, but are not limited to, risks and uncertainties inherent in the national and regional banking industry, changes in economic conditions in the market areas in which the Company and its subsidiaries operate, changes in policies by regulatory agencies, changes in accounting standards and policies, changes in tax laws, fluctuations in interest rates, demand for loans in the market areas in which the Company and its subsidiaries operate, increases in FDIC insurance premiums, changes in the competitive environment, losses of significant customers, geopolitical events, the loss of key personnel and other risks identified from time-to-time in the Company s other public documents on file with the SEC, including those risks set forth under the section captioned Risk Factors in this prospectus. 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.

The forward-looking statements included or incorporated by reference in this prospectus are only made as of the date of this prospectus or the respective document incorporated by reference herein, as applicable, and we disclaim any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances, except as required by law. See the section captioned Where You Can Find More Information.

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All subsequent written and oral forward-looking statements concerning the matters addressed in this prospectus and attributable to us or any person acting on our behalf are qualified by these cautionary statements.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Exchange Act and file with the SEC proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as required of a U.S. listed company. You may read and copy any document we file at the SEC s public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC s web site at www.sec.gov or on our website at www.yoursbfinancial.com. However, the information on, or that can be accessible through, our website does not constitute a part of, and is not incorporated by reference in, this prospectus. Written requests for copies of the documents we file with the SEC should be directed to: SB Financial Group, Inc., P.O. Box 467, Defiance, Ohio 43512, Attention: Anthony V. Cosentino, telephone number (419) 785-3663, email SBFG.IR@YourStateBank.com.

This prospectus is part of a registration statement on Form S-1 filed by us with the SEC under the Securities Act. As permitted by the SEC, this prospectus does not contain all the information in the registration statement filed with the SEC. For a more complete understanding of this offering, you should refer to the complete registration statement, including exhibits, on Form S-1 that may be obtained as described above. Statements contained in this prospectus about the contents of any contract or other document are not necessarily complete. If we have filed any contract or other document as an exhibit to the registration statement or any other document incorporated by reference in the registration statement, you should read the exhibit for a more complete understanding of the contract or other document or matter involved. Each statement regarding a contract or other document is qualified in its entirety by reference to the actual contract or other document.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference the information that we file with it, and the information incorporated by reference is an important part of this prospectus. We incorporate by reference the following documents:

- the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013;

- the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014;

- the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2014;

- the Company s Current Reports on Form 8-K filed on February 24, 2014, April 24, 2014 (with respect to information reported under Item 5.07), September 11, 2014 and October 27, 2014 (with respect to information reported under Item 3.01); and

- the Company s Definitive Proxy Statement related to its 2014 annual meeting of shareholders, as filed with the SEC on March 19, 2014.

Any statement contained in a document incorporated by reference into this prospectus shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any subsequently filed document that is also incorporated by reference in this prospectus modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We will provide without charge, upon written or oral request, a copy of any or all of the documents that are incorporated by reference into this prospectus and a copy of any or all other contracts or documents which are referred to in this prospectus. Requests should be directed to: SB Financial Group, Inc., P.O. Box 467, Defiance, Ohio 43512, Attention: Anthony V. Cosentino, telephone number (419) 785-3663, email SBFG.IR@YourStateBank.com.

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SUMMARY

This summary highlights selected information contained elsewhere or incorporated by reference in this prospectus. Because it is a summary, it may not contain all the information that is important to you in making your investment decision to purchase the depositary shares. You should carefully read this entire prospectus, as well as the information incorporated by reference herein, before deciding whether to invest in the depositary shares. You should carefully consider the section entitled Risk Factors in this prospectus and the documents incorporated by reference herein to determine whether an investment in the depositary shares is appropriate for you.

The Company

SB Financial Group, Inc. (SB Financial) is an Ohio corporation and a bank holding company registered under the Bank Holding Company Act of 1956, as amended. We were incorporated under Ohio law in 1983, and we changed our name from Rurban Financial Corp. to SB Financial Group, Inc. effective April 18, 2013. Through our wholly-owned subsidiaries, we are engaged in a variety of activities, including commercial and retail banking, item processing, insurance, and wealth management and trust services.

