

RURBAN FINANCIAL CORP
Form 10-Q
August 15, 2011

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2011
OR

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

For the transition period from _____ to _____

Commission file number 0-13507

RURBAN FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

34-1395608
(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)

None
(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

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

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 (class)	4,861,779 shares (Outstanding at August 15, 2011)
---	--

RURBAN FINANCIAL CORP.

FORM 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1.	Financial Statements	3
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	35
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	46
Item 4.	Controls and Procedures	46

PART II – OTHER INFORMATION

Item 1.	Legal Proceedings	47
Item 1A.	Risk Factors	47
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	47
Item 3.	Defaults Upon Senior Securities	48
Item 4.	[Reserved]	48
Item 5.	Other Information	48
Item 6.	Exhibits	48
Signatures		49

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The interim condensed consolidated financial statements of Rurban Financial Corp. (“Rurban” or the “Company”) are unaudited; however, the information contained herein reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of financial condition and results of operations for the interim periods presented. All adjustments reflected in these financial statements are of a normal recurring nature in accordance with Rule 10-01 of Regulation S-X. Results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of results for the complete year.

Rurban Financial Corp.
Condensed Consolidated Balance Sheets
June 30, 2011 and December 31, 2010

	June 2011 (unaudited)	December 2010
ASSETS		
Cash and due from banks	\$10,485,573	\$30,417,813
Investment Securities:		
Securities available for sale, at fair value	104,769,578	132,762,058
Non-marketable securities - FRB and FHLB Stock	3,748,250	3,748,250
Total investment securities	108,517,828	136,510,308
Loans held for sale	7,211,433	9,055,268
Loans, net of unearned income	437,550,602	427,544,414
Allowance for loan losses	(6,443,873)	(6,715,397)
Net Loans	431,106,729	420,829,017
Premises and equipment, net	14,359,437	14,622,541
Purchased software	874,954	1,021,036
Cash surrender value of life insurance	12,041,915	13,211,247
Goodwill	16,733,830	16,733,830
Core deposits and other intangibles	2,190,707	2,585,132
Foreclosed assets held for sale, net	2,056,046	1,538,307
Mortgage servicing rights	3,294,494	3,190,389
Accrued interest receivable	1,958,748	2,068,965
Other assets	7,229,610	8,503,832
Total assets	\$618,061,304	\$660,287,685

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date

Rurban Financial Corp.
Condensed Consolidated Balance Sheets
June 30, 2011 and December 31, 2010

	June 2011 (unaudited)	December 2010
LIABILITIES AND EQUITY		
Deposits		
Non interest bearing demand	\$ 59,650,822	\$ 62,745,906
Interest bearing NOW	101,972,099	105,708,472
Savings	48,771,404	47,662,315
Money Market	72,822,730	84,635,537
Time Deposits	212,652,611	214,925,512
Total deposits	495,869,666	515,677,742
Notes payable		
Advances from Federal Home Loan Bank	3,142,048	3,290,471
Fed Funds Purchased	24,602,002	22,807,351
Repurchase Agreements	2,000,000	-
Trust preferred securities	19,866,731	45,785,254
Accrued interest payable	20,620,000	20,620,000
Other liabilities	2,391,743	1,971,587
Total liabilities	3,555,204	4,111,182
Equity		
Common stock	572,047,394	614,263,587
Additional paid-in capital	12,568,583	12,568,583
Retained earnings	15,280,945	15,235,206
Accumulated other comprehensive income (loss)	19,589,825	18,802,106
Treasury stock	343,868	1,187,514
Total Equity	(1,769,311)	(1,769,311)
Total liabilities and equity	46,013,910	46,024,098
	\$ 618,061,304	\$ 660,287,685

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date.

Rurban Financial Corp.
Condensed Consolidated Statements of Operations (Unaudited)
Three Months Ended

	June 2011	June 2010
Interest income		
Loans		
Taxable	\$6,170,234	\$6,749,644
Nontaxable	14,930	17,381
Securities		
Taxable	566,609	380,586
Nontaxable	301,556	382,889
Other	3	(31,261)
Total interest income	7,053,332	7,499,239
Interest expense		
Deposits	1,010,170	1,285,833
Other borrowings	24,457	30,695
Repurchase Agreements	344,215	432,658
Federal Home Loan Bank advances	113,379	289,008
Trust preferred securities	347,713	403,024
Total interest expense	1,839,934	2,441,218
Net interest income	5,213,398	5,058,021
Provision for loan losses	898,440	6,498,710
Net interest income after provision for loan losses	4,314,958	(1,440,689)
Noninterest income		
Data service fees	1,303,658	2,608,769
Trust fees	669,161	590,697
Customer service fees	640,151	614,944
Gain on sale of mortgage loans and OMSR's	565,049	576,720
Mortgage loan servicing fees, net	(1,841)	(73,356)
Gain on sale of non-mortgage loans	37,644	32,328
Net realized gain (loss) on sales of securities	1,871,387	-
Investment securities recoveries	-	-
Loss on sale or disposal of assets	(160,453)	(1,429)
Other income	172,209	177,597
Total non-interest income	5,096,965	4,526,270

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.
Condensed Consolidated Statements of Operations (Unaudited)
Three Months Ended

	June 2011	June 2010
Noninterest expense		
Salaries and employee benefits	3,573,103	4,902,735
Net occupancy expense	517,414	566,468
Equipment expense	717,826	2,385,561
FDIC Insurance expense	253,939	197,913
Software impairment expense	-	4,323,696
Data processing fees	191,801	229,478
Professional fees	576,752	561,209
Marketing expense	89,892	112,625
Printing and office supplies	118,516	97,326
Telephone and communication	143,366	339,341
Postage and delivery expense	258,621	456,430
State, local and other taxes	133,988	(156,595)
Employee expense	171,801	227,304
Other intangible amortization expense	197,212	200,134
OREO Impairment	-	215,000
Other expenses	1,454,047	1,246,419
Total non-interest expense	8,398,278	15,905,044
Income (loss) before income tax expense	1,013,645	(12,819,463)
Income tax expense (benefit)	236,852	(4,612,572)
Net income (loss)	\$776,793	\$(8,206,891)
Common share data:		
Basic earnings (loss) per common share	\$0.16	\$(1.69)
Diluted earnings (loss) per common share	\$0.16	\$(1.69)

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.
Condensed Consolidated Statements of Operations (Unaudited)
Six Months Ended

	June 2011	June 2010
Interest income		
Loans		
Taxable	\$12,022,601	\$13,161,226
Nontaxable	26,424	36,296
Securities		
Taxable	1,177,133	1,082,841
Nontaxable	637,525	701,952
Other	86	187
Total interest income	13,863,769	14,982,502
Interest expense		
Deposits	2,059,563	2,660,124
Other borrowings	49,086	68,778
Repurchase Agreements	769,734	859,625
Federal Home Loan Bank advances	246,395	641,825
Trust preferred securities	692,291	789,648
Total interest expense	3,817,069	5,020,000
Net interest income	10,046,700	9,962,502
Provision for loan losses	1,397,280	7,890,143
Net interest income after provision for loan losses	8,649,420	2,072,359
Noninterest income		
Data service fees	2,215,912	6,638,175
Trust fees	1,364,482	1,233,483
Customer service fees	1,221,093	1,202,345
Gain on sale of mortgage loans and OMSR's	990,179	1,218,112
Mortgage loan servicing fees, net	139,611	31,990
Gain on sale of non-mortgage loans	80,423	107,949
Net realized gain (loss) on sales of securities	1,871,387	451,474
Investment securities recoveries	-	73,774
Loss on sale or disposal of assets	(260,662)	(30,081)
Other income	337,366	350,412
Total non-interest income	7,959,791	11,277,633

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.
Condensed Consolidated Statements of Operations (Unaudited)
Six Months Ended

	June 2011	June 2010
Noninterest expense		
Salaries and employee benefits	7,103,209	10,006,275
Net occupancy expense	1,101,471	1,152,691
Equipment expense	1,428,877	4,550,662
FDIC Insurance expense	571,578	416,816
Software impairment expense	-	4,892,231
Data processing fees	335,545	424,264
Professional fees	1,050,288	1,204,019
Marketing expense	145,868	190,226
Printing and office supplies	194,664	258,428
Telephone and communication	300,006	725,547
Postage and delivery expense	602,930	1,026,863
State, local and other taxes	277,556	(35,556)
Employee expense	267,685	507,229
Other intangible amortization expense	394,424	400,268
OREO Impairment	-	215,000
Other expenses	1,683,868	1,730,116
Total non-interest expense	15,457,969	27,665,079
Income (loss) before income tax expense	1,151,242	(14,315,087)
Income tax expense (benefit)	363,524	(5,260,258)
Net income (loss)	\$787,718	\$(9,054,829)
Common share data:		
Basic earnings (loss) per common share	\$0.16	\$(1.86)
Diluted earnings (loss) per common share	\$0.16	\$(1.86)

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.
Condensed Consolidated Statements of Changes in
Stockholders' Equity (Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Balance at beginning of period	\$46,264,790	\$60,854,543	\$46,024,098	\$61,707,655
Net Income (Loss)	776,793	(8,206,891)	787,718	(9,054,829)
Unrealized gains on securities				
Unrealized holding gains arising during the year, net of tax	184,610	604,066	391,470	853,239
Less: reclassification adjustment for gains realized in net income, net of tax	1,235,115	0	1,235,115	297,974
Total comprehensive income (loss)	(273,712)	(7,602,825)	(55,927)	(8,499,564)
Share-based compensation	R22,832	(50,551)	45,739	(6,924)
Balance at end of period	\$46,013,910	\$53,201,167	\$46,013,910	\$53,201,167

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.
Condensed Consolidated Statements of Cash Flows (Unaudited)
Six Months Ended

	June 30, 2011	June 30, 2010
Operating Activities		
Net Income/(loss)	\$787,718	\$(9,054,829)
Items not requiring (providing) cash		
Depreciation and amortization	899,010	2,492,871
Provision for loan losses	1,397,280	7,890,143
Expense of share-based compensation plan	45,739	(6,924)
Amortization of premiums and discounts on securities	841,328	653,169
Amortization of intangible assets	394,425	400,268
Amortization of mortgage servicing rights	164,608	41,222
Impairment of mortgage servicing rights	126,699	175,000
Deferred income taxes	434,607	(3,001,762)
Proceeds from sale of loans held for sale	69,018,705	117,528,701
Originations of loans held for sale	(66,104,268)	(110,994,772)
Gain from sale of mortgage loans	(990,179)	(1,218,112)
Gain from sale of non-mortgage loans	(80,423)	(107,949)
Gain on available for sale securities	(1,871,387)	(451,474)
Software and fixed asset impairment	-	4,892,231
OREO Impairment	-	215,000
Loss on sale of foreclosed assets	265,427	17,887
(Gain) / Loss on sale of fixed assets	(4,765)	12,194
Income from bank owned life insurance	(184,430)	(209,448)
Changes in		
Interest receivable	110,217	(15,090)
Other assets	897,536	512,607
Interest payable and other liabilities	(135,822)	(2,109,314)
Net cash from operating activities	6,012,025	7,661,619
Investing Activities		
Purchase of available-for-sale securities	(27,657,889)	(41,525,452)
Proceeds from maturities of available-for-sale securities	11,070,178	26,112,083
Proceeds from sales of available-for-sale-securities	44,331,997	9,995,724
Proceeds from bank owned life insurance	1,353,762	-
Net change in loans	(13,695,204)	4,371,388
Purchase of premises and equipment and software	(489,824)	(1,294,300)
Proceeds from sales of premises and equipment	4,765	504,468
Proceeds from sale of foreclosed assets	1,218,321	2,999,099
Net cash from investing activities	\$16,136,106	\$1,163,010

