SB FINANCIAL GROUP, INC.
Form 10-Q
November 07, 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 September 30, 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)

(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	4,869,629 shares
(class)	(Outstanding at November 7, 2013)

SB FINANCIAL GROUP, INC.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

SB Financial Group, Inc.
Condensed Consolidated Balance Sheets
September 30, 2013 and December 31, 2012

($ in Thousands)	September 2013 (unaudited)	December 2012
ASSETS		
Cash and due from banks	$ 19,016	$ 19,144
Securities available for sale, at fair value	86,620	98,702
Other securities - FRB and FHLB Stock	3,748	3,748
Total investment securities	90,368	102,450
Loans held for sale	2,407	6,147
Loans, net of unearned income	475,233	463,389
Allowance for loan losses	(7,120)	(6,811)
Net loans	468,113	456,578
Premises and equipment, net	12,399	12,633
Purchased software	320	330
Cash surrender value of life insurance	12,826	12,577
Goodwill	16,353	16,353
Core deposits and other intangibles	784	1,219
Foreclosed assets held for sale, net	1,430	2,367
Mortgage servicing rights	5,076	3,775
Accrued interest receivable	1,694	1,235
Other assets	2,626	3,426
Total assets	$ 633,412	$ 638,234
LIABILITIES AND EQUITY		
Deposits		
Non interest bearing demand	$ 78,217	77,799
Interest bearing demand	124,860	117,289
Savings	61,899	57,461
Money market	78,406	80,381
Time deposits	178,161	194,071
Total deposits	521,543	527,001
Notes payable	680	1,702
Advances from Federal Home Loan Bank	16,000	21,000
Repurchase agreements	14,836	10,333
Trust preferred securities	20,620	20,620
Accrued interest payable	448	138

Other liabilities	3,748	4,156
Total liabilities	577,875	584,950
Equity		
Preferred stock	-	-
Common stock	12,569	12,569
Additional paid-in capital	15,399	15,374
Retained earnings	28,846	25,280
Accumulated other comprehensive income	415	1,830
Treasury stock	(1,692)	(1,769)
Total equity	55,537	53,284
Total liabilities and equity	$ 633,412	$ 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

SB FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF INCOME - (Unaudited)

($ in thousands, except share data)	Three Months Ended		Nine Months Ended	
	September	September	September	September
Interest income	2013	2012	2013	2012
Loans				
Taxable	$ 5,649	$ 6,106	$ 17,406	$ 18,071
Nontaxable	14	21	54	68
Securities				
Taxable	305	383	931	1,185
Nontaxable	178	156	522	449
Total interest income	6,146	6,666	18,913	19,773
Interest expense				
Deposits	539	694	1,718	2,316
Other borrowings	11	17	37	49
Repurchase Agreements	2	11	7	139
Federal Home Loan Bank advances	83	92	257	241
Trust preferred securities	336	418	1,077	1,451
Total interest expense	971	1,232	3,096	4,196
Net interest income	5,175	5,434	15,817	15,577
Provision for loan losses	401	300	900	950
Net interest income after provision for loan losses	4,774	5,134	14,917	14,627
Noninterest income				
Trust fees	669	646	1,964	1,895
Customer service fees	659	677	1,914	1,976
Gain on sale of mtg. loans & OMSR's	1,356	1,572	4,290	4,148
Mortgage loan servicing fees, net	432	(192)	1,029	(28)
Gain on sale of non-mortgage loans	44	170	282	170
Data service fees	333	485	1,205	1,704
Net gain on sales of securities	28	-	48	-
Gain/(loss) on sale/disposal of assets	15	(151)	(219)	(257)
Other income	174	201	584	589
Total non-interest income	3,710	3,408	11,097	10,197
Noninterest expense				
Salaries and employee benefits	3,343	3,597	10,470	10,693
Net occupancy expense	507	515	1,561	1,591
Equipment expense	701	722	2,159	2,145
FDIC insurance expense	98	91	301	528
Data processing fees	189	103	460	337
Professional fees	456	451	1,384	1,226
Marketing expense	135	85	335	278