Our banking subsidiary, State Bank, is an Ohio state-chartered bank that offers a full range of commercial banking services, including checking accounts, savings accounts, money market accounts and time certificates of deposit; automatic teller machines; commercial, consumer, agricultural and residential mortgage loans; personal and corporate trust services; commercial leasing; bank credit card services; safe deposit box rentals; Internet and telephone banking; and other personalized banking services. The trust and financial services division of State Bank offers various trust and financial services, including asset management services for individuals and corporate employee benefit plans, as well as brokerage services through Cetera Investment Services, an unaffiliated company. State Bank presently operates 16 banking centers, all located within the Ohio counties of Allen, Defiance, Fulton, Lucas, Paulding, Wood and Williams, and one banking center located in Allen County, Indiana. State Bank also presently operates three loan production offices, two in Franklin County, Ohio and one in Steuben County, Indiana. At June 30, 2014, State Bank had 193 full-time equivalent employees.

Our item processing subsidiary, Rurbanc Data Services, Inc. dba RDSI Banking Systems (RDSI), has been in operation since 1964 and became an Ohio corporation in June 1976. RDSI has one operating location in Defiance, Ohio. In September 2006, RDSI acquired Diverse Computer Marketers, Inc. (DCM) which was merged into RDSI effective December 31, 2007 and now operates as a division of RDSI doing business as DCM . DCM has one operating location in Lansing, Michigan providing item processing and related services to community banks located primarily in the Midwest. At June 30, 2014, RDSI had 8 full-time equivalent employees.

Our principal executive offices are located at 401 Clinton Street, Defiance, Ohio 43512, and our telephone number is (419) 783-8950. Our website address is www.yoursbfinancial.com. The information on our website is not a part of or incorporated by reference in this prospectus.

Business and Strategy

We are a diversified financial services holding company with total consolidated assets of approximately $662.5 million, total net loans of approximately $499.6 million, total deposits of approximately $524.1 million and total shareholders equity of approximately $59.0 million at June 30, 2014. Through our banking subsidiary, State Bank, we provide a full range of financial services for consumers and small businesses, including wealth management, mortgage banking and commercial and agricultural lending, through 16 banking centers in seven Northwest Ohio counties and one center in Fort Wayne, Indiana, as well as three loan production offices, two located in Columbus, Ohio, and one in

Angola, Indiana. Through RDSI, we provide item processing services to 23 community banks located primarily in the Midwest.

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Our focus and strategic goal is to grow our organization into a top-quartile performing financial services company. The following is a summary of the key initiatives that we have adopted for the next three years to achieve our strategic goal:

Increase profitability through ongoing diversification of revenue streams. For the six months ended June 30, 2014, the Company generated approximately 37% of our revenue from fee-based business lines and other noninterest income. These revenue sources include fees generated from retail deposit products, assets under management (AUM) in State Bank s wealth management division, saleable residential mortgage loans, saleable business-based loans (SBA and FSA), and fees generated by RDSI, our wholly-owned item processing subsidiary. The following is a break-down of our non-interest income sources for the six months ended June 30, 2014:

Deposit Products 22%

Assets Under Management (AUM) Fees 22%

Mortgage Lending 37%

Data Service 11%

Other 8%

During 2014, we restructured the retail deposit products offered by State Bank to generate additional revenue and further increase our non-interest income while streamlining our product offerings. As part of this initiative, we launched four new Rewards Checking products in January 2014, and we migrated all of our retail checking accounts from 22 existing products to the four new Rewards Checking products in June 2014. Our new Rewards Checking product lineup provides State Bank the opportunity to reward its customers with ATM refunds, cash back and higher interest-rates if they use certain qualifying products and services (such as electronic banking) or if they maintain certain relationship balances. Customers who do not meet the utilization or balance requirements under the new Rewards Checking products are required to pay a monthly service fee. We plan to implement a similar strategy in the business account sector during the fourth quarter of 2014 to more efficiently and effectively service our approximately 3,000 commercial demand deposit accounts.