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.
Condensed Consolidated Statements of Cash Flows (Unaudited) (continued)
Six Months Ended

	June 30, 2011	June 30, 2010
Financing Activities		
Net (decrease) increase in demand deposits, money market, interest checking and savings accounts	\$(17,535,175)	\$(2,984,828)
Net decrease in certificates of deposit	(2,272,901)	(6,494,567)
Net increase in securities sold under agreements to repurchase	(25,918,523)	(1,440,793)
Net increase in federal funds purchased	2,000,000	5,500,000
Proceeds from Federal Home Loan Bank advances	15,500,000	2,000,000
Repayment of Federal Home Loan Bank advances	(13,705,349)	(11,219,566)
Proceeds from notes payable	-	2,250,000
Repayment of notes payable	(148,423)	(980,920)
Net cash (used in) / from financing activities	(42,080,371)	(13,370,674)
Increase in Cash and Cash Equivalents	(19,932,240)	(4,546,045)
Cash and Cash Equivalents, Beginning of Year	30,417,813	24,824,785
Cash and Cash Equivalents, End of Period	\$10,485,573	\$20,278,740
Supplemental Cash Flows Information		
Interest Paid	\$3,396,913	\$5,149,133
Transfer of loans to foreclosed assets	\$2,020,212	\$2,897,059
Sale and financing of foreclosed assets	\$-	\$2,249,532

See notes to condensed consolidated financial statements (unaudited)

RURBAN FINANCIAL CORP.
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A—BASIS OF PRESENTATION

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 six months ended June 30, 2011 are not necessarily indicative of results for the complete year.

The condensed consolidated balance sheet of the Company as of December 31, 2010 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, 2010.

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 periods ended June 30, 2011 and 2010, share based awards totaling 324,951 and 404,213 common shares, respectively, were not considered in computing EPS as they were anti-dilutive. The number of shares used in the computation of basic and diluted earnings per share were:

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Basic earnings per share	4,861,779	4,861,779	4,861,779	4,861,779
Diluted earnings per share	4,861,779	4,861,779	4,861,779	4,861,779

NOTE C – LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table presents the Company's loan categories at June 30, 2011 and December 31, 2010.

(\$'s in thousands)	June 30, 2011	December 31, 2010
Construction & Development	\$ 19,538	\$ 16,177
Commercial real estate	162,632	152,508
Commercial & Industrial	70,741	69,510
Agricultural & Farmland	38,454	40,829
Residential real estate	93,468	96,257
Home Equity	38,950	38,681
Consumer, net of deferred fees	9,891	10,653
Other	3,877	2,929
Total loans	437,551	427,544
Residential Loans held for sale	7,211	9,055
Allowance for loan and lease losses	\$ (6,444)	\$ (6,715)

The following table presents the Company's nonaccrual loans at June 30, 2011 and December 31, 2010.

(\$'s in thousands)	June 30, 2011	December 31, 2010
Construction & Development	\$ -	\$ -
Commercial real estate	2,620	5,429
Commercial & Industrial	2,507	3,032
Agricultural & Farmland	87	-
Residential real estate	2,436	3,285
Home Equity	373	474
Consumer, net of deferred fees	50	64
Other	-	-
Total non-accrual loans	\$ 8,073	\$ 12,284

The following tables present the balance of the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method for both the three and six months ended as of June 30, 2011 and the year ended as of December 31, 2010.

For the Six
Months Ended

June 30, 2011	Commercial							Total
	Commercial & Industrial	RE & Construction	Agricultural	Residential Real Estate	Home Equity & Consumer	Other	Unallocated	
(\$'s in thousands)								
Beginning balance	\$ 1,723	\$ 3,774	\$ 16	\$ 643	\$ 401	\$ 128	\$ 30	\$ 6,715
Charge Offs	(596)	(1,208)	-	(166)	(263)	1	-	(2,232)
Recoveries	414	16	2	114	18	(1)	-	563
Provision	(19)	862	9	303	271	\$(29)	-	1,397
Ending Balance	\$ 1,522	\$ 3,444	\$ 27	\$ 894	\$ 427	\$ 99	\$ 30	\$ 6,444

Ending balance:

individually
evaluated for
impairment

\$ 700	\$ 813	\$ -	\$ 226	\$ -	\$ -	\$ -	\$ -	\$ 1,739
--------	--------	------	--------	------	------	------	------	----------

Ending balance:

collectively
evaluated for
impairment

\$ 822	\$ 2,631	\$ 27	\$ 668	\$ 427	\$ 99	\$ 30	\$ 4,704
--------	----------	-------	--------	--------	-------	-------	----------

Loans:

Ending balance:

individually
evaluated for
impairment

\$ 2,426	\$ 3,187	\$ -	\$ 1,216	\$ 389	\$ -	\$ -	\$ 7,218
----------	----------	------	----------	--------	------	------	----------

Ending balance:

collectively
evaluated for
impairment

\$ 68,315	\$ 178,983	\$ 38,454	\$ 92,252	\$ 48,452	\$ 3,877	\$ -	\$ 430,333
-----------	------------	-----------	-----------	-----------	----------	------	------------

For the six months ended June 30, 2010, the beginning balance for the allowance for loan loss was \$7.03 million. During the six month period of 2010, the Company incurred charge-offs of \$8.16 million, received recoveries of \$0.24 million, and had provision for loan loss of \$7.9 million, for an ending balance of \$7.00 million.

For the Three
Months Ended

June 30, 2011	Commercial							Total
	Commercial & Industrial	RE & Construction	Agricultural	Residential Real Estate	Home Equity & Consumer	Other	Unallocated	
(\$'s in thousands)								
Beginning balance	\$ 1,766	\$ 3,322	\$ 18	\$ 926	\$ 451	\$ 108	\$ 1	\$ 6,593
Charge Offs	(387)	(1,108)	-	(63)	(63)	28	-	(1,593)
Recoveries	409	13	1	114	11	(3)	-	545

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

Provision	(266)	1,217	8	(83)	28	(34)	29	899
Ending Balance	\$ 1,522	\$ 3,444	\$ 27	\$ 894	\$ 427	\$99	\$ 30	\$6,444
Ending balance:								
individually evaluated for impairment	\$ 700	\$ 813	\$ -	\$ 226	\$ -	\$-	\$ -	\$1,739
Ending balance:								
collectively evaluated for impairment	\$ 822	\$ 2,631	\$ 27	\$ 668	\$ 427	\$99	\$ 30	\$4,705
Loans:								
Ending balance:								
individually evaluated for impairment	\$ 2,426	\$ 3,187	\$ -	\$ 1,216	\$ 389	\$-	\$ -	\$7,218
Ending balance:								
collectively evaluated for impairment	\$ 68,315	\$ 178,983	\$ 38,454	\$ 92,252	\$ 48,452	\$3,877	\$ -	\$430,333

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

For the three months ended June 30, 2010, the beginning balance for the allowance for loan loss was \$6.08 million. During the three month period of 2010, the Company incurred charge-offs of \$5.68 million, received recoveries of \$0.11 million, and had provision for loan loss of \$6.50 million, for an ending balance of \$7.00 million.

December 31, 2010 (\$'s in thousands)	Commercial						Unallocated	Total
	Commercial & Industrial	RE & Construction	Agricultural	Residential Real Estate	Home Equity & Consumer	Other		
Beginning balance	\$ 2,604	\$ 3,210	\$ 92	\$ 715	\$ 255	\$ 154	\$ -	\$ 7,030
Charge Offs	(4,739)	(4,748)	-	(1,210)	(542)	(95)	-	(11,334)
Recoveries	182	171	11	53	-	14	-	431
Provision	3,676	5,141	(87)	1,085	688	55	30	10,588
Ending Balance	\$ 1,723	\$ 3,774	\$ 16	\$ 643	\$ 401	\$ 128	\$ 30	\$ 6,715
Ending balance: individually evaluated for impairment	\$ 684	\$ 1,187	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,871
Ending balance: collectively evaluated for impairment	\$ 1,039	\$ 2,587	\$ 16	\$ 643	\$ 401	\$ 128	\$ 30	\$ 4,844
Loans: Ending balance: individually evaluated for impairment	\$ 2,874	\$ 5,946	\$ -	\$ 616	\$ 43	\$ -	\$ -	\$ 9,479
Ending balance: collectively evaluated for impairment	\$ 66,636	\$ 162,739	\$ 40,829	\$ 95,641	\$ 49,291	\$ 2,929	\$ -	\$ 418,065

Credit Risk Profile

The Company uses a nine tier risk rating system to grade its loans. The grade of a loan may change at any time during the life of the loan. The risk ratings are described as follows:

1. One (1) Superior - Risk is negligible. Loans are to well-seasoned borrowers, displaying sound financial condition, consistent superior earnings performance, strong capitalization, and access to a range of financing alternatives.
- 2.

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

Two (2) Excellent - Risk is minimal. Borrower is well capitalized, operates in a stable industry, financial ratios exceed peers, and financial trends are positive.

3. Three (3) Good - Risk is modest. Borrower has good overall financial condition and adequate capitalization to withstand temporary setbacks. Financial trends are positive, and there is clear ability to service debt from the primary source.
4. Four (4) Average - Risk is acceptable. Borrowers in this category may be characterized by acceptable asset quality, but may face a degree of uncertainty due to new business, untried market, high degree of leverage, expansion, management change, or industry conditions.

