RURBAN FINANCIAL CORP
Form 10-Q
May 15, 2009

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2009
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	34-1395608
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

401 Clinton Street, Defiance, Ohio 43512
(Address of principal executive offices)
(Zip Code)

(419) 783-8950
(Registrant's telephone number, including area code)

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 ¨

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 ¨ No

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large Accelerate Filer o Accelerated Filer o Non-Accelerated Filer o

Smaller Reporting Company x

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

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

Common Shares, without par value	4,868,530 shares
(class)	(Outstanding at May 14, 2009)

RURBAN FINANCIAL CORP.

FORM 10-Q

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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 months ended March 31, 2009 are not necessarily indicative of results for the complete year.

Rurban Financial Corp.
Condensed Consolidated Balance Sheets
March 31, 2009 and December 31, 2008

	(Unaudited) March 31, 2009	December 31, 2008
Assets		
Cash and due from banks	$ 14,814,685	$ 18,059,532
Federal funds sold	8,200,000	10,000,000
Cash and cash equivalents	23,014,685	28,059,532
Available-for-sale securities	127,879,529	102,606,475
Loans held for sale	9,095,776	3,824,499
Loans, net of unearned income	434,051,854	450,111,653
Allowance for loan losses	(5,348,952)	(5,020,197)
Premises and equipment	17,159,167	17,621,262
Purchased software	5,741,678	5,867,395
Federal Reserve and Federal Home Loan Bank stock	3,544,100	4,244,100
Foreclosed assets held for sale, net	1,393,155	1,384,335
Interest receivable	2,864,190	2,964,663
Goodwill	21,414,790	21,414,790
Core deposits and other intangibles	5,614,025	5,835,936
Cash value of life insurance	12,734,983	12,625,015
Other	6,653,626	6,079,451
Total assets	$ 665,812,606	$ 657,618,909

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date

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Rurban Financial Corp.
Condensed Consolidated Balance Sheets
March 31, 2009 and December 31, 2008

	(Unaudited) March 31, 2009	December 31, 2008
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	$ 49,968,772	$ 52,242,626
Savings, interest checking and money market	204,527,419	189,461,755
Time	233,137,761	242,516,203
Total deposits	487,633,952	484,220,584
Notes payable	2,500,000	1,000,000
Federal Home Loan Bank advances	36,059,017	36,646,854
Retail repurchase agreements	47,894,843	43,425,978
Trust preferred securities	20,620,000	20,620,000
Interest payable	1,724,525	1,965,842
Other liabilities	5,759,759	8,077,647
Total liabilities	602,192,096	595,956,905
Commitments and Contingent Liabilities		
Stockholders' Equity		
Common stock, $2.50 stated value; authorized 10,000,000 shares; issued 5,027,433 shares; outstanding March 2009 – 4,871,373 shares, December 2008 – 4,881,452 shares	12,568,583	12,568,583
Additional paid-in capital	15,072,847	15,042,781
Retained earnings	36,449,912	35,785,317
Accumulated other comprehensive income (loss)	1,222,435	(121,657)
Treasury Stock, at cost		
Common; Mar. 2009 – 156,060 shares, Dec. 2008 – 145,981 shares	(1,693,267)	(1 ,613,020)
Total stockholders' equity	63,620,510	61,662,004
Total liabilities and stockholders' equity	$ 665,812,606	$ 657,618,909

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2008 has been derived from the audited consolidated financial statements at that date

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

	March 31, 2009	March 31, 2008
Interest Income		
Loans		
Taxable	$ 6,814,633	$ 6,808,196
Tax-exempt	25,457	21,350
Securities		
Taxable	1,079,497	1,039,894
Tax-exempt	227,884	158,367
Other	132	97,409
Total interest income	8,147,603	8,125,216
Interest Expense		
Deposits	1,898,304	3,091,902
Other borrowings	14,392	17,506
Retail repurchase agreements	427,487	460,552
Federal Home Loan Bank advances	392,572	302,336
Trust preferred securities	398,985	435,704
Total interest expense	3,131,740	4,308,000
Net Interest Income	5,015,863	3,817,216
Provision for Loan Losses	495,142	192,218
Net Interest Income After Provision for Loan Losses	4,520,721	3,624,998
Non-interest Income		
Data service fees	4,972,549	5,264,565
Trust fees	583,623	855,107
Customer service fees	574,699	586,207
Net gains on loan sales	1,078,047	274,603
Net realized gain on sales of securities	53,807	-
Net proceeds from VISA IPO	-	132,106
Investment securities recoveries	-	197,487
Loan servicing fees	67,873	62,940
Loss on sale of assets	(58,655)	(71,032)
Other	175,562	213,530
Total non-interest income	7,447,505	7,515,513