In our wealth management division, our assets under management (AUM) at December 31, 2013 were $345.5 million, generating $2.7 million in revenue, or 0.79% of average AUM, during the year ended December 31, 2013. We have experienced modest growth in our AUM over the past five years, increasing from $278.1 million at December 31, 2008 to $345.5 million at December 31, 2013, although our AUM decreased to $332.3 million at June 30, 2014. We are focused on increasing our efforts to grow this business line in each of our newer, higher-growth markets like Toledo and Columbus, Ohio and Ft. Wayne, Indiana, where our current market penetration is minimal. In the second quarter of this year, we added a seasoned executive to reorganize our wealth management division, drive sales leadership and grow AUM.

In 2006, State Bank s servicing portfolio of sold residential mortgage loans totaled $26 million. As of June 30, 2014, this portfolio stands at $627 million and generates approximately $1.6 million in revenue annually. The increase in our residential mortgage loan volume has not only delivered progressively more non-interest income, but it has been and continues to be critical to expanding our franchise by providing a gateway into new households for which we can potentially deliver additional financial services such as retail deposit products, home equity lines of credit and credit cards. During the first six months of 2014, only 5% of our $100 million residential mortgage loan volume came from refinancing current clients. In contrast, during 2013, over 19% of our volume came from refinanced loans.

A strategy we have embraced, and one that has begun to yield results, is the production and sale of government guaranteed loans, including SBA and FSA guaranteed loans. In 2013, our gains on sale of these loans were $585,000. For the first six months of 2014, our gains on sale of these loans are significantly lower at

$107,000, but we have a pipeline of approximately $5 million that has the potential to generate additional gains of approximately $400,000, or in aggregate, $507,000 during 2014. We remain committed to growing this area of non-interest income and have dedicated additional personnel and resources to building this key piece of our business. These programs provide us the opportunity to continue to grow and diversify top-line revenue while also providing yet another service to clients to aid them in their own growth.

RDSI currently generates approximately $1.6 million in annualized fee-based revenue, based on year to date revenue as of June 30, 2014. These fees originate from servicing 23 client banks item processing needs and from converting electronic sources of data to paper statements for customers of our client banks. Prior to 2010, RDSI was a third-party data services provider for 70+ clients, which included network services. However, due to a failed divestiture in 2010, RDSI was unable to continue providing data processing and network services. This loss of data processing and network service clients and business resulted in a substantial reduction in RDSI s revenue from its peak of $20.2 million in 2008 to the $1.6 million annual revenue business it represents as of June 30, 2014.

Collectively, the foregoing lines of business (i.e., fee-based products and other noninterest income) have generated, on average, 47% of the Company s total consolidated revenue over the last five years (2009 2013). In view of the challenges associated with the decline of traditional net interest margins, we seek to continue to strengthen our position as a leader, among peers, in generating non-interest income.

Continued growth and diversification of our loan portfolio.

Our loan portfolio over the last several years has grown as follows:

Loan Growth by Loan Type

(Dollars in thousands)

	Six months ended June 30,		**Year ended December 31,**		
	2014	**2013**	**2013**	**2012**	**2011**
	(unaudited)				
Loan Type					
Commercial real estate	$ 10,523	$ (1,596)	$ 3,909	$ 13,563	$ 9,939
Residential real estate	5,434	5,433	11,761	203	2,881
Commercial (1)	7,056	3,312	3,877	3,680	5,598
Consumer & Other	1,546	(2,779)	(2,567)	(526)	(1,007)
Agriculture	4,265	(3,724)	(3,066)	3,915	(2,401)
Portfolio Growth (%)	6.0%	0.1%	3.0%	4.7%	3.5%

(1) Includes deferred loan fees, premiums and discounts.

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The above loan growth (less loans held-for-sale and in process) originated from the following markets (in thousands):

Loan Growth by Market

(Dollars in thousands)

	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
Market	(unaudited)				
Toledo Region	$ 5,108	$ (1,423)	$ 11,188	$ 6,398	$ (3,783)
Fulton/Williams Region	4,450	(3,886)	(2,971)	(4,997)	1,973
Defiance/Paulding Region	7,352	4,933	(2,553)	8,831	2,363
Ft. Wayne Region	(1,752)	(1,788)	(4,138)	(111)	(2,914)
Lima Region	(1,354)	(6,002)	(8,258)	2,356	2,936
Columbus Region	15,020	8,812	20,646	8,358	14,435
Portfolio Growth (%)	6.0%	0.1%	3.0%	4.7%	3.5%