5. Four Monitored (4m) = Monitored Pass Credits - Risk is increasing. Borrowers in this category may be characterized by an increasing amount of risk due to one or more of the following characteristics listed below. Additionally, these borrowers require a higher than normal amount of monitoring by the relationship manager and bank management. Borrowers who are placed in this category may also demonstrate the potential for an upgrade in the next 12 months given improvement in one or more of the factors listed below:
- § Declining trends in the earnings and cash flow of the company is evident by moderate to severe losses although debt service coverage remains within policy limits.
 - § Lines of credit that have been evergreen (75% of maximum availability) for more than two consecutive years.
 - § Absence of relevant financial information or stale financial information provided.
 - § Restructure or modification to the loan agreement for the purpose of additional funds to support ongoing operations of the company.
 - § The borrower demonstrates a material weakness or declining trend in collateral support for the given loans.
6. Five (5) Special Mention - Defined as having potential weaknesses that deserve management's close attention. If uncorrected these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the credit or the institution's credit position. Special mention credits are not considered as part of the classified extensions of credit category and do not expose State Bank to sufficient risk to warrant classification. Extensions of credit that might be detailed in this category include those in which:
- § The lending officer may be unable to properly supervise the credit because of an inadequate loan or credit agreement.
 - § Questions exist regarding the condition of and/or control over collateral.
 - § Economic or market conditions may unfavorably affect the obligor in the future.
 - § A declining trend in the obligor's operations or an imbalanced position in the balance sheet exists, but not to the point that repayment is jeopardized.
 - § Other deviations from prudent lending practices are present.

The special mention category should not be used to identify an extension of credit that has as its sole weakness credit-data or documentation exceptions not material to the repayment of the credit. It should also not be used to list extensions of credit that contain risks usually associated with that particular type of lending. Any extension of credit involves certain risks, regardless of the collateral or the borrower's capacity and willingness to repay the debt.

7. Six (6) Substandard - A "substandard" extension of credit is inadequately protected by the sound worth and paying capacity of the obligor or of the collateral pledged, if any. Extensions of credit 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 State Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard credits, does not have to exist in individual extensions of credit classified substandard.
8. Seven (7) Doubtful - Has all the weaknesses in one classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage of and strengthen the credit, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceedings, capital injection, perfecting liens on additional collateral, or refinancing plans.

§ An entire credit is not classified as doubtful when collection of a specific portion appears highly probable. An example of proper use of the doubtful category is the case of a company being liquidated, with the trustee-in-bankruptcy indicating a minimum disbursement of forty percent (40%) and a maximum of sixty-five percent (65%) to unsecured creditors including State Bank. In this situation, estimates are based on liquidation-value appraisals with actual values yet to be realized. By definition, the only portion of the credit that is doubtful is the twenty-five percent (25%) difference between forty percent (40%) and sixty-five percent (65%). A proper classification of such a credit would show forty percent (40%) substandard, twenty-five percent (25%) doubtful, and thirty-five percent (35%) loss.

9.Eight (8) Loss - Considered uncollectible and of such little value that continuance as a Bank asset is not warranted. This classification does not mean that the credit has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset, even though partial recovery may be affected in the future. Loans failing to meet the minimum conditions of the Doubtful classifications are charged off.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category as of June 30, 2011 and December 31, 2010 (dollars in thousands).

June 30, 2011	Commercial & Industrial	Comm. RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
Loan Grade 1-2	\$ 643	\$ 429	\$ 173	\$ 1,636	\$ 116	\$3	\$3,000
3	23,024	62,874	14,037	73,144	45,454	1,381	219,914
4	42,441	106,691	24,101	13,068	2,629	2,493	191,423
Total Pass	66,108	169,994	38,311	87,848	48,199	3,877	414,337
Special Mention	479	6,234	5	1,092	289	-	8,099
Substandard	1,907	3,333	51	1,584	130	-	7,005
Doubtful	2,247	2,609	87	2,944	223	-	8,110
Loss	-	-	-	-	-	-	-
Total	\$ 70,741	\$ 182,170	\$ 38,454	\$ 93,468	\$ 48,841	\$3,877	\$437,551

December 31, 2010	Commercial & Industrial	Comm. RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
Loan Grade 1-2	\$ 863	\$ 690	\$ 180	\$ 1,837	\$ 107	\$-	\$3,677
3	24,020	61,050	15,968	75,405	46,019	1,221	223,683
4	38,195	91,755	24,186	11,527	2,299	1,708	169,670
Total Pass	63,078	153,495	40,334	88,769	48,425	2,929	397,030
Special Mention	1,021	7,141	6	2,568	204	-	10,940
Substandard	2,739	3,076	489	2,797	411	-	9,512
Doubtful	2,672	4,973	-	2,123	294	-	10,062
Loss	-	-	-	-	-	-	-
Total	\$ 69,510	\$ 168,685	\$ 40,829	\$ 96,257	\$ 49,334	\$2,929	\$427,544

The following tables present the Company's loan portfolio aging analysis as of June 30, 2011 and December 31, 2010 (dollars in thousands).

June 30, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Commercial & Industrial	\$50	\$-	\$2,426	\$2,476	\$68,265	\$70,741
Commercial RE & Construction	-	-	3,061	3,061	179,109	182,170
Agricultural & Farmland	72	-	87	159	38,295	38,454
Residential Real Estate	827	29	836	1,692	91,776	93,468
Home Equity & Consumer	172	219	399	790	48,051	48,841
Other	-	-	-	-	3,877	3,877
Loans	1,121	248	6,809	8,178	429,373	437,551
Loans held for Sale	-	-	-	-	7,211	7,211
Total	\$1,121	\$248	\$6,809	\$8,178	\$436,583	\$444,761

December 31, 2010	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Commercial & Industrial	\$242	\$73	\$2,744	\$3,059	\$66,451	\$69,510
Commercial RE & Construction	148	10	5,617	5,775	162,910	168,685
Agricultural & Farmland	-	88	-	88	40,741	40,829
Residential Real Estate	427	372	1,584	2,383	93,874	96,257
Home Equity & Consumer	255	25	547	827	48,507	49,334
Other	-	-	-	-	2,929	2,929
Loans	1,072	568	10,492	12,132	415,412	427,544
Loans held for Sale	-	-	-	-	9,055	9,055
Total	\$1,072	\$568	\$10,492	\$12,132	\$424,466	\$436,598

There were no loans greater than 90 days past due still accruing interest at June 30, 2011 and December 31, 2010.

The following tables present impaired loan activity for the three and six months ended June 30, 2011 and for the year ended December 31, 2010.

Six Months Ended June 30, 2011 (\$'s in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial & Industrial	\$ 189	\$ 539	\$-
Commercial Real Estate	627	1,544	-
Agricultural & Farmland	-	-	-
Residential Real Estate	483	492	-
Home Equity & Consumer	43	43	-
All Impaired Loans < \$100,000	1,016	1,016	-
With a specific allowance recorded:			
Commercial & Industrial	2,237	4,074	730
Commercial Real Estate	2,560	3,328	779
Agricultural & Farmland	-	-	-
Residential Real Estate	733	938	80
Home Equity & Consumer	346	354	151
All Impaired Loans < \$100,000	-	-	-
Totals:			
Commercial & Industrial	\$ 2,426	\$ 4,613	\$ 730
Commercial Real Estate	\$ 3,187	\$ 4,872	\$ 779
Agricultural & Farmland	\$-	\$-	\$-
Residential Real Estate	\$ 1,216	\$ 1,430	\$ 80
Home Equity & Consumer	\$ 389	\$ 397	\$ 151
All Impaired Loans < \$100,000	1,016	1,016	-

June 30, 2011 (\$'s in thousands)	Six Months Ended		Three Months Ended	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial & Industrial	\$ 210	\$-	\$ 210	\$-
Commercial RE & Construction	993	-	961	-
Agricultural & Farmland	-	-	-	-
Residential Real Estate	532	14	531	6
Home Equity & Consumer	43	-	43	-
All Impaired Loans < \$100,000	1,016	-	1,016	-
With a specific allowance recorded:				
Commercial & Industrial	2,663	(2)	2,664	2
Commercial RE & Construction	3,188	2	3,192	12
Agricultural & Farmland	-	-	-	-
Residential Real Estate	1,189	18	1,188	9
Home Equity & Consumer	133	4	131	2
All Impaired Loans < \$100,000	-	-	-	-
Totals:				
Commercial & Industrial	\$ 2,873	\$ (2)	\$ 2,874	\$ 2
Commercial RE & Construction	\$ 4,181	\$ 2	\$ 4,153	\$ 12

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

Agricultural & Farmland	\$-	\$-	\$-	\$-
Residential Real Estate	\$1,721	\$32	\$1,719	\$15
Home Equity & Consumer	\$176	\$4	\$174	\$2
All Impaired Loans < \$100,000	\$1,016	\$-	\$1,016	\$-

20

December 31, 2010 (\$'s in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial & Industrial	\$436	\$786	\$-	\$2,075	\$4
Commercial RE & Construction	2,744	4,040	-	4,195	52
Agricultural & Farmland	-	-	-	-	10
Residential Real Estate	616	741	-	1,045	2
Home Equity & Consumer	43	43	-	72	-
All Impaired Loans < \$100,000	1,062	1,062	-	1,062	-
With a specific allowance recorded:					
Commercial & Industrial	2,438	3,938	684	2,147	(48)
Commercial RE & Construction	3,202	3,202	1,187	3,147	44
Agricultural & Farmland	-	-	-	-	-
Residential Real Estate	-	-	-	-	-
Home Equity & Consumer	-	-	-	-	-
All Impaired Loans < \$100,000	-	-	-	-	-
Totals:					
Commercial & Industrial	\$2,874	\$4,724	\$684	\$4,222	\$(44)
Commercial RE & Construction	\$5,946	\$7,242	\$1,187	\$7,342	\$96
Agricultural & Farmland	\$-	\$-	\$-	\$-	\$10
Residential Real Estate	\$616	\$741	\$-	\$1,045	\$2
Home Equity & Consumer	\$43	\$43	\$-	\$72	\$-
All Impaired Loans < \$100,000	\$1,062	\$1,062	\$-	\$1,062	\$-

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable State Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include non-performing loans but also include loans modified and reclassified as troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The following table details all loans that have been modified from their original terms and are designated as Troubled Debt Restructurings. These loans are considered impaired.

Impaired Troubled Debt Restructurings (\$ in thousands)	June 30, 2011	Dec. 31, 2010	June 30, 2010
Commercial & Industrial	1,908	1,907	2,827
Commercial Real Estate	138	190	1,850
Agricultural & Farmland	-	-	-
Residential Real Estate	236	399	211
Home Equity & Consumer	-	-	23
Other	-	-	-
Total	2,282	2,496	4,911

The following table details all loans that have been modified from their original terms and are restructured. These loans are not considered impaired and are performing according to their modified terms.

Performing Restructured Loans

(\$ in thousands)	June 30, 2011	Dec. 31, 2010	June 30, 2010
Commercial & Industrial	-	-	-
Commercial Real Estate	547	581	592
Agricultural & Farmland	5	6	7
Residential Real Estate	683	452	697
Home Equity & Consumer	50	68	48
Other	-	-	-
Total	1,285	1,107	1,344

NOTE D - NEW ACCOUNTING PRONOUNCEMENTS

ASU No. 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.