See notes to condensed consolidated financial statements

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

	March 31, 2009	March 31, 2008
Non-interest Expense		
Salaries and employee benefits	$ 4,924,122	$ 4,438,764
Net occupancy expense	672,401	566,016
Equipment expense	1,613,393	1,567,637
Data processing fees	135,736	96,567
Professional fees	498,055	570,687
Marketing expense	188,746	181,747
Printing and office supplies	214,542	186,052
Telephone and communications	406,393	421,929
Postage and delivery expense	609,022	602,634
State, local and other taxes	232,896	180,768
Employee expense	259,938	230,611
Other	719,780	557,948
Total non-interest expense	10,475,024	9,601,360
Income Before Income Tax	1,493,202	1,539,151
Provision for Income Taxes	389,649	429,795
Net Income	$ 1,103,553	$ 1,109,356
Basic Earnings Per Share	$ 0.23	$ 0.22
Diluted Earnings Per Share	$ 0.23	$ 0.22
Dividends Declared Per Share	$ 0.09	$ 0.08

See notes to consolidated financial statements (unaudited)

RURBAN FINANCIAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Balance at beginning of period	$ 61,662,004	$ 59,325,235
Cumulative effect adjustment for split dollar BOLI	-	(116,303)
Net Income	1,103,553	1,109,356
Other comprehensive loss:		
Net change in unrealized gains (losses)		
On securities available for sale, net	1,344,092	350,193
Total comprehensive income	2,447,645	1,459,549
Cash dividend	(438,958)	(397,914)
Purchase of treasury shares	(80,247)	(421,000)
Share-based compensation expense	30,066	20,744
Balance at end of period	$ 63,620,510	$ 59,870,311

See notes to condensed consolidated financial statements (unaudited)

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

	March 31, 2009	March 31, 2008
Operating Activities		
Net income	$ 1,103,553	$ 1,109,356
Items not requiring (providing) cash		
Depreciation and amortization	906,560	976,290
Provision for loan losses	495,142	192,218
Expense of share-based compensation plan	30,066	20,744
Amortization of premiums and discounts on securities	126,959	15,842
Amortization of intangible assets	221,911	173,382
Deferred income taxes	(1,367,386)	(180,403)
FHLB Stock Dividends	-	(40,900)
Proceeds from sale of loans held for sale	75,954,853	15,208,863
Originations of loans held for sale	(80,148,083)	(15,749,144)
Gain from sale of loans	(1,078,047)	(274,603)
Gain on available for sale securities	(53,807)	-
(Gain) loss on sale of foreclosed assets	58,655	(3,180)
Loss on sales of fixed assets	27,878	71,032
Changes in		
Interest receivable	100,473	256,716
Other assets	(662,788)	656,421
Interest payable and other liabilities	(1,884,229)	(248,376)
Net cash provided by (used in) operating activities	(6,168,290)	2,184,258
Investing Activities		
Purchases of available-for-sale securities	(37,662,358)	(36,191,291)
Proceeds from maturities of available-for-sale securities	10,851,012	34,989,055
Proceeds from sales of available-for-sale securities	3,501,640	-
Proceeds from sales of Fed Stock	700,000	-
Net change in loans	15,677,493	(4,461,937)
Purchase of premises and equipment and software	(347,271)	(1,196,249)
Proceeds from sales of premises and equipment	645	301,314
Proceeds from sale of foreclosed assets	127,090	62,385
Net cash used in investing activities	(7,151,749)	(6,496,723)

See notes to condensed consolidated financial statements (unaudited)

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

	March 31, 2009	March 31, 2008
Financing Activities		
Net increase in demand deposits, money market, interest checking and savings accounts	$ 12,791,810	$ 15,712,413
Net decrease in certificates of deposit	(9,378,442)	(5,031,327)
Net increase in securities sold under agreements to repurchase	4,468,865	530,132
Proceeds from Federal Home Loan Bank advances	2,000,000	1,000,000
Repayment of Federal Home Loan Bank advances	(2,587,836)	(2,000,000)
Proceeds from notes payable	1,500,000	-
Repayment of notes payable	-	(104,873)
Purchase of treasury stock	(80,247)	(421,000)
Dividends paid	(438,958)	(397,914)
Net cash provided by financing activities	8,275,192	9,287,431
Increase (Decrease) in Cash and Cash Equivalents	(5,044,847)	4,974,966
Cash and Cash Equivalents, Beginning of Year	28,059,532	17,183,627
Cash and Cash Equivalents, End of Period	$ 23,014,685	$ 22,158,593
Supplemental Cash Flows Information		
Interest paid	$ 3,373,057	$ 4,359,285
Transfer of loans to foreclosed assets	$ 190,158	$ 1,507,718

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 months ended March 31, 2009 are not necessarily indicative of results for the complete year.