We are focused on growing our loan portfolio not only in each of our more traditional markets (Northwest Ohio) but also in our newer, lower-share markets (Toledo, Ft. Wayne, and Columbus) which have higher growth potential. Our strategy has been to place higher-level market leaders in these distinctly unique markets with the expectation that a decentralized delivery of holistic client care will produce progressively better results than that of larger regional competitors who deploy a more centralized managerial approach. Our Columbus and Toledo Regions have comprised the majority of our loan growth in the past few years and have been a key initiative in the growth of our loan portfolio. Our expansions into each market have been key to our ability to grow our loan portfolio. We have also realized growth in some of our core markets, most notably in our Defiance/Paulding Region, since 2011, as reflected in the table above. In addition to the diversity of growth across geographic regions, we have realized growth in a variety of loan segments, particularly as the economy continues to emerge from the financial crisis of a few years ago complementing our already diverse loan portfolio.

In addition to the segment and market growth identified above, a key initiative over the last several years has been to identify, originate and sell government enhanced credits. These include residential real estate loans for the secondary market, business loans enhanced with SBA guarantees and long-term agriculture credits bearing an FSA endorsement. This strategy has played a significant role in enabling us to deliver non-interest income for the six months ended June 30, 2014, as a percentage of total revenue, of approximately 37%. The following table identifies gross loans originated in our markets.

Loan Sale Gains by Type of Loan Sold

(Dollars in thousands)

	Six months ended June 30,		Year ended December 31,		
	2014	2013	2013	2012	2011
Loan Type	(unaudited)				
Residential	$ 1,783	$ 2,934	$ 5,066	$ 6,284	$ 3,620
SBA	19	25	358	90	71

FSA	88	213	227	174	137
Total Gains	$ 1,890	$ 3,172	$ 5,651	$ 6,548	$ 3,828

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Strengthen our penetration in all markets served. Our deposit market share is approximately as follows for the counties currently served by State Bank:

County	Deposit Market Share
Defiance County (Ohio)	23.2%
Paulding County (Ohio)	21.0%
Williams County (Ohio)	15.3%
Fulton County (Ohio)	6.9%
Wood County (Ohio)	4.6%
Allen County (Ohio)	2.2%
Lucas County (Ohio)	0.2%
Allen County (Indiana)	0.1%
Franklin County (Ohio)	0.0%

Source: FDIC Deposit Market Share Report (June 30, 2013).

Over our 112-year history of continuous operation in Northwest Ohio, we have established a significant presence in our traditional markets in Defiance, Paulding, Fulton and Williams Counties in Ohio. Conversely, in our newer markets like Allen County (Ft. Wayne, Indiana), Franklin County (Columbus, Ohio), and Wood and Lucas Counties (Toledo, Ohio), our current market penetration is minimal but we believe our potential for growth is significant. In addition to our focus on increasing our lending, as discussed above, our goal is to continue to increase our deposit market share, particularly in our newer markets, with an emphasis on attracting the more traditional, lower-cost transactional deposit accounts.

Expand product service utilization by new and existing clients. A key strategy for our Company is to continue to deepen our relationship with each of our clients. As of June 30, 2014, we served 27,910 households and provided 68,659 services for a services-per-household (SPH) of 2.46. Our strategy is to continue to expand the scope of our relationship with each client household and increase our SPH. An initiative we have implemented this year to execute on this strategy is the appointment of a Client Experience Officer. The primary role for this new management position is for the Client Experience Officer to work interdependently with each of our business line leaders and regional executives in order to optimize the potential number of SPH. Should our efforts fall short on cross-sells at account inception, our dynamic on-boarding process, led by our Client Experience Officer, is tasked with bridging the gap. We have implemented well-defined parameters for methodical client contact to enable us to grow our franchise in our more mature, traditional markets. As of June 30, 2014, we had increased our number of households served to 27,910; up from 27,196 at year-end 2013.