In April 2011, FASB issued ASU No. 2011-02 due to concerns about whether additional guidance or clarification is needed to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist:

- 1) The restructuring constitutes a concession.
- 2) The debtor is experiencing financial difficulties.

The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption.

ASU No. 2011-03, Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements (April 2011).

In April 2011, FASB issued ASU No. 2011-03 in order to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The transferor is deemed to have maintained effective control over the financial assets transferred (and thus must account for the transaction as a secured borrowing), for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity, if all of the following conditions are met:

- 1) The financial assets to be repurchased or redeemed are the same or substantially the same as those transferred.
- 2) The agreement is to repurchase or redeem them before maturity, at a fixed or determinable price.
- 3) The agreement is entered into contemporaneously with, or in contemplation of, the transfer.

The amendments in this update are effective for the first interim or annual period beginning on or after December 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption.

ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures About Fair Value Measurements.

In January 2010, FASB issued ASU 2010-06 which requires new disclosures regarding significant transfers in and out of Level 1 and 2 fair value measurements and the reasons for the transfers. This ASU also requires that a reporting entity should present separately information about purchases, sales, issuances and settlements, on a gross basis rather than a net basis for activity in Level 3 fair value measurements using significant unobservable inputs. It also clarifies existing disclosures on the level of disaggregation, in that the reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities, and that a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 and 3. The new disclosures and clarifications of existing disclosures for ASC 820 became effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.

In July 2010, FASB issued ASU 2010-20 which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption.

ASC Topic 350, Intangibles – Goodwill and Other.

In September 2010, FASB issued an update to specify that the carrying amount of a reporting unit should be calculated as the difference between total assets and total liabilities assigned to the reporting unit. Further, the update requires Step 2 of the goodwill impairment test to be performed if the carrying amount of the reporting unit is zero or negative. Also, there are qualitative factors, such as significant adverse change in legal factors or in the business climate, adverse action by a regulator, unanticipated competition, loss of key personnel, expectation that the unit will be sold, that may indicate that it is more likely than not that a goodwill impairment exists.

NOTE E – SEGMENT INFORMATION

The reportable segments are determined by the products and services offered, primarily distinguished between banking and data processing operations. "Other" segment information includes the accounts of the holding company, Rurban, which provides management and operational services to its subsidiaries. Information reported internally for performance assessment follows.

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

As of and for the three months ended June 30, 2011

Income statement information	Banking	Data		Total Segments	Intersegment Elimination	Consolidated Totals
		Processing	Other			
Net interest income (expense)	\$5,608,358	\$(77,264)	\$(317,695)	\$5,213,399		\$5,213,399
Non-interest income - external customers	3,781,208	1,308,358	7,398	5,096,964		5,096,964
Non-interest income - other segments	49,178	340,121	37,500	426,799	(426,799)	-
Total revenue	9,438,744	1,571,215	(272,797)	10,737,162	(426,799)	10,310,363
Non-interest expense	6,971,843	1,356,315	496,919	8,825,077	(426,799)	8,398,278
Significant non-cash items:						
Depreciation and amortization	219,534	223,416	2,202	445,152	-	445,152
Provision for loan losses	898,440	-	-	898,440	-	898,440
Income tax expense (benefit)	409,819	73,066	(246,033)	236,852	-	236,852
Segment profit (loss)	\$1,158,642	\$141,834	\$(523,683)	\$776,793	\$-	\$776,793
Balance sheet information						
Total assets	\$611,962,837	\$5,464,930	\$5,534,262	\$622,962,029	\$(4,900,725)	\$618,061,304
Goodwill and intangibles	\$18,516,422	\$408,115	\$-	\$18,924,537	\$-	\$18,924,537
Premises and equipment expenditures	\$371,100	\$-	\$-	\$371,100	\$-	\$371,100

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

As of and for the three months ended June 30, 2010

Income statement information	Data			Total	Intersegment	Consolidated
	Banking	Processing	Other	Segments	Elimination	Totals
Net interest income (expense)	\$5,639,927	\$(210,558)	\$(371,348)	\$5,058,021		\$5,058,021
Non-interest income - external customers	2,081,469	2,608,768	20,591	4,710,828		4,710,828
Non-interest income - other segments	24,738	226,343	155,319	406,400	(406,400)	-
Total revenue	7,746,134	2,624,553	(195,438)	10,175,249	(406,400)	9,768,849
Non-interest expense	6,641,773	9,576,293	277,936	16,496,002	(406,400)	16,089,602
Significant non-cash items:						
Depreciation and amortization	247,925	848,212	15,648	1,111,785	-	1,111,785
Fixed asset & software impairment	-	4,323,696	-	4,323,696		4,323,696
Provision for loan losses	3,498,710	3,000,000	-	6,498,710	-	6,498,710
Income tax expense (benefit)	(914,787)	(3,505,992)	(191,793)	(4,612,572)	-	(4,612,572)
Segment profit (loss)	\$(1,479,562)	\$(6,445,748)	\$(281,581)	\$(8,206,891)	\$-	\$(8,206,891)
Balance sheet information						
Total assets	\$634,047,112	\$13,063,769	\$5,456,742	\$652,567,623	\$(6,220,712)	\$646,346,911
Goodwill and intangibles	\$19,151,849	\$6,840,186	\$-	\$25,992,035	\$-	\$25,992,035
Premises and equipment expenditures	\$25,688	\$515,342	\$-	\$541,030	\$-	\$541,030

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

As of and for the six months ended June 30, 2011

Income statement information	Data			Total	Intersegment	Consolidated
	Banking	Processing	Other	Segments	Elimination	Totals
Net interest income (expense)	\$10,835,797	\$(156,547)	\$(632,550)	\$10,046,700		\$10,046,700
Non-interest income - external customers	5,720,241	2,220,677	18,873	7,959,791		7,959,791
Non-interest income - other segments	99,598	721,498	75,000	896,096	(896,096)	-
Total revenue	16,655,636	2,785,628	(538,677)	18,902,587	(896,096)	18,006,491
Non-interest expense	12,632,836	2,863,476	857,753	16,354,065	(896,096)	15,457,969
Significant non-cash items:						
Depreciation and amortization	445,174	449,278	4,558	899,010	-	899,010
Provision for loan losses	1,397,280	-	-	1,397,280	-	1,397,280
Income tax expense (benefit)	636,054	(26,468)	(246,062)	363,524	-	363,524
Segment profit (loss)	\$1,989,466	\$(51,380)	\$(1,150,368)	\$787,718	\$-	\$787,718
Balance sheet information						
Total assets	\$611,962,837	\$5,464,930	\$5,534,262	\$622,962,029	\$(4,900,725)	\$618,061,304
Goodwill and intangibles	\$18,516,422	\$408,115	\$-	\$18,924,537	\$-	\$18,924,537
Premises and equipment expenditures	\$489,824	\$-	\$-	\$489,824	\$-	\$489,824

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

As of and for the six months ended June 30, 2010

Income statement information	Data			Total	Intersegment	Consolidated
	Banking	Processing	Other	Segments	Elimination	Totals
Net interest income (expense)	\$ 10,980,625	\$(271,961)	\$(746,162)	\$9,962,502		\$9,962,502
Non-interest income - external customers	4,777,802	6,638,175	77,877	11,493,854		11,493,854
Non-interest income - other segments	49,810	596,153	428,773	1,074,736	(1,074,736)	-
Total revenue	15,808,237	6,962,367	(239,512)	22,531,092	(1,074,736)	21,456,356
Non-interest expense	12,702,246	15,245,545	1,008,245	28,956,036	(1,074,736)	27,881,300
Significant non-cash items:						
Depreciation and amortization	506,447	1,954,912	31,512	2,492,871	-	2,492,871
Fixed asset & software impairment	-	4,892,231	-	4,892,231		4,892,231
Provision for loan losses	4,890,143	3,000,000	-	7,890,143	-	7,890,143
Income tax expense (benefit)	(842,958)	(3,958,681)	(458,619)	(5,260,258)	-	(5,260,258)
Segment profit (loss)	\$(941,194)	\$(7,324,497)	\$(789,138)	\$(9,054,829)	\$-	\$(9,054,829)
Balance sheet information						
Total assets	\$634,047,112	\$13,063,769	\$5,456,742	\$652,567,623	\$(6,220,712)	\$646,346,911
Goodwill and intangibles	\$19,151,849	\$6,840,186	\$-	\$25,992,035	\$-	\$25,992,035
Premises and equipment expenditures	\$158,550	\$1,135,750	\$-	\$1,294,300	\$-	\$1,294,300

NOTE F – FAIR VALUE OF ASSETS AND LIABILITIES

ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Available-for-Sale Securities

The fair value of available-for-sale securities are determined by various valuation methodologies. Level 1 securities include money market mutual funds. Level 1 inputs include quoted prices in an active market. Level 2 securities include U.S. government agencies, mortgage-backed securities, and obligations of political and state subdivisions. Level 2 inputs do not include quoted prices for individual securities in active markets; however, they do include inputs that are either directly or indirectly observable for the individual security being valued. Such observable inputs include interest rates and yield curves at commonly quoted intervals, volatilities, prepayment speeds, credit risks and default rates. Also included are inputs derived principally from or corroborated by observable market data by correlation or other means.

The following table presents the fair value measurements of assets measured at fair value on a recurring basis and the level within ASC 820 fair value hierarchy in which the fair value measurements fall at June 30, 2011 and December 31, 2010:

Description	Fair Value Measurements Using:			
	6/30/2011	(Level 1)	(Level 2)	(Level 3)
Available-for-Sale Securities:				
U.S. Treasury and Government Agencies	\$31,446,360	-	\$31,446,360	-
Mortgage-backed securities	54,929,968	-	54,929,968	-
State and political subdivisions	17,266,072	-	17,266,072	-
Money Market Mutual Fund	1,104,178	1,104,178	-	-
Equity securities	23,000	-	23,000	-

Description	Fair Value Measurements Using:			
	Fair Values			
	at 12/31/2010	(Level 1)	(Level 2)	(Level 3)
Available-for-Sale Securities:				
U.S. Treasury and Government Agencies	\$43,651,132	-	\$43,651,132	-
Mortgage-backed securities	54,628,092	-	54,628,092	-
State and political subdivisions	32,297,779	-	32,297,779	-
Money Market Mutual Funds	2,162,055	2,162,055	-	-
Equity Securities	23,000	-	23,000	-

Level 1 – Quoted Prices in Active Markets for Identical Assets

Level 2 – Significant Other Observable Inputs

Level 3 – Significant Unobservable Inputs

Impaired Loans

Loans for which it is probable the Company will not collect all principal and interest due according to contractual terms are measured for impairment. If the impaired loan is collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining an independent appraisal of the collateral and applying a discount factor to the value based on the Company's loan review policy. All impaired loans held by the Company were collateral dependent at June 30, 2011 and December 31, 2010.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models associated with the servicing rights and discounting the cash flows using discount market rates. The servicing portfolio has been valued using all relevant positive and negative cash flows including servicing fees, miscellaneous income and float; marginal costs of servicing; the cost of carry of advances; and foreclosure losses; and applying certain prevailing assumptions used in the marketplace. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value (based on current appraised value) at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Management has determined fair value measurements on other real estate owned primarily through evaluations of appraisals performed, and current and past offers for the other real estate under evaluation.