The condensed consolidated balance sheet of the Company as of December 31, 2008 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, 2008.

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 March 31, 2009 and 2008, share based awards totaling 327,263 and 329,640 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 March 31	
	2009	2008
Basic earnings per share	4,875,936	4,962,428
Diluted earnings per share	4,875,936	4,962,511

NOTE C – LOANS, RISK ELEMENTS AND ALLOWANCE FOR LOAN LOSSES

Total loans on the balance sheet are comprised of the following classifications at:

	March 31, 2009	December 31, 2008
Commercial	$ 82,912,530	$ 83,645,408
Commercial real estate	157,986,340	161,566,005
Agricultural	41,506,827	43,641,132
Residential real estate	99,798,225	107,905,198
Consumer	51,798,301	53,338,523
Lease financing	288,500	266,348
Total loans	434,290,723	450,362,614
Less		
Net deferred loan fees, premiums and discounts	(238,869)	(250,961)

Loans, net of unearned income	$ 434,051,854	$ 450,111,653
Allowance for loan losses	$ (5,348,952)	$ (5,020,197)

The following is a summary of the activity in the allowance for loan losses account for the three months ended March 31, 2009 and 2008.

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Balance, beginning of period	$ 5,020,197	$ 3,990,455
Provision charged to expense	495,142	192,218
Recoveries	20,994	30,848
Loans charged off	(187,381)	(197,291)
Balance, end of period	$ 5,348,952	$ 4,016,230

The following schedule summarizes nonaccrual, past due and impaired loans at:

	March 31, 2009	December 31, 2008
Non-accrual loans	$ 9,163,368	$ 5,177,694
Accruing loans which are contractually past due 90 days or more as to interest or principal payments	7,350	-
Total non-performing loans	$ 9,170,718	$ 5,177,694

In addition to the above mentioned non-performers, management was very proactive in reaching out to customers to restructure loans. On March 31, 2009, approximately $6.87 million in loans were restructured and are currently paying under the new terms. At December 31, 2008, $151,000 in loans were restructured and paying under the new terms.

Individual loans determined to be impaired were as follows:

	March 31, 2009	December 31, 2008
Loans with no allowance for loan losses allocated	$ 8,137,000	$ 1,857,000
Loans with allowance for loan losses allocated	4,138,000	866,000
Total impaired loans	$ 12,275,000	$ 2,723,000
Amount of allowance allocated	$ 630,000	$ 322,000

NOTE D – REGULATORY MATTERS

The Company and The State Bank and Trust Company ("State Bank") are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional, discretionary actions by regulators. If undertaken, these actions could have a direct material adverse effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and State Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and State Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and of Tier I capital to average assets (as defined in the regulations). As of March 31, 2009 and December 31, 2008, the Company and State Bank exceeded all "well-capitalized" requirements to which they were subject.

As of December 31, 2008, the most recent notification to the regulators categorized State Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, State Bank must maintain capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed State Bank's categorization as well capitalized.

The Company's consolidated, and State Bank's actual, capital amounts (in millions) and ratios, as of March 31, 2009 and December 31, 2008, are also presented in the following table.

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2009						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 60.7	13.5%	$ 36.0	8.0%	$ —	N/A
State Bank	50.7	11.6	35.1	8.0	43.9	10.0
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	55.3	12.3	18.0	4.0	—	N/A
State Bank	45.4	10.3	17.6	4.0	26.3	6.0
Tier I Capital (to Average Assets)						
Consolidated	55.3	8.3	26.7	4.0	—	N/A
State Bank	45.4	6.9	26.2	4.0	32.8	5.0
As of December 31, 2008						

Total Capital (to Risk-Weighted Assets)									
Consolidated	$	59.5	13.0%	$	36.5	8.0%	$	—	N/A
State Bank		50.0	11.3		35.4	8.0		44.3	10.0
Tier I Capital (to Risk-Weighted Assets)									
Consolidated		54.5	11.9		18.3	4.0		—	N/A
State Bank		45.0	10.2		17.7	4.0		26.6	6.0
Tier I Capital (to Average Assets)									
Consolidated		54.5	9.5		23.1	4.0		—	N/A
State Bank		45.0	7.7		23.5	4.0		29.3	5.0

NOTE E – CONTINGENT LIABILITIES

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the Company's consolidated financial condition or results of operations.