Printing and office supplies	49	39	246	184
Telephone and communication	156	151	472	434
Postage and delivery expense	199	223	623	652
State, local and other taxes	140	128	412	366
Employee expense	125	118	403	343
Other intangible amortization expense	129	157	435	472
OREO Impairment	-	-	33	58
Other expenses	335	345	1,018	965
Total non-interest expense	6,562	6,725	20,312	20,272
Income before income tax expense	1,922	1,817	5,702	4,552
Income tax expense	578	513	1,721	1,262
Net income	$ 1,344	$ 1,304	$ 3,981	$ 3,290
Common share data:				
Basic earnings per common share	$ 0.28	$ 0.27	$ 0.82	$ 0.68
Diluted earnings per common share	$ 0.28	$ 0.27	$ 0.82	$ 0.68

See notes to condensed consolidated financial statements (unaudited)

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

($'s in thousands)	Three Months Ended Sep. 30, 2013	Three Months Ended Sep. 30, 2012	Nine Months Ended Sep. 30, 2013	Nine Months Ended Sep. 30, 2012
Net income	$1,344	$1,304	$3,981	$3,290
Other comprehensive (loss)/income:				
Available-for-sale investment securities:				
Gross unrealized holding (loss) gain arising in the period	(95)	515	(2,096)	1,014
Related tax benefit (expense)	33	(175)	713	(345)
Less: reclassification adjustment for (loss) realized in income	(28)	-	(48)	-
Related tax benefit	9	-	16	-
Net effect on other comprehensive (loss) income	(81)	340	(1,415)	669
Total comprehensive income	$(1,263)	$1,644	$2,566	$3,959

See notes to condensed consolidated financial statements (unaudited)

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				3,981			3,981
Other Comprehensive Loss					(1,415)		(1,415)
Dividends on Common Stk., $0.85 per share				(415)			(415)
Stock options exercised			(27)			77	51
Expense of stock option plan			52				52
Balance, September 30, 2013	$ -	$ 12,569	$ 15,399	$ 28,846	$ 415	$ (1,692)	$ 55,537
Balance, January 1, 2012	$ -	$ 12,569	$ 15,323	$ 20,466	$ 1,343	$ (1,769)	$ 47,932
Net Income				3,290			3,290
Other Comprehensive Income					669		669
Expense of stock option plan			39				39
Balance, September 30, 2012	$ -	$ 12,569	$ 15,362	$ 23,756	$ 2,012	$ (1,769)	$ 51,930

See notes to condensed consolidated financial statements (unaudited)

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

($'s in thousands)	Nine Months Ended Sep. 30, 2013	Nine Months Ended Sep. 30, 2012
Operating Activities		
Net Income	$3,981	$3,290
Items (using)/providing cash		
Depreciation & amortization	813	941
Provision for loan losses	900	950
Expense of share-based compensation plan	52	39
Amortization of premiums and discounts on securities	755	970
Amortization of intangible assets	435	472
Amortization of originated mortgage servicing rights	699	973
Recapture of originated mortgage servicing rights impairment	(649)	(419)
Impairment of mortgage servicing rights	-	305
Proceeds from sale of loans held for sale	221,444	238,894
Originations of loans held for sale	(209,104)	(242,306)
Gain from sale of loans	(4,572)	(4,318)
Gain on sales of available for sale securities	(48)	-
Loss on sale of foreclosed assets	121	254
Income from bank owned life insurance	(249)	(267)
OREO impairment	33	58
Changes in		
Interest receivable	(459)	(196)
Other assets	(3,694)	1,783
Interest payable and other liabilities	(98)	1,190
Net cash provided by operating activities	10,360	2,613
Investing Activities		
Purchase of available-for-sale securities	(21,494)	(23,956)
Purchase of Federal Home Loan Bank stock	-	(63)
Proceeds from maturities of available-for-sale securities	23,278	34,730
Proceeds from sales of available-for-sale-securities	7,390	-
Net change in loans	(13,350)	(14,255)
Purchase of premises and equipment and software	(918)	(942)
Proceeds from sales or disposal of premises and equipment	315	701
Proceeds from sale of foreclosed assets	1,657	261
Net cash used in investing activities	(3,122)	(3,524)
Financing Activities		
Net increase in demand deposits, money market, interest checking and savings accounts	10,452	15,673
Net decrease in certificates of deposit	(15,910)	(19,187)
Net increase/(decrease) in securities sold under agreements to repurchase	4,503	(5,044)
Proceeds from Federal Home Loan Bank advances	9,000	41,500
Repayment of Federal Home Loan Bank advances	(14,000)	(35,776)