Goodwill

Goodwill is evaluated independently for its fair value. This measurement uses projected cash flows from operations and discounts those using appropriate discount rates to calculate fair value. Management engaged a third party to determine the fair value of Goodwill in line with procedures pursuant to FASB Accounting Standards Codification Topic 350-20.

Intangible

Intangible assets are evaluated independently for fair value on an annual basis. The measurement of these intangible assets is in line with procedures pursuant to FASB Accounting Standards Codification Topic 350-30.

The following table presents the fair value measurements of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2011 and December 31, 2010:

Description	Fair Value Measurements Using:			
	Fair Values			
	at 06/30/11	(Level 1)	(Level 2)	(Level 3)
Impaired loans	\$4,742,584	-	-	\$4,742,584
Mortgage Servicing Rights	\$3,294,494	-	-	\$3,294,494

Description	Fair Value Measurements Using:			
	Fair Values			
	at 12/31/2010	(Level 1)	(Level 2)	(Level 3)
Impaired loans	\$6,709,231	-	-	\$6,709,231
Mortgage Servicing Rights	\$3,190,389	-	-	\$3,190,389
Foreclosed Assets	\$1,054,500	-	-	\$1,054,500
Goodwill (RDSI)	\$380,748	-	-	\$380,748
Intangible (RDSI)	\$107,000	-	-	\$107,000

There were no changes in the inputs or methodologies used to determine fair value during the quarter ended June 30, 2011 as compared to the quarter ended December 31, 2010.

The following table presents estimated fair values of the Company's financial instruments. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments, and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

Cash and Cash Equivalents and Federal Reserve and Federal Home Loan Bank Stock and Accrued Interest Payable and Receivable

The carrying amount approximates the fair value.

Loans

The estimated fair value for loans receivable, including loans held for sale, net, is based on estimates of the rate State Bank would charge for similar loans at June 30, 2011 and December 31, 2010, applied for the time period until the loans are assumed to re-price or be paid.

Deposits & Other Borrowings

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates the fair value. The estimated fair value for fixed-maturity time deposits, as well as borrowings, is based on estimates of the rate State Bank could pay on similar instruments with similar terms and maturities at June 30, 2011 and December 31, 2010.

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The estimated fair value for other financial instruments and off-balance-sheet loan commitments approximate cost at June 30, 2011 and are not considered significant to this presentation.

	June 30, 2011	
	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	\$ 10,485,573	\$ 10,486,000
Available-for-sale securities	104,769,578	104,770,000
Loans held for sale	7,211,433	7,316,000
Loans, net of allowance for loan losses	431,106,729	433,586,057
Federal Reserve and FHLB Bank stock	3,748,250	3,748,000
Accrued interest receivable	1,958,748	1,959,000
Financial liabilities		
Deposits	\$ 495,869,666	\$ 498,328,000
Fed Funds Borrowed	2,000,000	2,000,000
Short-term borrowings	19,866,731	22,098,000
Notes payable	3,142,048	3,157,000
FHLB advances	24,602,002	24,865,000
Trust preferred securities	20,620,000	20,367,000
Accrued interest payable	2,391,743	2,392,000

	December 31, 2010	
	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	\$30,417,813	\$30,418,000
Available-for-sale securities	132,762,058	132,762,000
Loans held for sale	9,055,268	9,055,000
Loans, net of allowance for loan losses	420,829,017	424,144,000
Federal Reserve and FHLB Bank stock, at cost	3,748,250	3,748,000
Interest receivable	2,068,965	2,069,000
Financial liabilities		
Deposits	\$515,677,742	\$519,123,000
Short-term borrowings	45,785,254	47,515,000
Notes payable	3,290,471	3,276,000
Federal Home Loan Bank advances	22,807,351	23,243,000
Trust preferred securities	20,620,000	20,862,000
Interest payable	1,971,587	1,972,000

NOTE G - SECURITIES

The amortized cost and approximate fair value of securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-Sale Securities:				
June 30, 2011:				
U.S. Treasury and Government agencies	\$31,375,763	\$158,210	\$(87,613)	\$31,446,360
Mortgage-backed securities	54,962,142	236,463	(268,637)	54,929,968
State and political subdivisions	16,783,482	492,618	(10,028)	17,266,072
Money Market Mutual Fund	1,104,178	-	-	1,104,178
Equity securities	23,000	-	-	23,000
	\$104,248,565	\$887,291	\$(366,278)	\$104,769,578

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
December 31, 2010:				
U.S. Treasury and Government agencies	\$43,572,741	\$298,653	\$(220,262)	\$43,651,132
Mortgage-backed securities	53,652,288	1,395,036	(419,232)	54,628,092
State and political subdivisions	31,552,709	895,794	(150,724)	32,297,779
Money Market Mutual Fund	2,162,055	-	-	2,162,055
Equity securities	23,000	-	-	23,000
	\$130,962,793	\$2,589,483	\$(790,218)	\$132,762,058

During the second quarter of 2011, the Company realized gains from the sale of securities totaling \$1,871,387. These gains were part of a balance sheet restructuring. The executions of these trades were made with the assistance of an independent broker and were executed with market pricing. The broker utilized for the trades was approved by the Company's Board of Directors.

The amortized cost and fair value of securities available for sale at June 30, 2011, 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.

	Amortized Cost	Available for Sale Fair Value
Within one year	\$1,039,689	\$1,050,347
Due after one year through five years	4,054,653	4,158,855
Due after five years through ten years	16,654,759	16,762,746
Due after ten years	26,410,144	26,740,484
	48,159,245	48,712,432
Mortgage-backed securities, equity securities and money market mutual funds	56,089,320	56,057,146
Totals	\$104,248,565	\$104,769,578

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$53,424,306 at June 30, 2011 and \$30,412,621 at December 31, 2010. The securities delivered for repurchase agreements were \$23,198,900 at June 30, 2011 and \$58,621,708 at December 31, 2010.

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 \$42,717,595 at June 30, 2011 and \$40,399,444 at December 31, 2010, which was approximately 41 and 30 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 at June 30, 2011 and December 31, 2010 were as follows:

June 30, 2011	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury and Government agencies	\$5,460,835	\$(87,613)	\$-	\$-	\$5,460,835	\$(87,613)
Mortgage-backed securities	35,086,546	(245,680)	1,011,071	(22,957)	36,097,617	(268,637)
State and political subdivisions	1,159,143	(10,028)	-	-	1,159,143	(10,028)
	\$41,706,524	\$(343,321)	\$1,011,071	\$(22,957)	\$42,717,595	\$(366,278)
December 31, 2010						
December 31, 2010	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury and Government agencies	\$11,483,130	\$(220,262)	\$-	\$-	\$11,483,130	\$(220,262)
Mortgage-backed securities	20,281,713	(319,935)	1,164,431	(99,297)	21,446,144	(419,232)
State and political subdivisions	7,120,710	(126,113)	349,460	(24,611)	7,470,170	(150,724)
	\$38,885,553	\$(666,310)	\$1,513,891	\$(123,908)	\$40,399,444	\$(790,218)

The total unrealized losses on the mortgage-backed securities portfolio, all of which are residential mortgage-backed securities, is derived mainly from three 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.

The total unrealized loss on the municipal security portfolio is due to the holding of several municipal securities, all with individually insignificant losses. During the quarter ended June 30, 2011, the number of municipal securities held by the Company was reduced significantly.

NOTE H: DEBT COVENANT

Pursuant to a loan covenant agreement between First Tennessee Bank, National Association ("FTB"), the Company, and the Company's subsidiary bank, The State Bank and Trust Company, certain financial ratios must be maintained. They include a minimum Tier 1 Capital ratio of 6 percent, a year-to-date ROA of 50 basis points and non-performing asset ratio (calculated as non-performing loans plus OREO divided by total loans plus OREO) of less than 2.25 percent.

As of June 30, 2011, the Company was in compliance with all debt covenants of a financial nature related to its line of credit with FTB. The non-performing loan ratio was 2.22 percent, the year-to-date ROA was 62 basis points and the Tier 1 Capital Ratio was 7.54 percent. In addition to the financial covenants, the loan agreement establishes the issuance of a regulatory order as an additional debt covenant violation. Due to RDSI entering into a Consent Order with the Federal Reserve on March 9, 2011, the company has violated a debt covenant. This covenant violation could result in the note being called by FTB. This note, which has an outstanding balance of \$1.7 million, matured on June 30, 2011. The Company and FTB entered into an extension of the note with a new maturity date of October 31, 2011.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains certain forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance. Examples of forward-looking statements include: (a) projections of income or expense, earnings per share, the payments or non-payments of dividends, capital structure and other financial items; (b) statements of plans and objectives of the Company or our management or Board of Directors, including those relating to products or services; (c) statements of future economic performance; and (d) statements of assumptions underlying such statements. Words such as "anticipates," "believes," "plans," "intends," "expects," "projects," "estimates," "should," "may," "would be," "will allow," "will likely result," "will continue," "will remain," or other expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying those statements. Forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation, changes in interest rates, changes in the competitive environment, and changes in banking regulations or other regulatory or legislative requirements affecting bank holding companies. Additional detailed information concerning a number of important factors which could cause actual results to differ materially from the forward-looking statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations is available in the Company's filings with the Securities and Exchange Commission, including the disclosure under the heading "Item 1A. Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and in "Item 1A. Risk Factors" of Part II of this Quarterly Report on Form 10-Q. Undue reliance should not be placed on the forward-looking statements, which speak only as of the date hereof. Except as may be required by law, the Company undertakes no obligation to update any forward-looking statement to reflect unanticipated events or circumstances after the date on which the statement is made.

Overview of Rurban

Rurban Financial Corp. ("Rurban" or the "Company") is a bank holding company registered with the Federal Reserve Board. Rurban's wholly-owned subsidiary, The State Bank and Trust Company ("State Bank"), is engaged in commercial banking. Rurban's technology subsidiary, Rurbanc Data Services, Inc. ("RDSI"), provides computerized data and item processing services to community banks and businesses.