NOTE F - NEW ACCOUNTING PRONOUNCEMENTS

On April 9, 2009, the FASB finalized three FASB Staff Positions ("FSPs") regarding the accounting treatment for investments including mortgage-backed securities. These FSPs changed the method for determining if an Other-Than-Temporary Impairment ("OTTI") exists and the amount of OTTI to be recorded through an entity's income statement. The changes brought about by the FSPs provide greater clarity and reflect a more accurate representation of the credit and noncredit components of an OTTI event. The three FSPs are as follows:

- FSP "SFAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Assets or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" addresses the criteria to be used in the determination of an active market in determining whether observable transactions are Level 1 or Level 2 under the framework established by SFAS 157, "Fair Value Measurements." The FSP reiterates that fair value is based on the notion of exit price in an orderly transaction between willing market participants at the valuation date.
- FSP "SFAS 115-2 and SFAS 124-2, Recognition and Presentation of Other-than-Temporary Impairments" provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on debt securities.
- FSP "SFAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments" enhances consistency in financial reporting by increasing the frequency of fair value disclosures.

These staff positions are effective for financial statements issued for periods ending after June 15, 2009, with early application possible for the quarter ended March 31, 2009. The Company elected not to adopt any of the above positions early. Adoption of these staff positions is not expected to have a material effect on the Company's financial position or results of operations.

On June 16, 2008, the FASB issued Staff Position EITF 03-6-1 "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, Earnings per Share. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of FSP EITF 03-6-1 has not impacted the Corporation's consolidated financial statements.

Accounting Standards No. 161 “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133” (“SFAS No. 161”). SFAS No. 161 requires enhanced disclosures about an entity’s derivative and hedging activities and thereby, improves the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Management has determined there is no impact from SFAS No. 161 on the Corporation’s disclosures.

On December 4, 2007, the FASB issued FASB Statement No. 160, “Non-controlling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51.” SFAS No. 160 amends ARB No. 51 to establish new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 clarifies that changes in a parent’s ownership interest in a subsidiary that does not result in deconsolidation are equity transactions. The statement also requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS No. 160 is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008. Early application is prohibited. SFAS No. 160 is effective for the Company’s fiscal year that begins on January 1, 2009.

On December 4, 2007, the FASB amended SFAS No. 141 (revised 2007), “Business Combinations.” SFAS No. 141R, establishes requirements and principles for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. SFAS No. 141R will apply to business combinations for which the acquisition date is on or after the beginning of the first reporting period for fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, a calendar year-end company is required to record and disclose business combinations following existing GAAP until January 1, 2009. Management has adopted SFAS 141R effective January 1, 2009.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits the Company to choose to measure certain financial assets and liabilities at fair value that are not currently required to be measured at fair value (i.e. the Fair Value Option). Election of the Fair Value Option is made on an instrument-by-instrument basis and is irrevocable. At the adoption date, unrealized gains and losses on financial assets and liabilities for which the Fair Value Option has been elected would be reported as a cumulative adjustment to beginning retained earnings. If the Company elects the Fair Value Option for certain financial assets and liabilities, the Company will report unrealized gains and losses due to changes in their fair value in earnings at each subsequent reporting date. SFAS No. 159 is effective as of January 1, 2008. The Company has not elected the Fair Value Option for any financial assets or liabilities at March 31, 2009.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of FAS 157, guidance for applying fair value was incorporated in several accounting pronouncements. FAS 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure about the use of fair value to measure assets and liabilities. FAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under FAS 157, fair value measurements are disclosed by level within that hierarchy. While FAS 157 does not add any new fair value measurements, it does change current practice. Changes to practice include: (1) a requirement for an entity to include its own credit standing in the measurement of its liabilities; (2) a modification of the transaction price presumption; (3) a prohibition on the use of block discounts when valuing large blocks of securities for broker-dealers and investment companies; and (4) a requirement to adjust the value of restricted stock for the effect of the restriction even if the restriction lapses within one year. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company adopted FAS 157 effective for the first quarter of 2008.

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At its September 2006 meeting, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under Statement No. 106 ("SFAS No. 106") or Accounting Principles Board (APB) Opinion No. 12, Omnibus Opinion-1967. The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007. The Company has endorsement split-dollar life insurance policies. A liability has been recorded through a cumulative-effect adjustment to retained earnings as of January 1, 2008 in the amount of $116,303. There was no material impact to the financial position and results of operations as a result of the implementation of EITF 06-04.