Proactively identifying client needs is a key ingredient of our value proposition. Over the past several years, our State Bank team has adopted a holistic approach to client care. To this end, we are focused on providing 100% of our clients financial service needs. On average, over a six-year timeframe (2008 2013), we have identified 2,091 referrals to related lines of business, closed 885 of these referrals and generated approximately $64.8 million in bank business (loans, deposits, AUM) from these referrals. During the first six months of 2014, we identified 1,003 referrals, closed 453 of these referrals and generated approximately $17.8 million in new bank business (loans, deposits, AUM) from these referrals. Our culture and commitment to client care drives our passion for improving both the scale and scope of our operation.

Deliver gains in operational excellence. One of the key strategic themes identified by our management is to seamlessly and consistently deliver operational excellence. By executing on this theme, we believe that we are better positioned to deliver our vision of becoming and remaining a high-performance ($\geq 75^{th}$ Percentile) financial services company.

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At December 31, 2006, we serviced approximately $26 million in sold residential mortgage loans. As of June 30, 2014, we serviced 4,710 sold residential mortgage loans totaling over $627 million. We have established State Bank as a leader in our area in the origination of saleable residential mortgage loans and have put in place the support staff that we believe will sustain this initiative.

We continue to reassess our retail delivery channels. Since 2006, we have closed six retail offices as in-store transactions declined, on average, from over 100,000 to less than 74,000 monthly. Conversely, we have increased our investment in our electronic banking platform, which has yielded nearly 300,000 transactions monthly during the first six months of 2014, up from 225,000 transactions monthly for the first six months of 2011. This more cost-effective delivery channel provides the foundation for operational excellence with a more dynamic, robust, anywhere-anytime banking platform.

Sustain our asset quality. Asset quality is and continues to be the centerpost for all other initiatives at SB Financial. For the Company to become a top-quartile performing financial services company, it is imperative that we achieve and maintain top-quartile asset quality metrics. Reflecting our top-quartile performance, as of June 30, 2014, our nonperforming assets stood at $6.2 million, or 0.93% of total assets, our past due loans (past due 30 days or more) were 0.59% of total loans, and our loan loss reserve was 116% of non-performing loans. In addition, our net charge-offs for the first six months of 2014 totaled $546,000, or 0.22% annualized of total loans.

We believe that continued loan growth is critical for performance improvement at State Bank. Through the first six months of 2014, our organic loan growth (less held-for-sale mortgages) was $29 million, or 12% annualized over year-end. To ensure our portfolio performance remains a strength of our company, our loan quality officer annually reviews each relationship with aggregate debt greater than $250,000.

Improve efficiency and leverage our current expense structure. With our current 16-office infrastructure, our efficiency ratio (calculated as total noninterest expense less intangible expense as a percentage of net interest income plus noninterest income) was 78.1% as of June 30, 2014, which was marginally higher than our peer median, and higher than our efficiency ratio of 74.4% as of December 31, 2013 and 75.5% as of December 31, 2012. We have improved our level of expenses over the past several years, in part, by closing several of our less cost-effective retail offices, including a retail office in Defiance, Ohio which was closed in June 2014. Through continued loan growth and resulting margin revenue, coupled with a potential expansion of our fee-based revenue from our wealth management division and residential mortgage loan servicing portfolio, we believe that we can further leverage our current expense structure and improve our efficiency.

Market Area and Competition

We serve the markets of Northwest Ohio, Northeast Indiana and extreme southern Michigan. Our emphasis over the past several years has been to leverage our competitive strengths into newer markets with higher growth potential like Toledo, Ft. Wayne and Columbus, as many of our older, traditional markets in Northwest Ohio are more mature and reflect lower population growth potential and hence, opportunity. While some counties where we operate reflect little or no population growth, various towns and cities within those counties reveal population expansion. Below is a ranking of the population growth rate of the counties with State Bank locations according to 2010 U.S. Census Data.

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County	*Population Growth (%)*	*State Rank(1)*
Ohio		
Franklin	+8.8	12th
Wood	+3.7	31st
Fulton	+1.5	41st
Defiance	-1.2	63rd
Allen	-2.0	69th
Lucas	-2.9	71st
Paulding	-3.3	75th
Williams	-3.9	80th
Indiana		
Allen	+7.1	20th

(1) Out of 88 counties in Ohio and 92 counties in Indiana.