Rurban Statutory Trust I ("RST") was established in August 2000. In September 2000, RST 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 Rurban in exchange for junior subordinated debentures of Rurban with terms substantially similar to the Trust Preferred Securities. The sole assets of RST are the junior subordinated debentures, and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by Rurban of the obligations of RST.

Rurban Statutory Trust II (“RST II”) was established in August 2005. In September 2005, RST II 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 Rurban in exchange for junior subordinated debentures of Rurban with terms substantially similar to the Trust Preferred Securities. The sole assets of RST II are the junior subordinated debentures, and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by Rurban of the obligations of RST II.

RFCBC, Inc. (“RFCBC”) is an Ohio corporation and wholly-owned subsidiary of Rurban that was incorporated in August 2004. RFCBC operates as a loan subsidiary in servicing and working out problem loans.

Rurban Investments, Inc. (“RII”) is a Delaware corporation and a wholly-owned subsidiary of State Bank that was incorporated in January 2009. RII holds agency, mortgage backed and municipal securities.

Unless the context indicates otherwise, all references herein to “Rurban”, “we”, “us”, “our”, or the “Company” refer to Rurban Financial Corp. and its consolidated subsidiaries.

Recent Regulatory Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) was enacted into law on July 21, 2010. The Dodd-Frank Act is expected to significantly change the regulation of financial institutions and the financial services industry. Because the Dodd-Frank Act requires various federal agencies to adopt a broad range of regulations with significant discretion, many of the details of the new law and the effects they will have on the Company will not be known for months and even years.

The following changes that will be implemented pursuant to the Dodd-Frank Act may have an effect on the Company’s business:

- the Dodd-Frank Act creates a Consumer Financial Protection Bureau with broad powers to adopt and enforce consumer protection regulations;
- new capital regulations for bank holding companies will be adopted, which may impose stricter requirements, and any new trust preferred securities will no longer constitute Tier I capital;
- the federal law prohibiting the payment of interest on commercial demand deposit accounts will be eliminated effective in July 2011;
- the standard maximum amount of deposit insurance per customer is permanently increased to \$250,000, and non-interest bearing transaction accounts will have unlimited insurance through December 31, 2012;
- the assessment base for determining deposit insurance premiums will be expanded to include liabilities other than just deposits; and
- new corporate governance requirements applicable generally to all public companies in all industries will require new compensation practices and disclosure requirements, including requiring companies to “claw back” incentive compensation under certain circumstances, to provide shareholders the opportunity to cast a non-binding vote on executive compensation and to consider the independence of compensation advisers.

Many provisions of the Dodd-Frank Act have not yet been implemented and will require interpretation and rule making by federal regulators. While the ultimate effect of the Dodd-Frank Act on the Company cannot yet be

determined, the law is likely to increase compliance costs and fees paid to regulators, along with possible restrictions on the operations of the Company.

Recent Developments regarding RDSI

On March 9, 2011, Rurban Financial Corp. (“Rurban”) and its wholly-owned nonbank data services subsidiary, Rurbanc Data Services, Inc., dba RDSI Banking Systems (“RDSI”), entered into a Consent Order (the “Consent Order”) with the Board of Governors of the Federal Reserve System (the “FRB”) that directs RDSI to take certain actions to strengthen its financial condition and operations. Rurban’s banking subsidiary, The State Bank and Trust Company, is not a party to the Consent Order.

The Consent Order specifies, among other conditions, that RDSI must strengthen board oversight of critical areas of operations, maintain appropriate capital levels, strengthen working capital management, and modify its strategic plan to improve earnings. While the Consent Order remains in effect, RDSI is prohibited from declaring or paying any dividends to Rurban without the prior approval of the FRB, and Rurban is prohibited from making any capital investments in or loans to RDSI without the prior approval of the FRB.

Balance Sheet Restructuring

In a series of transactions completed during June of 2011, the Company completed a balance sheet restructuring. The restructuring involved selling \$43 million of investment securities with a weighted average yield of 3.97 percent, recognizing a gain on sale totaling \$1.9 million. The proceeds from the transaction were applied to the pay down of \$32 million in borrowings with a weighted average rate of 4.64 percent. The prepayment penalty for the pay down of \$30 million in repos and \$2 million in FHLB advances was \$1.1 million. As a result of these and other activities during the course of the three months ended June 30, 2011, cash and investment securities declined by \$53.9 million, from \$172.9 million at March 31, 2011 to \$119.0 million at June 30, 2011. The balance sheet restructuring reduced the Bank’s balance sheet by \$36.9 million of assets, or 5.6 percent. This reduction in asset size has had a positive impact on the majority of capital ratio’s as well as tangible equity to assets, which improved by 25 basis points.

Critical Accounting Policies

Note 1 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 describes the significant accounting policies used in the development and presentation of the Company’s financial statements. The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The Company’s financial position and results of operations can be affected by these estimates and assumptions and are integral to the understanding of reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company’s financial condition and results, and they require management to make estimates that are difficult, subjective, or complex.

Allowance for Loan Losses - The allowance for loan losses provides coverage for probable losses inherent in the Company’s loan portfolio. Management evaluates the adequacy of the allowance for loan losses each quarter based on changes, if any, in underwriting activities, loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, regulatory guidance and economic factors. This evaluation is inherently subjective, as it requires the use of significant management estimates. Many factors can affect management’s estimates of specific and expected losses, including volatility of default probabilities, rating migrations, loss severity and economic and political conditions. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

The Company determines the amount of the allowance based on relative risk characteristics of the loan portfolio. The allowance recorded for commercial loans is based on reviews of individual credit relationships and an analysis of the migration of commercial loans and actual loss experience. The allowance recorded for homogeneous consumer loans is based on an analysis of loan mix, risk characteristics of the portfolio, fraud loss and bankruptcy experiences, and historical losses, adjusted for current trends, for each homogeneous category or group of loans. The allowance for credit losses relating to impaired loans is based on the loan's observable market price, the collateral for certain collateral-dependent loans, or the discounted cash flows using the loan's effective interest rate.

Regardless of the extent of the Company's analysis of customer performance, portfolio trends or risk management processes, certain inherent but undetected losses are probable within the loan portfolio. This is due to several factors, including inherent delays in obtaining information regarding a customer's financial condition or changes in their unique business conditions, the subjective nature of individual loan evaluations, collateral assessments and the interpretation of economic trends. Volatility of economic or customer-specific conditions affecting the identification and estimation of losses for larger non-homogeneous credits and the sensitivity of assumptions utilized to establish allowances for homogenous groups of loans are also factors. The Company estimates a range of inherent losses related to the existence of these exposures. The estimates are based upon the Company's evaluation of imprecise risk associated with the commercial and consumer allowance levels and the estimated impact of the current economic environment. To the extent that actual results differ from management's estimates, additional loan loss provisions may be required that could adversely impact earnings for future periods.

Goodwill and Other Intangibles - The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangibles, at fair value as required. Goodwill is subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using straight-line or accelerated methods, and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial goodwill and other intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired asset will perform in the future. Events and factors that may significantly affect the estimates include, among others, customer attrition, changes in revenue growth trends, specific industry conditions and changes in competition. A decrease in earnings resulting from these or other factors could lead to an impairment of goodwill that could adversely impact earnings for future periods.

Impact of Accounting Changes

None

Six Months Ended June 30, 2011 compared to Six Months Ended June 30, 2010

Net Income: For the first six months of 2011, Rurban reported net income of \$788 thousand, or \$0.16 per diluted share, compared to a net loss of \$9.05 million, or (\$1.86) per diluted share for the first six months of 2010.

Asset Quality Review (\$ in Thousands)	June 30, 2011	December 31, 2010	June 30, 2010
Net charge-offs	\$ 1,048	\$ 1,535	\$ 5,572
Non-performing loans	\$ 8,073	\$ 12,283	\$ 12,401
OREO / OAO	\$ 2,056	\$ 1,538	\$ 1,648
Non-performing assets	\$ 10,129	\$ 13,822	\$ 14,050
Non-performing assets / Total assets	1.64	% 2.09	% 2.17
Allowance for loan losses / Total loans	1.47	% 1.57	% 1.60
Allowance for loan losses / Non-performing loans	79.9	% 54.7	% 56.5

Provision for Loan Losses: The provision for loan losses for the first six months was \$1.4 million compared to \$7.9 million for the prior year first six months. The lower provision reflects the improving quality of State Bank's loan portfolio and slower migration of problem credits to non-performing status, as well as a recovering economy. As of June 30, 2011, the allowance for loan losses stood at \$6.4 million, or 1.47 percent of total loans (excluding loans held-for-sale), compared to 1.60 percent for the prior year. The Company's non-performing assets ("NPAs") at June 30, 2011 were \$10.1 million, down \$3.9 million, or 27.8 percent, since June 30, 2010. At June 30, 2011, NPAs were 1.64 percent of assets compared to 2.17 percent at June 30, 2010.

Consolidated Revenue: Total revenue, consisting of net interest income and noninterest income, was \$18.0 million for the first six months of 2011, a decline of \$3.2 million, or 15.1 percent, from the \$21.2 million generated during the first six months of 2010. Included in the 2011 results were net gains on Investment securities of \$1.9 million due to the execution of a restructuring of the Company's balance sheet. Absent those gains, total revenue was down \$5.1 million due to the large decline in data servicing fees and the lower gains on mortgage loan sales.

Net interest income was \$10.1 million, an increase of \$84 thousand, or .9 percent, from the \$10.0 million reported in the year earlier period; a \$4.5 million decline in average earning assets was partially offset by a four basis point improvement in the tax equivalent net interest margin, to 3.69 percent.

Noninterest income was \$8.0 million for the first six months of 2011 compared to \$11.3 million for the prior year period. During the second quarter of 2011, a significant restructuring of the Company's balance sheet was executed. This restructuring included net gains from the sales of securities of \$1.9 million. Excluding \$1.9 and \$0.53 million of nonrecurring investment gains and recoveries from the first six months of 2011 and 2010, respectively, noninterest income from operations declined by \$4.7 million, or 43.8 percent, from the prior year, primarily from the \$4.4 million decline in data service fees.

Fee income from wealth management, customer service, and mortgage banking activity accounts for over ninety percent of noninterest income from banking operations. Wealth management fees generated by Reliance Financial Services, a division of State Bank, were \$1.36 million for the first six months of 2011, up \$131 thousand, or 10.6 percent, from the prior year; assets under management now stand at \$326 million. Customer service fees of \$1.22 million for the first six months of 2011 were virtually unchanged from the prior year.

State Bank originated \$66.1 million of mortgage loans in the first six months of 2011. These 2011 originations and subsequent sales resulted in \$0.99 million of gains, which compares to gains of \$1.22 million for the first six months of 2010. The 18.7 percent decline in gains from mortgage sales in 2011 reflect the impact of a 26.0 percent decline in

mortgages sold. In addition to the gains from mortgage sales, the Company sold other loans that generated gains of \$80 thousand and \$108 thousand in the first six months of 2011 and 2010, respectively.

