SB FINANCIAL GROUP, INC.
Form 10-Q
May 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013

OR

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

For the transition period from _________________to___________________________

Commission file number 0-13507

SB FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

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

401 Clinton Street, Defiance, Ohio 43512

(Address of principal executive offices)
(Zip Code)

(419) 783-8950

(Registrant's telephone number, including area code)

RURBAN FINANCIAL CORP.

(Former name, former address and former fiscal year, if changed since last report.)

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 x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large Accelerate Filer o Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company x

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Shares, without par value	4,866,629 shares
(class)	(Outstanding at May 14, 2013)

SB FINANCIAL GROUP, INC.

FORM 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

SB Financial Group, Inc.
Condensed Consolidated Balance Sheets
March 31, 2013 and December 31, 2012

($ in Thousands)	March 2013 (unaudited)	December 2012
ASSETS		
Cash and due from banks	$28,031	19,144
Securities available for sale, at fair value	98,390	98,702
Other securities - FRB and FHLB Stock	3,748	3,748
Total investment securities	102,138	102,450
Loans held for sale	8,560	6,147
Loans, net of unearned income	455,443	463,389
Allowance for loan losses	(6,992)	(6,811)
Net loans	448,451	456,578
Premises and equipment, net	12,738	12,633
Purchased software	300	330
Cash surrender value of life insurance	12,659	12,577
Goodwill	16,353	16,353
Core deposits and other intangibles	1,066	1,219
Foreclosed assets held for sale, net	2,270	2,367
Mortgage servicing rights	4,068	3,775
Accrued interest receivable	1,618	1,235
Other assets	3,048	3,426
Total assets	$641,300	638,234
LIABILITIES AND EQUITY		
Deposits		
Non interest bearing demand	$79,579	77,799
Interest bearing demand	123,748	117,289
Savings	62,404	57,461
Money market	81,130	80,381
Time deposits	185,398	194,071
Total deposits	532,259	527,001
Notes payable	1,424	1,702
Advances from Federal Home Loan Bank	17,500	21,000
Repurchase agreements	10,983	10,333
Trust preferred securities	20,620	20,620
Accrued interest payable	515	138

Other liabilities	3,704	4,156
Total liabilities	587,005	584,950
Equity		
Preferred stock	-	-
Common stock	12,569	12,569
Additional paid-in capital	15,381	15,374
Retained earnings	26,476	25,280
Accumulated other comprehensive income	1,623	1,830
Treasury stock, at cost (163,304 , 165,654 shares)	(1,754)	(1,769)
Total equity	54,295	53,284
Total liabilities and equity	$641,300	638,234

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2012 has been derived from the audited consolidated financial statements at that date

3

SB Financial Group, Inc.
Condensed Consolidated Statements of Income (Unaudited)

($ in thousands, except share data)	Three Months Ended March 2013	March 2012
Interest income		
Loans		
Taxable	$5,883	$ 5,928
Nontaxable	24	23
Securities		
Taxable	330	399
Nontaxable	170	147
Total interest income	6,407	6,497
Interest expense		
Deposits	606	854
Other borrowings	14	34
Repurchase Agreements	2	68
Federal Home Loan Bank advances	90	74
Trust preferred securities	403	592
Total interest expense	1,115	1,622
Net interest income	5,292	4,875
Provision for loan losses	299	450
Net interest income after provision for loan losses	4,993	4,425
Noninterest income		
Data service fees	414	643
Trust fees	643	642
Customer service fees	616	631
Gain on sale of mtg. loans & OMSR's	1,484	1,181
Mortgage loan servicing fees, net	179	329
Gain on sale of non-mortgage loans	156	-
Net gain on sales of securities	20	-
Loss on sale or disposal of assets	(105)	(56)
Other income	160	211
Total non-interest income	3,567	3,581
Noninterest expense		
Salaries and employee benefits	3,439	3,499
Net occupancy expense	518	548
Equipment expense	755	711
FDIC insurance expense	132	214
Data processing fees	77	113
Professional fees	429	385
Marketing expense	108	90

Printing and office supplies	46		78
Telephone and communication	158		144
Postage and delivery expense	215		229
State, local and other taxes	134		120
Employee expense	152		106
Other intangible amortization expense	153		157
OREO Impairment	33		-
Other expenses	321		282
Total non-interest expense	6,670		6,676
Income before income tax expense	1,890		1,330
Income tax expense	572		358
Net income	$1,318	$	972
Common share data:			
Basic earnings per common share	$0.27	$	0.20
Diluted earnings per common share	$0.27	$	0.20

See notes to condensed consolidated financial statements (unaudited)

SB Financial Group, Inc.
Consolidated Statements of Comprehensive Income (unaudited)

($'s in thousands)	Three Months Ended Mar. 31, 2013	2012
Net income	$1,318	$972
Other comprehensive (loss) income:		
Available-for-sale investment securities:		
Gross unrealized holding gains arising in the period	(294)	162
Related tax expense	100	(55)
Less: reclassification adjustment for gains realized in income	(20)	-
Related tax expense	7	-
Net effect on other comprehensive (loss) income	(207)	107
Total comprehensive income	$1,111	$1,079