Proceeds from stock options exercised	26	-
Dividends on common stock	(415)	-
Repayment of notes payable	(1,022)	(813)
Net cash used in financing activities	(7,366)	(3,647)
Decrease in Cash and Cash Equivalents	(128)	(4,558)
Cash and Cash Equivalents, Beginning of Year	19,144	14,846
Cash and Cash Equivalents, End of Period	$19,016	$10,289
Supplemental Cash Flows Information		
Interest paid	$2,786	$2,927
Income taxes paid	$550	$70
Transfer of loans to foreclosed assets	$915	$983

See notes to condensed consolidated financial statements (unaudited)

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

NOTE A—BASIS OF PRESENTATION

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"). Effective April 18, 2013, the Company changed its name from Rurban Financial Corp. to SB Financial Group, Inc.

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 and nine months ended September 30, 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 September 30, 2013, share based awards totaling 95,070 common shares were not considered in computing diluted EPS as they were anti-dilutive. For the period ended September 30, 2012, share based awards totaling 302,474 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Basic earnings per share	4,867	4,862	4,865	4,862
Diluted earnings per share	4,881	4,862	4,877	4,862

NOTE C - SECURITIES

The amortized cost and appropriate fair values, together with gross unrealized gains and losses, of securities at September 30, 2013 and December 31, 2012 were as follows:

($'s in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-Sale Securities:				
September 30, 2013:				
U.S. Treasury and Government agencies	$ 12,610	$ 128	$ (117)	$ 12,621
Mortgage-backed securities	53,026	573	(327)	53,272
State and political subdivisions	18,966	660	(299)	19,327
Money Market Mutual Funds	1,377	-	-	1,377
Equity securities	23	-	-	23
	$ 86,002	$ 1,361	$ (743)	$ 86,620

($'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 Funds	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 September 30, 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.

($'s in thousands)	Available for Sale Amortized Cost	Fair Value
September 30, 2013:		
Within one year	$1,022	$1,024
Due after one year through five years	1,387	1,463
Due after five years through ten years	10,950	11,076
Due after ten years	18,217	18,385
	31,576	31,948
Mortgage-backed securities, money market mutual funds & equity securities	54,426	54,672
Totals	$86,002	$86,620

The fair value of securities pledged as collateral, to secure public deposits and for other purposes, was $67.2 million at September 30, 2013 and $49.8 million at December 31, 2012. The fair value of securities delivered for repurchase agreements was $16.6 million at September 30, 2013 and $16.2 million at December 31, 2012.

Gross gains of $0.03 million and $0.05 million resulting from sales of available-for-sale securities, were realized during the three and nine month periods ending September 30, 2013, respectively. The $0.05 million gain on sale was a reclassification from accumulated other comprehensive income and is included in the net gain on sales of securities. The related $0.02 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 or nine month periods ending September 30, 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 $25.9 million at September 30, 2013, and $6.0 million at December 31, 2012, which was approximately 29.9 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 September 30, 2013 and December 31, 2012 are as follows:

($ in thousands)	Less than 12 Months		12 Months or Longer		Total	
September 30, 2013	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
US Treasury and Government Agencies	$3,995	$ (117)	$-	$ -	$3,995	$ (117)
Mortgage-backed securities	17,027	(327)	-	-	17,027	(327)
State and political subdivisions	4,909	(299)	-	-	4,909	(299)
	$25,931	$ (743)	$-	$ -	$25,931	$ (743)

($ 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)

During the quarter ended September 30, 2013, interest rates remained level from the quarter ended June 30, 2013. The increase in rates from December 31, 2012 resulted in higher unrealized losses in the investment portfolio. Specifically, at September 30, 2013, 29 bonds in the portfolio (25%) have an unrealized loss. The investment portfolio duration for the Company is in line with peer banks and the percentage decrease in value was in line with our estimates for this level of interest rate increase. In addition, 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 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 September 30, 2013 and December 31, 2012 include:

($ in thousands)	Total Loans		Non-Accrual Loans		Non-Accrual Percentage	
	Sep. 2013	Dec. 2012	Sep. 2013	Dec. 2012	Sep. 2013	Dec. 2012
Commercial & Industrial	$81,859	$81,767	2,738	1,246	3.34 %	1.52 %
Commercial RE & Construction	209,739	201,392	642	782	0.31 %	0.39 %
Agricultural & Farmland	39,636	42,276	-	-	0.00 %	0.00 %
Residential Real Estate	96,477	87,859	1,837	2,631	1.90 %	2.99 %
Home Equity & Consumer	47,677	50,223	363	646	0.76 %	1.29 %
Other	133	148	-	-	0.00 %	0.00 %
Total loans	475,521	463,665	$5,580	$5,305	1.17 %	1.14 %
Less						
Net deferred loan fees, premiums and discounts	(288)	(276)				
Loans, net of unearned income	$475,233	$463,389				
Allowance for loan losses	$(7,120)	$(6,811)				

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 September 30, 2013, December 31, 2012 and September 30, 2012.

($'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
For the Three Months Ended September 30, 2013							
Beginning balance	$ 1,547	$ 3,059	$ 180	$ 1,183	$ 947	$ 97	$ 7,013
Charge Offs	-	(53)	-	(69)	(185)	-	(307)
Recoveries	2	1	1	-	9	-	13
Provision	183	86	(4)	22	114	-	401
Ending Balance	$ 1,732	$ 3,093	$ 177	$ 1,136	$ 885	$ 97	$ 7,120
For the Nine Months Ended September 30, 2013							
	$ 1,561	$ 3,034	$ 186	$ 1,088	$ 839	$ 103	$ 6,811

Beginning balance							
Charge Offs	(1)	(58)	-	(167)	(421)	(9)	(656)
Recoveries	16	16	3	19	11	-	65
Provision	156	101	(12)	196	456	3	900
Ending Balance	$ 1,732	$ 3,093	$ 177	$ 1,136	$ 885	$ 97	$ 7,120

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Loans Receivable at September 30, 2013

($'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
Allowance:							
Ending balance:							
individually evaluated for impairment	$ 521	$ 40	$ -	$ 219	$ 178		$ 958
Ending balance:							
collectively evaluated for impairment	$ 1,211	$ 3,053	$ 177	$ 917	$ 707	$ 97	$ 6,162
Loans:							
Ending balance:							
individually evaluated for impairment	$ 2,463	$ 829	$ -	$ 2,125	$ 604		$ 6,021
Ending balance:							
collectively evaluated for impairment	$ 79,396	$ 208,910	$ 39,636	$ 94,352	$ 47,073	$ 133	$ 469,500

ALLOWANCE FOR LOAN AND LEASE LOSSES

($'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
For the Three Months Ended September 30, 2012							
Beginning balance	$ 1,517	$ 3,020	$ 95	$ 1,047	$ 802	$ 137	$ 6,618
Charge Offs	(79)	(180)	(10)	-	(25)	(7)	(301)
Recoveries	11	5	2	(2)	61	2	79
Provision	152	57	107	(18)	12	(10)	300
Ending Balance	$ 1,601	$ 2,902	$ 194	$ 1,027	$ 850	$ 122	$ 6,696