Consolidated Noninterest Expense: Noninterest expense for the first six months of 2011 was \$15.5 million compared to \$27.7 million for the prior year. The prior year comparisons were significantly impacted by the large write-down's taken in the second quarter of 2010 due to the failed implementation of the Single Source™ software. Total compensation and benefits was down \$2.9 million from the prior year, which reflects a lower level of employees and reduced overtime cost as compared to 2010 due to the data processing conversion. Expenses related to client loss at RDSI were also significantly down from the prior year. The 42 FTE employee decline represents a workforce reduction of 16 percent during the course of the year, from 270 employees to 228 at June 30, 2011.

In the first six months of 2010, RDSI incurred expense write-downs related to Single Source™ in the amount of \$6.9 million. These included equipment write-downs of \$1.2 million and a software impairment of \$4.9 million. The Company had an OREO impairment of \$0.22 million. In addition, due to the higher level of data servicing fees, RDSI had significant expense relative to postage processing.

For the first six months of 2011, absent the impact of changes in RDSI, operating expenses are in line with the prior year. In conjunction with the restructuring transaction, the Company paid \$1.1 million in fees associated with prepayments. These prepayment fees were the result of the Company paying off \$30 million in repos and \$2 million in FHLB advances. These \$32 million in borrowings were scheduled to mature in 2012 and beyond.

Income Taxes: Income taxes for the first six months of 2011 were \$364 thousand compared to a benefit of \$5.3 million for the prior year. Due to the termination of several life insurance policies for prior executives, the Company generated a significant tax liability in the first quarter of 2011. While this liability may be offset against the Company's tax losses going forward, the accounting treatment requires a tax expense in the current year. The prior year tax benefit was due to the significant losses the Company incurred due to the failed Single Source software implementation at RDSI.

Three Months Ended June 30, 2011 compared to Three Months Ended June 30, 2010

Net Income: Net income for the three months ended June 30, 2011 was \$777 thousand or \$0.16 per diluted share, compared to a net loss of \$8.2 million, or \$(1.69) per diluted share, for the three months ended June 30, 2010. For the quarter, the Banking Group (consisting primarily of The State Bank and Trust Company), had net income of \$1.2 million which is up 44 percent from the net income of \$831 thousand from the linked quarter and a net loss of \$1.4 million from the year ago quarter. RDSI reported net income of \$142 thousand compared to a net loss of \$193 thousand from the linked quarter and a net loss of \$6.4 million from the year ago second quarter. The net income for RDSI during the quarter was related to a buyout of a long term contract with one of RDSI's customers. The customer, which was acquired during the quarter, had a contract provision that required full payment of the contract upon early termination.

Provision for Loan Losses: The second quarter provision for loan losses was \$0.9 million compared to \$0.5 million and \$6.5 million, respectively, for the linked and year-ago quarters. Total charge-offs for the quarter were \$1.0 million compared to \$0.6 million for the linked quarter and \$5.6 million for the prior year second quarter.

Consolidated Revenue: Total revenue, consisting of net interest income and noninterest income, was \$10.3 million for the second quarter of 2011, compared to \$7.7 million for the linked quarter and \$9.6 million generated during the 2010 second quarter. As discussed, the quarter's revenue was significantly impacted by the investment gains from the balance sheet restructuring. Absent those gains, total revenue was down \$1.3 million from the prior year due to the loss of RDSI's data processing business.

Net interest income was \$5.2 million, an increase of \$155 thousand, or 3.1 percent, from the \$5.1 million reported in the year earlier quarter. Compared to the linked quarter, net interest income is up \$380 thousand due to an increase in average earning assets and lower cost of funds.

Noninterest income was \$5.1 million for the 2011 second quarter compared to \$5.2 million for the prior year period. Excluding the \$1.9 million of gain referenced above, noninterest income from operations declined by \$1.3 million, or 28.9 percent, from the year-ago quarter due to the \$1.3 million decline in data service fees. During the quarter, the Banking group generated fees from Wealth Management of \$669 thousand, Customer service fees of \$640 thousand and Gain on sale of mortgage loans of \$565 thousand.

Consolidated Noninterest Expense: Noninterest expense for the second quarter of 2011 was \$8.4 million compared to \$15.9 million in the prior-year second quarter. During the second quarter of 2011, the Banking group prepaid FHLB and repo borrowings associated with the balance sheet restructuring referenced in the revenue discussion. The prepayment penalties associated with this transaction were \$1.1 million. Total compensation and benefits for the second quarter was down \$1.3 million from the prior year, which reflects the reduction of 42 employees from the prior year. Compared to the linked quarter, absent the prepayment penalty, total expenses were up just \$.2 million, which is a 2.8 percent annualized increase.

For the three months ended June 30, 2010, RDSI incurred expense write-downs related to Single Source™ in the amount of \$5.5 million. These included equipment write-downs of \$1.2 million and a software impairment of \$4.3 million. The Company had an OREO impairment of \$0.22 million. Postage expense was down 43 percent from the prior year due to the loss of business at RDSI. There was a credit to expense of \$0.16 million as a result of the losses at RDSI. During 2011, the most significant expense item was the \$1.1 million prepayment fees related to the restructuring.

Income Taxes: Income taxes for the second quarter of 2011 were \$237 thousand compared to a benefit of \$4.6 million for the second quarter of 2010. The current quarter's income tax rate of 23.4 percent is a reflection of the tax exempt level of securities and loans on the Company's balance sheet. The tax rate will rise in future quarters as the Company reduced its exposure to tax exempt securities as part of the balance sheet restructuring.

Changes in Financial Condition

Total assets as of June 30, 2011 were \$618.1 million, down by \$36.9 million, or 5.6 percent, from the linked quarter, and by \$28.3 million, or 4.4 percent, from the year-earlier quarter. In a series of transactions completed during June of 2011, State Bank sold \$43 million of investment securities with a weighted average yield of 3.97 percent with the proceeds applied to the pay down of \$32.0 million in borrowings with a weighted average rate of 4.64 percent. As a result of these and other activities during the course of the second quarter, cash and investment securities declined by \$53.9 million, from \$172.9 million at March 31, 2011 to \$119.0 million at June 30, 2011. The 5.6 percent reduction in asset size has had a positive impact from the linked quarter on the majority of capital ratios as well as tangible equity to assets, which improved by 25 basis points.

Total loans increased by \$15.4 million from the linked quarter to \$437.6 million, and is slightly ahead of the prior year when total loans were \$437.3 million. As of June 30, 2011, Real estate related loans comprised 77 percent of the loan portfolio. The total loan portfolio includes \$93.5 million in residential real estate, \$90.5 million in investor owned commercial real estate and \$39.0 million in home equity loans. Total deposits at \$495.9 million are down \$17.1 million from the linked quarter but are up \$14.1 million from the June 2010 quarter. Due to the restructuring, total wholesale borrowings (FHLB, repo's, fed funds) declined to \$46.5 million from \$66.2 million in the linked quarter and \$82.1 million from the June 2010 quarter. Total equity balances remained flat to the linked quarter and down from the prior year. The prior year comparisons are impacted by the losses incurred at RDSI. Due to the reduction in total

asset size, capital ratios for the company have improved.

41

Capital Resources

At June 30, 2011, actual capital levels (in millions) and minimum required levels were as follows:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Consolidated	\$48.1	10.8	% \$35.7	8.0	% \$0-.0	N/A
State Bank	\$52.4	11.9	% \$35.3	8.0	% \$44.1	10.0

Both the Company and State Bank were categorized as well capitalized at June 30, 2011.

LIQUIDITY

Liquidity relates primarily to the Company's ability to fund loan demand, meet deposit customers' withdrawal requirements and provide for operating expenses. Assets used to satisfy these needs consist of cash and due from banks, federal funds sold, interest-earning deposits in other financial institutions, securities available-for-sale and loans held for sale. These assets are commonly referred to as liquid assets. Liquid assets were \$122.5 million at June 30, 2011 compared to \$172.3 million at December 31, 2010.

On August 5, 2010, the Company notified the trustees of the Capital Securities of the Company's election to defer (a) the next four quarterly interest payments on the RST II Capital Securities, beginning on September 15, 2010 and extending through September 15, 2011, and (b) the next two semi-annual interest payments on the RST I Capital Securities, beginning on September 7, 2010 and extending through September 7, 2011. During any interest deferral period, the trust preferred indentures prohibit the Company from paying common stock dividends or repurchasing shares of common stock.

As noted in Note H, the Company is in violation of a debt covenant related to its borrowing facility with First Tennessee Bank. This facility matured on June 30, 2011 and was extended to October 31, 2011. Due to the covenant violation, First Tennessee Bank may demand full payment of the outstanding balance of \$1.7 million. The Company intends to seek alternative financing arrangements if necessary.

The cash flow statements for the periods presented provide an indication of the Company's sources and uses of cash, as well as an indication of the ability of the Company to maintain an adequate level of liquidity. A discussion of the cash flow statements for the six months ended June 30, 2011 and June 30, 2010 follows.

The Company experienced positive cash flows from operating activities for the six months ended June 30, 2011 and for the six months ended June 30, 2010. Net cash from operating activities was \$6.0 million for the six months ended June 30, 2011 and \$7.7 million for the six months ended June 30, 2010. Highlights include \$69.0 million in proceeds from the sale of loans, which is down \$48.5 million from the prior year. Originations of loans held for sale was a use of cash of \$66.1 million, which is also down from the prior year, by over \$44.9 million. For the first six months of 2011, the Company had depreciation and amortization of \$0.9 million, provision for loan loss of \$1.4 million, gain on sale of non mortgage loans of \$1.0 million and gain on sale of securities of \$1.9 million. This compares to depreciation and amortization of \$2.5 million, provision for loan loss of \$7.9 million, gain on sale of non mortgage loans of \$1.2 million and gain on sale of securities of \$0.5 million for the first six months of 2010. In addition, the prior year included software and fixed asset impairments of \$4.9 million.

The Company experienced positive cash flows from investing activities for the six months ended June 30, 2011 and for the six months ended June 30, 2010. Net cash flow from investing activities was \$16.1 million for the six months ended June 30, 2011 and \$1.2 million for the six months ended June 30, 2010. Highlights include \$27.7 million in purchases of available-for-sale securities, which is down \$13.8 million from the prior year. These cash payments were offset by \$55.4 million in proceeds from maturities and sales of securities, which is up \$19.3 million from the prior year. These transactions all related to the balance sheet restructuring detailed in the financial analysis discussion. The Company terminated several Life Insurance Policies on retired executives and realized a cash inflow of \$1.3 million. The Company experienced a \$13.7 million positive change in loans, which is up \$19.1 where the change in loans was a negative \$4.4 million for the prior year. Sales of foreclosed assets provided cash of \$1.2 million for the six months ended June 30, 2011 and \$3.0 million for the six months ended June 30, 2010.