SB Financial Group, Inc.
Condensed Consolidated Statements of Changes in Stockholders Equity (Unaudited)

($'s in thousands)	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2013	$-	$12,569	$15,374	$25,280	$1,830	$(1,769)	$53,284
Net Income				1,318			1,318
Other Comprehensive Income					(207)		(207)
Dividends on Common Stk., $0.025 per share				(122)			(122)
Stock options exercised			(5)			15	10
Expense of stock option plan			12				12
Balance, March 31, 2013	$-	$12,569	$15,381	$26,476	$1,623	$(1,754)	$54,295
Balance, January 1, 2012	$-	$12,569	$15,323	$20,466	$1,343	$(1,769)	$47,932
Net Income				972			972
Other Comprehensive Income					107		107

Expense of stock option plan			15				15
Balance, March 31, 2012	$-	$12,569	$15,338	$21,438	$1,450	$(1,769)	$49,026

See notes to condensed consolidated financial statements (unaudited)

SB Financial Group, Inc.
Condensed Consolidated Statements of Cash Flows (Unaudited)

($'s in thousands)	Three Months Ended Mar. 31, 2013	2012
Operating Activities		
Net Income	$1,318	$972
Items (using)/providing cash		
Depreciation and amortization	287	334
Provision for loan losses	299	450
Expense of share-based compensation plan	12	15
Amortization of premiums and discounts on securities	273	368
Amortization of intangible assets	153	157
Amortization of originated mortgage servicing rights	330	349
Recapture of originated mortgage servicing rights impairment	(171)	(419)
Proceeds from sale of loans held for sale	73,868	62,897
Originations of loans held for sale	(71,967)	(68,331)
Gain from sale of loans	(1,640)	(1,181)
Gain on sales of available for sale securities	(20)	-
Loss on sale of foreclosed assets	65	15
Income from bank owned life insurance	(82)	(88)
OREO impairment	33	-
Changes in		
Interest receivable	(383)	(167)
Other assets	(2,983)	610
Interest payable and other liabilities	(197)	(68)
Net cash used in operating activities	(805)	(4,087)
Investing Activities		
Purchase of available-for-sale securities	(11,233)	(11,295)
Purchase of Federal Home Loan Bank stock	-	-
Proceeds from maturities of available-for-sale securities	9,723	12,463
Proceeds from sales of availabe-for-sale-securities	1,235	-
Net change in loans	7,450	2,432
Purchase of premises and equipment and software	-	(771)
Proceeds from sales or disposal of premises and equipment	-	701
Proceeds from sale of foreclosed assets	377	27
Net cash provided by investing activities	7,552	3,557
Financing Activities		
Net increase in demand deposits, money market, interest checking and savings accounts	13,931	28,055
Net decrease in certificates of deposit	(8,673)	(11,328)
Net increase (decrease) in securities sold under agreements to repurchase	650	(1,008)
Repayment of Federal Home Loan Bank advances	(3,500)	(165)
Proceeds from stock options exercised	10	-

Repayment of notes payable	(278)	(269)
Net cash provided by financing activities	2,140	15,285
Increase in Cash and Cash Equivalents	8,887	14,756
Cash and Cash Equivalents, Beginning of Year	19,144	14,846
Cash and Cash Equivalents, End of Period	$28,031	$29,602
Supplemental Cash Flows Information		
Interest paid	$738	$1,020
Income taxes paid (refunded)	$50	$-
Transfer of loans to foreclosed assets	$378	$14
Dividends Payable	$122	$-

See notes to condensed consolidated financial statements (unaudited)

SB FINANCIAL GROUP, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A—BASIS OF PRESENTATION

The Company changed the name of its holding company from Rurban Financial Corp., to SB Financial Group, Inc. This change occurred on April 18, 2013. The change in name was linked to a rebranding of all of the Company's financial activities under the State Bank brand.

SB Financial Group, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, The State Bank and Trust Company ("State Bank"), RFCBC, Inc. ("RFCBC"), Rurbanc Data Services, Inc. dba RDSI Banking Systems ("RDSI"), Rurban Statutory Trust I ("RST I"), and Rurban Statutory Trust II ("RST II"). State Bank owns all the outstanding stock of Rurban Mortgage Company ("RMC"), Rurban Investments, Inc. ("RII") and State Bank Insurance, LLC ("SBI").

The consolidated financial statements include the accounts of the Company, State Bank, RFCBC, RDSI, RMC, RII, and SBI. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows of the Company. Those adjustments consist only of normal recurring adjustments. Results of operations for the three months ended March 31, 2013, are not necessarily indicative of results for the complete year.

The condensed consolidated balance sheet of the Company as of December 31, 2012 has been derived from the audited consolidated balance sheet of the Company as of that date.