Ohio Economy/Market

Ohio s geographic location has proven to be an asset for economic growth and expansion. Based on information reported by the Ohio Development Services Agency, Office of Research (available at http://development.ohio.gov):

Ohio is seventh in the nation for total population with approximately 11,570,000 people concentrated in 14 metropolitan areas and 33 micropolitan areas. The largest metropolitan area in Ohio is the Cleveland-Elyria Metropolitan Statistical Area with 2,077,240 people. Other areas with an excess of 500,000 individuals are Akron, Cincinnati, Columbus, Dayton, Toledo, and Youngstown.

Ohio s average per capita income for 2013 was $40,865. Ohio s unemployment rate was 5.7% in July 2014 compared to 7.5% in July 2013. The U.S. national rate for July 2013 was 6.2%. Total employment in Ohio is expected to increase 9.3% over the 10-year period from 2010 to 2020, a projected gain of 498,100 jobs.

Ohio s gross domestic product was $565.3 billion in 2013, making Ohio the seventh largest state economy.

Ohio ranks fourth among the 50 states in manufacturing gross domestic product. Ohio s leading industry is manufacturing, employing 673,800 people, and leads the nation in the production of plastics and rubber, fabricated metals, and electrical equipment and appliances. Ohio is a leading producer of steel, autos and trucks. Roughly 54% of the state s manufacturing output consists of durable goods. The state s two leading export commodities are motor vehicles and machinery, shipping products to 210 countries, accounting for 3.1% of total U.S. exports. Ohio merchandise exports were $50.5 billion in 2013.

Ohio s private sector is comprised of 730,393 self-employed firms and 190,184 employer firms, according to the U.S. Small Business Administration. About 3,700 firms employ 500+ workers. Small businesses employing one or more workers account for 20% of all firms and employ 48% of the workforce. Self-employed or non-employer firms comprise 78% of all businesses.

Competition

We experience significant competition in attracting depositors and borrowers in our markets. In our seven-county primary market area (consisting of Allen, Defiance, Fulton, Lucas, Paulding, Williams and Wood Counties in Ohio), State Bank ranks ninth in deposit market share (4.04%) and competes with a number of national, regional and community financial institutions, including the following:

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The Huntington National Bank The Huntington National Bank is a large, regional financial institution headquartered in Columbus, Ohio with total assets of approximately $63.7 billion as of June 30, 2014. Huntington National Bank has a total of 47 offices located within our primary market area. The Huntington National Bank ranks first in deposit market share (20.00%) in our primary market area. Huntington National Bank acquired Sky Bank, headquartered in Bowling Green, Ohio, during the third quarter of 2007.

Fifth Third Bank Fifth Third Bank is a large, regional financial institution headquartered in Cincinnati, Ohio with total assets of approximately $130.2 billion as of June 30, 2014. Fifth Third Bank has a total of 37 offices located within our primary market area. Fifth Third Bank ranks second in deposit market share (18.17%) in our primary market area.

Key Bank National Association Key Bank is a large, regional financial institution headquartered in Cleveland, Ohio with total assets of approximately $89.0 billion as of June 30, 2014. Key Bank has a total of 26 offices located within our primary market area. Key Bank ranks third in deposit market share (9.74%) in our primary market area.

First Federal Bank of the Midwest First Federal Bank of the Midwest is a community bank headquartered in Defiance, Ohio with total assets of approximately $2.1 billion as of June 30, 2014. First Federal Bank of the Midwest has a total of 16 offices located within our primary market area. First Federal Bank of the Midwest ranks fourth in deposit market share (7.98%) in our primary market area.

PNC Bank, National Association PNC Bank is a large, regional/national financial institution headquartered in Pittsburgh, Pennsylvania with total assets of approximately $316.7 billion as of June 30, 2014. PNC has a total of 20 offices located in our primary market area. PNC Bank ranks fifth in deposit market share (6.66%) in our primary market area. PNC Bank acquired National City Bank, headquartered in Cleveland, Ohio, during the fourth quarter of 2008.

RBS Citizens, National Association RBS Citizens is a large, regional financial institution based in Rhode Island with total assets of approximately $100.6 billion as of June 30, 2014. RBS Citizens has a total of 19 offices located in our primary market area. RBS Citizens ranks sixth in deposit market share (5.42%) in our primary market area.

The Farmers & Merchants State Bank The Farmers & Merchants State Bank is a community bank headquartered in Archbold, Ohio with total assets of approximately $933.0 million as of June 30, 2014. The Farmers & Merchants State Bank has a total of 16 offices located within our primary market area. The Farmers & Merchants State Bank ranks seventh in deposit market share (5.31%) in our primary market area.

Signature Bank Signature Bank is a community bank headquartered in Toledo, Ohio with total assets of approximately $677.0 million as of June 30, 2014. Signature Bank has one office and ranks eighth in deposit market share (4.05%) in our primary market area.

JP Morgan Chase Bank, National Association JP Morgan Chase Bank is a large, national financial institution with total assets of approximately $2.0 trillion as of June 30, 2014. JP Morgan Chase Bank has a total of seven offices located within our primary market area. JP Morgan Chase Bank ranks tenth in deposit market share (3.87%) in our primary market area.

Waterford Bank, N.A. Waterford Bank is a community bank headquartered in Toledo, Ohio with total assets of approximately $458.3 million as of June 30, 2014. Waterford Bank has two offices and ranks eleventh in deposit market share (3.12%) in our primary market area.

The Citizens National Bank of Bluffton The Citizens National Bank of Bluffton is a community bank headquartered in Bluffton, Ohio with total assets of approximately $669.7 million as of June 30, 2014. The

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Citizens National Bank of Bluffton has a total of six offices located in our primary market area. The Citizens National Bank of Bluffton ranks twelfth in deposit market share (2.47%) in our primary market area.

Competitive Strengths

As compared to many of our larger competitors, we have a lower efficiency (scale) with numerous, smaller offices in rural locations but excellent depth of services (scope). To leverage the scope of our franchise and deliver on the business strategies noted above, a sales culture designed to address holistic client care was implemented in 2006. Business lines developed and/or expanded were Assets Under Management (AUM) in the wealth management arena, residential real estate lending, retail deposit services, commercial treasury services including cash management, electronic banking, insurance, commercial banking and retail banking. Binding each of these business lines is our holistic approach to client care. Each of the business lines refers business to the other in the spirit of addressing not just the identified, known client need but other, unknown needs as well. This process of working interdependently to achieve holistic client care and drive key growth initiatives is led by the market executive in charge of each of our markets. When this executive-led, robust process to expand services in existing households in traditional, more mature markets is combined with the identification and expansion of new households in lower-share, higher growth markets, our scale improves.

Our management team is seasoned and diverse. Our leadership group consists of 14 seasoned executives with combined banking experience in excess of 285 years. Since many of these executives had banking careers elsewhere before leading a business line, division and/or region at SB Financial, they are able to add strength to our management team through diversity, depth of knowledge and the application of best practices.

Our management team employs the Balanced Scorecard Management Tools to link strategy to execution. Many companies devise a business plan (such as a one-year tactical plan) as well as a longer-term strategic plan (typically three to five years) to attempt to align what they will accomplish and how they propose to accomplish it. However, we believe that few companies truly integrate these plans. We have put in place a dynamic process that we believe ensures that strategy is linked to execution. Specific initiatives are identified, tracked and measured under the direct leadership of our Chief Executive Officer.

Our deposit base is stable and lower cost as compared to our peer group, which is attributable in part to our ability to attract lower-cost deposits in our traditional, more rural markets. With a systemic decline in the yield curve, reflecting an overall slower-growing economy, a lower-cost deposit base provides the required liquidity and duration that allows us to price our loan opportunities more competitively.

Our loan portfolio is diverse by geography and segment. As noted above, even though our lending is concentrated in the Midwest (U.S.) and predominantly in Ohio and Northeast Indiana, our regional office dispersion provides a degree of diversity that delivers additional stability in economic contractions.

Recent Developments

Redemption of Trust Preferred Securities

Rurban Statutory Trust I (RST I) was established in August 2000 and, in September 2000, completed a pooled private offering of 10,000 trust preferred securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to the Company in exchange for $10 million in principal amount of 10.60% fixed-rate junior subordinated deb