The Company experienced negative cash flows from financing activities for the six months ended June 30, 2011 and for the six months ended June 30, 2010. Net cash flow from financing activities was a negative \$42.1 million for the six months ended June 30, 2011 and a negative \$13.4 million for the six months ended June 30, 2010. Highlights include a \$17.5 million decrease in non time deposits for the six months ended June 30, 2011, which compares unfavorably with a \$3.0 million decrease in non time deposits for the six months ended June 30, 2010. The Company had net cash flow from FHLB advance activity of a positive \$1.8 million in the first six months of 2011 and a negative \$9.2 million for the first six months of 2010. During the six months ended June 30, 2011, the company sold repos of \$25.9 million.

Off-Balance-Sheet Borrowing Arrangements:

Significant additional off-balance-sheet liquidity is available in the form of FHLB advances, unused federal funds lines from correspondent banks, and a line of credit with a regional bank. Management expects the risk of changes in off-balance-sheet arrangements to be immaterial to earnings.

The Company's commercial real estate, residential first and multi-family mortgage portfolios of \$275.6 million have been pledged to meet FHLB collateralization requirements as of June 30, 2011. Based on the current collateralization requirements of the FHLB, the Company had approximately \$8.4 million of additional borrowing capacity at June 30, 2011. The Company also had \$26.5 million in unpledged securities that may be used to pledge for additional borrowings.

The Company's commercial real estate, multi-family and residential first mortgage portfolio of \$275.6 million at June 30, 2011 and \$264.9 million at December 31, 2010, which can and has been used to collateralize borrowings, is an additional source of liquidity. Management believes the Company's current liquidity level, without these borrowings, is sufficient to meet its liquidity needs. At June 30, 2011, all eligible commercial real estate and first mortgage loans were pledged under an FHLB blanket lien.

At June 30, 2011, the Company had federal funds lines totaling \$11.5 million, with \$2 million outstanding. The Company also has a \$5.0 million line of credit with a regional bank (detailed in Note H), with advances totaling \$1.7 million at June 30, 2011.

The Company's contractual obligations as of June 30, 2011 were comprised of long-term debt obligations, other debt obligations, operating lease obligations and other long-term liabilities. Long-term debt obligations are comprised of FHLB Advances of \$24.6 and repos of \$19.9 million. The restructuring resulted in total FHLB and repo balances declining from \$66.2 million at March 31, 2011 to \$44.5 million at June 30, 2011. Other debt obligations are comprised of Trust Preferred securities of \$20.6 million and Notes Payable of \$3.1 million. Total time deposits at June 30, 2011 were \$212.7 million, of which \$95.0 million matures beyond one year. The operating lease obligations are leases on the RDSI-South building of \$87.5 thousand per year, the RDSI-North building of \$162 thousand per

year, the DCM-Lansing facility of \$104.6 per year, the State Bank branch at Northtowne of \$65 thousand per year and the State Bank branch at Chief of \$24 thousand per year.

ASSET LIABILITY MANAGEMENT

Asset liability management involves developing, executing and monitoring strategies to maintain appropriate liquidity, maximize net interest income and minimize the impact that significant fluctuations in market interest rates would have on current and future earnings. The business of the Company and the composition of its balance sheet consist of investments in interest-earning assets (primarily loans, mortgage-backed securities, and securities available for sale) which are primarily funded by interest-bearing liabilities (deposits and borrowings). With the exception of specific loans which are originated and held for sale, all of the financial instruments of the Company are for other than trading purposes. All of the Company's transactions are denominated in U.S. dollars with no specific foreign exchange exposure. In addition, the Company has limited exposure to commodity prices related to agricultural loans. The impact of changes in foreign exchange rates and commodity prices on interest rates are assumed to be insignificant. The Company's financial instruments have varying levels of sensitivity to changes in market interest rates resulting in market risk. Interest rate risk is the Company's primary market risk exposure; to a lesser extent, liquidity risk also impacts market risk exposure.

Interest rate risk is the exposure of a banking institution's financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability and shareholder value; however, excessive levels of interest rate risk could pose a significant threat to the Company's earnings and capital base. Accordingly, effective risk management that maintains interest rate risks at prudent levels is essential to the Company's safety and soundness.

Evaluating a financial institution's exposure to changes in interest rates includes assessing both the adequacy of the management process used to control interest rate risk and the organization's quantitative level of exposure. When assessing the interest rate risk management process, the Company seeks to ensure that appropriate policies, procedures, management information systems and internal controls are in place to maintain interest rate risks at prudent levels of consistency and continuity. Evaluating the quantitative level of interest rate risk exposure requires the Company to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity and asset quality (when appropriate).

The Federal Reserve Board together with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Company adopted a Joint Agency Policy Statement on interest rate risk effective June 26, 1996. The policy statement provides guidance to examiners and bankers on sound practices for managing interest rate risk, which will form the basis for ongoing evaluation of the adequacy of interest rate risk management at supervised institutions. The policy statement also outlines fundamental elements of sound management that have been identified in prior Federal Reserve guidance and discusses the importance of these elements in the context of managing interest rate risk. Specifically, the guidance emphasizes the need for active board of director and senior management oversight and a comprehensive risk management process that effectively identifies, measures and controls interest rate risk.

Financial institutions derive their income primarily from the excess of interest collected over interest paid. The rates of interest an institution earns on its assets and owes on its liabilities generally are established contractually for a period of time. Since market interest rates change over time, an institution is exposed to lower profit margins (or losses) if it cannot adapt to interest rate changes. For example, assume that an institution's assets carry intermediate or long-term fixed rates and that those assets are funded with short-term liabilities. If market interest rates rise by the time the short-term liabilities must be refinanced, the increase in the institution's interest expense on its liabilities may not be sufficiently offset if assets continue to earn at the long-term fixed rates. Accordingly, an institution's profits could decrease on existing assets because the institution will either have lower net interest income or possibly, net interest expense. Similar risks exist when assets are subject to contractual interest rate ceilings, or rate-sensitive assets are funded by longer-term, fixed-rate liabilities in a declining rate environment.

There are several ways an institution can manage interest rate risk including: 1) matching repricing periods for new assets and liabilities, for example, by shortening or lengthening terms of new loans, investments, or liabilities; 2) selling existing assets or repaying certain liabilities; and 3) hedging existing assets, liabilities, or anticipated transactions. An institution might also invest in more complex financial instruments intended to hedge or otherwise change interest rate risk. Interest rate swaps, futures contracts, options on futures contracts, and other such derivative financial instruments can be used for this purpose. Because these instruments are sensitive to interest rate changes, they require management's expertise to be effective. The Company has not purchased derivative financial instruments in the past but may purchase such instruments in the future if market conditions are favorable.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management believes there has been no material change in the Company's market risk from the information contained in the Company's Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2010.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

With the participation of the President and Chief Executive Officer (the principal executive officer) and the Executive Vice President and Chief Financial Officer (the principal financial officer) of the Company, the Company's management has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Company's President and Chief Executive Officer and the Company's Executive Vice President and Chief Financial Officer have concluded that:

- information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and other reports which the Company files or submits under the Exchange Act would be accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure;
- information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and other reports which the Company files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and
- the Company's disclosure controls and procedures were effective as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended June 30, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

On January 18, 2011, the Company's subsidiary, RDSI, filed a lawsuit against New Core Holdings, Inc. ("New Core") in the Court of Common Pleas, Defiance County, Ohio (Case No. 11-CV-41125). RDSI's complaint alleges, among other things, that New Core breached its loan agreement, promissory notes, merger agreement and certain other agreements entered into between RDSI and New Core in connection with the previously planned merger of RDSI with New Core. RDSI's complaint seeks, among other things, recovery of an amount in excess of \$3,260,000, plus costs and expenses, including attorneys' fees, an order directing the release of certain software collateral, and a declaration that RDSI has no obligation to advance any additional loans or pay any additional funds to New Core. New Core subsequently removed this lawsuit to the United States District Court for the Northern District of Ohio (Case No. 3:11cv366). As of the date of this Quarterly Report on Form 10-Q, New Core had not yet filed any answer or other response to RDSI's complaint. At this time, the Company is unable to predict the likelihood of RDSI's success on its claims, or the amount of any damages that may be awarded to RDSI or New Core in this lawsuit.

In the ordinary course of our business, the Company and its subsidiaries are also parties to various legal actions which we believe are incidental to the operation of our business. Although the ultimate outcome and amount of liability, if any, with respect to these legal actions cannot presently be ascertained with certainty, in the opinion of management, based upon information currently available to us, any resulting liability is not likely to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

There are certain risks and uncertainties in our business that could cause our actual results to differ materially from those anticipated. A detailed discussion of our risk factors is included in "Item 1A. Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The following information updates certain of our risk factors and should be read in conjunction with the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

RDSI may continue to experience net operating losses as a result of the loss of customers.

RDSI currently provides data processing services exclusively to State Bank, as RDSI has discontinued offering data processing services to other client banks. However, RDSI continues to offer item processing and network services, and expects to maintain those primary businesses going forward. The current customer base at RDSI is significantly lower than the prior year and RDSI anticipates normal levels of attrition going forward. Should RDSI be unable to replace lost clients and expand its existing client base, revenue will decline and additional operating losses within that business segment are likely to occur. In addition, the issuance of a Consent Order at RDSI increases the chances that existing, and potential new, clients may choose to not utilize RDSI for processing services.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Repurchases of Common Shares

The Company did not have any repurchases of common shares during the six months ended June 30, 2011.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. [Reserved]

Item 5. Other Information

Not applicable

Item 6. Exhibits

Exhibits

- 31.1 – Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)
- 31.2 – Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)
- 32.1 – Section 1350 Certification (Principal Executive Officer)
- 32.2 – Section 1350 Certification (Principal Financial Officer)
- 101 – The following materials from Rurban Financial Corp.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language) pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of June 30, 2011 (unaudited) and December 31, 2010; (ii) the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2011 and 2010 (unaudited); (iii) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2011 and 2010 (unaudited); (iv) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010 (unaudited); and (v) the Notes to Condensed Consolidated Financial Statements (unaudited) tagged as blocks of text. *

* Pursuant to Rule 406T of SEC Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are furnished and not deemed filed or part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those Sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

RURBAN FINANCIAL CORP.

Date: August 15, 2011

By /s/ Mark A. Klein
Mark A. Klein
President & Chief Executive Officer

By /s/ Anthony V. Cosentino
Anthony V. Cosentino
Executive Vice President &
Chief Financial Officer