For the Nine Months Ended September 30, 2012

Beginning balance	$ 1,914	$ 2,880	$ 51	$ 956	$ 599	$ 129	$ 6,529
Charge Offs	(284)	(279)	(10)	(65)	(366)	(24)	(1,028)
Recoveries	39	47	4	80	69	6	245
Provision	(68)	254	149	56	548	11	950
Ending Balance	$ 1,601	$ 2,902	$ 194	$ 1,027	$ 850	$ 122	$ 6,696

Loans Receivable at December 31, 2012

($'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
Allowance:							
Ending balance:							
individually evaluated for impairment	$ 485	$ 55	$ -	$ 386	$ 195		$ 1,121
Ending balance:							
collectively evaluated for impairment	$ 1,076	$ 2,979	$ 186	$ 702	$ 644	$ 102	$ 5,690
Loans:							
Ending balance:							
individually evaluated for impairment	$ 1,232	$ 725	$ -	$ 2,683	$ 682		$ 5,322
Ending balance:							
collectively evaluated for impairment	$ 80,535	$ 200,667	$ 42,276	$ 85,176	$ 49,541	$ 148	$ 458,343

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

Commercial and Agricultural

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

Commercial Real Estate including Construction

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

Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the completed project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Residential and Consumer

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

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of September 30, 2013 and December 31, 2012.

September 30, 2013 Loan Grade ($ in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
1-2	$ 1,919	$ 86	$ 101	$ -	$ 1	$ -	$ 2,107
3	21,317	44,955	6,651	87,069	43,506	17	203,515
4	51,427	149,168	32,884	5,892	3,641	116	243,128
Total Pass	74,663	194,209	39,636	92,961	47,148	133	448,750
Special Mention	3,551	13,007	-	1,435	80	-	18,073
Substandard	1,081	1,883	-	292	114	-	3,370
Doubtful	2,564	640	-	1,789	335	-	5,328
Loss	-	-	-	-	-	-	-
Total Loans	$ 81,859	$ 209,739	$ 39,636	$ 96,477	$ 47,677	$ 133	$ 475,521

December 31, 2012 Loan Grade ($ in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
1-2	$ 1,108	$ 101	$ 109	$ -	$ -	$ -	$ 1,318
3	23,028	55,175	7,938	77,221	45,063	17	208,442
4	54,871	129,846	34,195	6,285	4,223	131	229,551
Total Pass	79,007	185,122	42,242	83,506	49,286	148	439,311
Special Mention	88	12,370	-	1,186	190	-	13,834
Substandard	1,429	3,024	34	699	144	-	5,330
Doubtful	1,243	876	-	2,468	603	-	5,190
Loss	-	-	-	-	-	-	-
Total Loans	$ 81,767	$ 201,392	$ 42,276	$ 87,859	$ 50,223	$ 148	$ 463,665

The Company evaluates the loan risk grading system definitions and allowance for loan loss methodology on an ongoing basis.

Credit Risk Profile

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

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass (1-4) rated loans. Pass ratings are assigned to those borrowers that do not have identified potential or well-defined weaknesses and for which there is a high likelihood of orderly repayment. All other categories are updated on a quarterly basis.

The following tables present the Company's loan portfolio aging analysis as of September 30, 2013 and December 31, 2012.

September 30, 2013 ($ in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Commercial & Industrial	$26	$-	$622	$648	$81,211	$ 81,859
Commercial RE & Construction	193	-	278	471	209,268	209,739
Agricultural & Farmland	-	-	-	-	39,636	39,636
Residential Real Estate	106	63	795	964	95,513	96,477
Home Equity & Consumer	29	22	119	170	47,507	47,677
Other	-	-	-	-	133	133
Total Loans	$354	$85	$1,814	$2,253	$473,268	$ 475,521

December 31, 2012	30-59 Days Past Due	60-89 Days Past Due	Greater Than	Total Past		Total Loans