For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

NOTE B—EARNINGS PER SHARE

Earnings per share (EPS) have been computed based on the weighted average number of shares outstanding during the periods presented. For the period ended March 31, 2013, share based awards totaling 151,899 common shares were not considered in computing diluted EPS as they were anti-dilutive. For the period ended March 31, 2012, share based awards totaling 303,974 common shares were not considered in computing diluted EPS as they were anti-dilutive. The average number of shares used in the computation of basic and diluted earnings per share were:

(shares in thousands)	Three Months Ended March 31,	
	2013	2012
Basic earnings per share	4,863	4,862
Diluted earnings per share	4,870	4,862

NOTE C - SECURITIES

The amortized cost and appropriate fair values, together with gross unrealized gains and losses, of securities at March 31, 2013 and December 31, 2012 are as follows:

($'s in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-Sale Securities:				
March 31, 2013:				
U.S. Treasury and Government agencies	$16,583	$212	$-	$ 16,795
Mortgage-backed securities	59,714	1,043	(48)	60,709
State and political subdivisions	16,734	1,269	(17)	17,986
Money Market Mutual Fund	2,877	-	-	2,877
Equity securities	23	-	-	23
	$95,931	$2,524	$(65)	$ 98,390

($'s in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale Securities:				
December 31, 2012:				
U.S. Treasury and Government agencies	$14,301	$210	$-	$14,511
Mortgage-backed securities	62,661	1,136	(33)	63,764
State and political subdivisions	16,789	1,462	(2)	18,249
Money Market Mutual Fund	2,155	-	-	2,155
Equity securities	23	-	-	23
	$95,929	$2,808	$(35)	$98,702

The amortized cost and fair value of securities available for sale at March 31, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
($'s in thousands)	Amortized Cost	Fair Value
March 31, 2013:		
Within one year	$1,026	$1,041
Due after one year through five years	3,996	4,058
Due after five years through ten years	11,623	12,024
Due after ten years	16,672	17,658
	33,317	34,781
Mortgage-backed securities, money market mutual funds & equity securities	62,614	63,609
Totals	$95,931	$98,390

The fair value of securities pledged as collateral, to secure public deposits and for other purposes, was $52.6 million at March 31, 2013 and $49.8 million at December 31, 2012. The fair value of securities delivered for repurchase agreements was $16.3 million at March 31, 2013 and $16.2 million at December 31, 2012.

Gross gains of $0.02 million resulting from sales of available-for-sale securities, were realized during the three month period ending March 31, 2013. The $0.02 million gain on sale is a reclassification from accumulated other comprehensive income and is included in the net gain on sales of securities. The related $0.007 million tax benefit is a reclassification from accumulated other comprehensive income and is included in the income tax expense line item in the income statement. There were no realized gains or losses from sales of available-for-sale securities for the three month period ending March 31, 2012.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments was $11.2 million at March 31, 2013, and $6.02 million at December 31, 2012, which was approximately 11.4 and 6.1 percent, respectively, of the Company's available-for-sale investment portfolio at such dates. Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

Securities with unrealized losses, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2013 and December 31, 2012 are as follows:

($ in thousands)	Less than 12 Months		12 Months or Longer		Total	
March 31, 2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
Mortgage-backed securities	$9,514	$(48)	$-	$-	$9,514	$(48)
State and political subdivisions	1,462	(17)	251	-	1,713	(17)
	$10,976	$(65)	$251	$-	$11,227	$(65)

($ in thousands)	Less than 12 Months		12 Months or Longer		Total	
December 31, 2012	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
Mortgage-backed securities	$5,202	$(33)	$342	$-	$5,544	$(33)
State and political subdivisions	229	(1)	251	(1)	480	(2)
	$5,431	$(34)	$593	$(1)	$6,024	$(35)

The total unrealized losses on the mortgage-backed securities portfolio, all of which are residential mortgage-backed securities, are derived mainly from two private label senior tranche CMO securities. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concern warrants such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent of the Company to not sell the investment and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost. Management has determined there is no other-than-temporary-impairment on these CMO securities.

NOTE D – LOANS AND ALLOWANCE FOR LOAN LOSSES

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

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

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company’s internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected on the historical loss or risk rating data.

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

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

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

Categories of loans at March 31, 2013 and December 31, 2012 include:

($ in thousands)	Total Loans		Non-Accrual Loans		Non-Accrual Percentage	
	Mar. 2013	Dec. 2012	Mar. 2013	Dec. 2012	Mar. 2013	Dec. 2012
Commercial	$80,694	$81,767	1,135	1,246	1.41 %	1.52 %
Commercial real estate	199,615	201,392	457	782	0.23 %	0.39 %
Agricultural	37,950	42,276	-	-	0.00 %	0.00 %
Residential real estate	89,669	87,859	2,614	2,631	2.92 %	2.99 %
Consumer	47,640	50,223	605	646	1.27 %	1.29 %
Leasing	138	148	-	-	0.00 %	0.00 %
Total loans	455,706	463,665	$4,811	$5,305	1.06 %	1.14 %
Less						
Net deferred loan fees, premiums and discounts	(263)	(276)				
Loans, net of unearned income	$455,443	$463,389				
Allowance for loan losses	$(6,992)	$(6,811)				

11

The following tables present the activity in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of March 31, 2013, December 31, 2012 and March 31, 2012.

For the Period Ended March 31, 2013 ($'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential	Home Equity