NOTE G – COMMITMENTS AND CREDIT RISK

As of March 31, 2009, loan commitments and unused lines of credit totaled $72,865,000, standby letters of credit totaled $5,308,000 and no commercial letters of credit were outstanding. At December 31, 2008, loan commitments and unused lines of credit totaled $67,785,000, standby letters of credit totaled $5,436,000 and no commercial letters of credit were outstanding.

NOTE H – 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 combined, provides management and operational services to its subsidiaries. Information reported internally for performance assessment follows.

NOTE H — SEGMENT INFORMATION (Continued)

As of and for the three months ended March 31, 2009

Income statement information:	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	$ 5,439,653	$ (25,075)	$ (398,715)	$ 5,015,863		$ 5,015,863
Non-interest income -external customers	2,481,920	4,944,671	20,914	7,447,505		7,447,505
Non-interest income - other segments	19,872	428,016	378,593	826,481	(826,481)	-
Total revenue	7,941,445	5,347,612	792	13,289,849	(826,481)	12,463,368
Non-interest expense	6,307,784	4,184,780	808,941	11,301,505	(826,481)	10,475,024
Significant non-cash items:						
Depreciation and amortization	270,118	611,956	24,486	906,560	-	906,560
Provision for loan losses	495,142	-	-	495,142	-	495,142
Income tax expense (benefit)	275,062	395,363	(280,776)	389,649	-	389,649
Segment profit (loss)	$ 863,457	$ 767,469	$ (527,373)	$ 1,103,553	$ -	$ 1,103,553
Balance sheet information:						
Total assets	$ 644,158,701	$ 20,244,226	$ 3,203,320	$ 667,606,247	$ (1,793,641)	$ 665,812,606
Goodwill and intangibles	$ 19,953,018	$ 7,075,797	$ -	$ 27,028,815	$ -	$ 27,028,815
Premises and equipment expenditures	$ 96,645	$ 225,435	$ 25,191	$ 347,271	$ -	$ 347,271

NOTE H — SEGMENT INFORMATION (Continued)

As of and for the three months ended March 31, 2008

Income statement information:	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	$ 4,295,351	$ (43,240)	$ (434,895)	$ 3,817,216		$ 3,817,216
Non-interest income - external customers	2,159,188	5,259,566	96,759	7,515,513		7,515,513
Non-interest income - other segments	9,366	389,403	309,998	708,767	(708,767)	-
Total revenue	6,463,905	5,605,729	(28,138)	12,041,496	(708,767)	11,332,729
Non-interest expense	5,017,887	4,393,142	899,098	10,310,127	(708,767)	9,601,360
Significant non-cash items:						
Depreciation and amortization	269,370	667,162	39,758	976,290	-	976,290
Provision for loan losses	192,218	-	-	192,218	-	192,218
Income tax expense (benefit)	336,347	412,280	(318,832)	429,795	-	429,795
Segment profit (loss)	$ 917,453	$ 800,307	$ (608,404)	$ 1,109,356	$ -	$ 1,109,356
Balance sheet information:						
Total assets	$ 552,918,637	$ 20,353,899	$ 6,588,372	$ 579,860,908	$ (8,127,560)	$ 571,733,348
Goodwill and intangibles	$ 11,579,734	$ 7,322,730	$ -	$ 18,902,464	$ -	$ 18,902,464
Premises and equipment expenditures	$ 57,314	$ 1,046,388	$ 92,547	$ 1,196,249	$ -	$ 1,196,249

NOTE I – FAIR VALUE OF ASSETS AND LIABILITIES

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the period.

FAS 157 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. FAS 157 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 2 securities include U.S. government agencies, mortgage-backed securities, and obligations of political and state subdivisions.

The following table presents the fair value measurements of assets measured at fair value on a recurring basis and the level within FAS 157 fair value hierarchy in which the fair value measurements fall at March 31, 2009 and December 31, 2008:

		Fair Value Measurements Using:		
Description	Fair Values at 3/31/2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-Sale Securities	$ 127,879,529	-	$ 127,879,529	-

		Fair Value Measurements Using:		
Description	Fair Values at 12/31/2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-Sale Securities	$ 102,606,475	-	$ 102,606,475	-

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 in accordance with the provisions of Financial Accounting Standard No. 114, "Accounting by Creditors for Impairment of a Loan." Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans, or where a loan is determined not to be collateral dependent, using the discounted cash flow method. 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.

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. 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.

The following table presents the fair value measurements of assets measured at fair value on a nonrecurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at March 31, 2009 and December 31, 2008:

Fair Value Measurements Using: