RURBAN FINANCIAL CORP
Form 10-Q
November 14, 2011

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 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	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 x 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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large Accelerate Filer ¨ Accelerated Filer ¨ Non-Accelerated Filer ¨

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	4,861,779 shares
(class)	(Outstanding at November 14, 2011)

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 and nine months ended September 30, 2011 are not necessarily indicative of results for the complete year.

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

	September 2011 (unaudited)	December 2010
ASSETS		
Cash and due from banks	$13,764,025	$30,417,813
Investment Securities:		
Securities available for sale, at fair value	104,614,877	132,762,058
Non-marketable securities - FRB and FHLB Stock	3,748,250	3,748,250
Total investment securities	108,363,127	136,510,308
Loans held for sale	10,589,706	9,055,268
Loans, net of unearned income	438,926,037	427,544,414
Allowance for loan losses	(6,235,230)	(6,715,397)
Net Loans	432,690,807	420,829,017
Premises and equipment, net	14,120,118	14,622,541
Purchased software	805,286	1,021,036
Cash surrender value of life insurance	12,133,693	13,211,247
Goodwill	16,733,830	16,733,830
Core deposits and other intangibles	2,005,945	2,585,132
Foreclosed assets held for sale, net	1,970,028	1,538,307
Mortgage servicing rights	2,709,222	3,190,389
Accrued interest receivable	2,061,201	2,068,965
Other assets	5,846,400	8,503,832
Total assets	$623,793,388	$660,287,685
LIABILITIES AND EQUITY		
Deposits		
Non interest bearing demand	$62,079,685	$62,745,906
Interest bearing NOW	103,229,318	105,708,472
Savings	48,145,958	47,662,315
Money Market	79,163,033	84,635,537
Time Deposits	221,730,681	214,925,512
Total deposits	514,348,675	515,677,742
Notes payable	2,865,123	3,290,471
Advances from Federal Home Loan Bank	12,939,598	22,807,351
Repurchase Agreements	18,777,909	45,785,254
Trust preferred securities	20,620,000	20,620,000
Accrued interest payable	2,704,466	1,971,587
Other liabilities	3,985,333	4,111,182
Total liabilities	576,241,104	614,263,587

Equity		
Common stock	12,568,583	12,568,583
Additional paid-in capital	15,302,194	15,235,206
Retained earnings	20,192,317	18,802,106
Accumulated other comprehensive income (loss)	1,258,501	1,187,514
Treasury stock	(1,769,311)	(1,769,311)
Total Equity	47,552,284	46,024,098
Total liabilities and equity	$623,793,388	$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

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

	Three Months Ended		Nine Months Ended	
	September 2011	September 2010	September 2011	September 2010
Interest income				
Loans				
Taxable	$6,250,747	$6,281,157	$18,273,348	$19,442,383
Nontaxable	24,140	13,664	50,564	49,960
Securities				
Taxable	446,342	596,362	1,623,475	1,679,203
Nontaxable	171,739	353,755	809,264	1,055,707
Other	56	24	142	211
Total interest income	6,893,024	7,244,962	20,756,793	22,227,464
Interest expense				
Deposits	976,336	1,275,607	3,035,899	3,935,731
Other borrowings	24,691	32,367	73,777	101,145
Repurchase Agreements	71,900	436,369	841,634	1,295,994
Federal Home Loan Bank advances	79,033	231,122	325,428	872,947
Trust preferred securities	355,632	388,854	1,047,923	1,178,502
Total interest expense	1,507,592	2,364,319	5,324,661	7,384,319
Net interest income	5,385,432	4,880,643	15,432,132	14,843,145
Provision for loan losses	297,368	898,570	1,694,648	8,788,713
Net interest income after provision for loan losses	5,088,064	3,982,073	13,737,484	6,054,432
Noninterest income				
Data service fees	743,114	2,044,400	2,959,026	8,682,575
Trust fees	628,994	650,511	1,993,476	1,883,994
Customer service fees	663,691	643,816	1,884,784	1,846,161
Gain on sale of mortgage loans and OMSR's	1,100,557	1,435,581	2,090,736	2,653,693
Mortgage loan servicing fees, net	(795,995)	(423,939)	(661,110)	(397,577)
Gain on sale of non-mortgage loans	-	125,122	80,423	233,071
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	(26,816)	(128,985)	(287,478)	(159,066)
Other income	161,377	188,055	503,469	544,094
Total non-interest income	2,474,922	4,534,561	10,434,713	15,812,193
Noninterest expense				
Salaries and employee benefits	3,582,982	4,058,316	10,686,191	14,064,591
Net occupancy expense	568,173	486,695	1,669,644	1,639,386
Equipment expense	689,662	872,681	2,118,539	5,423,343
FDIC Insurance expense	145,261	259,646	716,839	676,462

Software impairment expense	-	-	-	4,892,231
Data processing fees	157,686	211,129	493,231	635,393
Professional fees	377,322	619,430	1,427,610	1,823,449
Marketing expense	89,192	139,987	235,060	330,213
Printing and office supplies	86,071	111,414	280,735	369,842
Telephone and communication	140,995	267,344	441,001	992,891
Postage and delivery expense	260,477	388,666	863,407	1,415,529
State, local and other taxes	102,577	154,391	380,133	118,835
Employee expense	143,355	147,739	411,040	654,968
Other intangible amortization expense	184,763	200,344	579,187	600,613
OREO Impairment	-	-	-	215,000
Other expenses	294,621	820,633	1,978,489	2,550,747
Total non-interest expense	6,823,137	8,738,415	22,281,106	36,403,493
Income (loss) before income tax expense	739,849	(221,781)	1,891,091	(14,536,868)
Income tax expense (benefit)	137,356	(247,696)	500,880	(5,507,954)
Net income (loss)	$602,493	$25,915	$1,390,211	$(9,028,914)
Common share data:				
Basic earnings (loss) per common share	$0.12	$0.01	$0.29	$(1.86)
Diluted earnings (loss) per common share	$0.12	$0.01	$0.29	$(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		Nine Months Ended	
	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
Balance at beginning of period	$46,013,910	$ 53,201,167	$46,024,098	$ 61,707,655
Net Income (Loss)	602,493	25,915	1,390,211	(9,028,914)
Unrealized gains on securities				
Unrealized holding gains arising during the year, net of tax	914,632	811,939	1,306,102	1,665,178
Less: reclassification adjustment for gains realized in net income, net of tax	-	-	1,235,115	297,974
Total comprehensive income (loss)	1,517,125	837,854	1,461,198	(7,661,710)
Share-based compensation	21,249	29,317	66,988	22,393
Balance at end of period	$47,552,284	$ 54,068,338	$47,552,284	$ 54,068,338

See notes to condensed consolidated financial statements (unaudited)

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

	Sept. 30, 2011	Sept. 30, 2010
Operating Activities		
Net Income/(loss)	$1,390,211	$(9,028,914)
Items not requiring (providing) cash		
Depreciation and amortization	1,344,273	3,554,271
Provision for loan losses	1,694,648	8,788,713
Expense of share-based compensation plan	66,988	22,392
Amortization of premiums and discounts on securities	1,225,101	1,091,077
Amortization of intangible assets	579,187	600,402
Amortization of mortgage servicing rights	415,771	233,597
Impairment of mortgage servicing rights	897,499	575,000
Deferred income taxes	(36,568)	(3,537,222)
Proceeds from sale of loans held for sale	135,730,072	171,718,730
Originations of loans held for sale	(135,093,351)	(165,428,100)
Gain from sale of mortgage loans	(2,090,736)	(2,653,693)
Gain from sale of non-mortgage loans	(80,423)	(233,071)
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	296,778	139,699
(Gain) / Loss on sale of fixed assets	(9,300)	19,367
Income from bank owned life insurance	(276,208)	(322,307)
Changes in		
Interest receivable	7,764	(236,070)
Other assets	1,850,553	582,983
Interest payable and other liabilities	607,030	(2,041,941)
Net cash from operating activities	6,647,902	8,500,670
Investing Activities		
Purchase of available-for-sale securities	(36,704,998)	(52,231,341)
Proceeds from maturities of available-for-sale securities	21,274,023	32,756,818
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	(15,707,317)	13,572,294
Purchase of premises and equipment and software	(626,100)	(1,564,571)
Proceeds from sales of premises and equipment	9,300	(94,932)
Proceeds from sale of foreclosed assets	1,397,156	4,303,594
Net cash from investing activities	$15,327,823	$6,737,586

See notes to condensed consolidated financial statements (unaudited)

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

	Sept. 30, 2011	Sept. 30, 2010
Financing Activities		
Net (decrease)/increase in demand deposits, money market, interest checking and savings accounts	$ (8,134,236)	$ 23,134,502
Net increase in certificates of deposit	6,805,169	7,944,267
Net (decrease)/increase in securities sold under agreements to repurchase	(27,007,345)	3,074,211
Net decrease in federal funds purchased	-	(5,000,000)
Proceeds from Federal Home Loan Bank advances	23,000,000	2,000,000
Repayment of Federal Home Loan Bank advances	(32,867,753)	(11,836,839)
Proceeds from notes payable	-	2,250,000
Repayment of notes payable	(425,348)	(1,028,510)
Net cash (used in) / from financing activities	(38,629,513)	20,537,631
(Decrease)/Increase in Cash and Cash Equivalents	(16,653,788)	35,775,887
Cash and Cash Equivalents, Beginning of Year	30,417,813	24,824,785
Cash and Cash Equivalents, End of Period	$ 13,764,025	$ 60,600,672
Supplemental Cash Flows Information		
Interest Paid	$ 4,591,782	$ 7,208,724
Transfer of loans to foreclosed assets	$ 2,150,879	$ 4,621,993

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 nine months ended September 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 September 30, 2011 and 2010, share based awards totaling 306,974 and 365,102 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 September 30		Nine Months Ended September 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 September 30, 2011 and December 31, 2010.

	Total Loans		Non-Accrual Loans		Non-Accrual Percentage	
	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010	Sept. 30, 2011	Dec. 31, 2010
Construction & Development	$ 15,992	$ 16,177	$ -	$ -	0.00 %	0.00 %
Commercial real estate	160,204	152,508	2,210	5,428	1.38 %	3.56 %
Commercial & Industrial	72,622	69,510	2,466	3,032	3.40 %	4.36 %
Agricultural & Farmland	38,601	40,829	87	-	0.23 %	0.00 %
Residential real estate	98,772	96,257	2,107	3,285	2.13 %	3.41 %
Home Equity	38,569	38,681	440	474	1.14 %	1.23 %
Consumer, net of deferred fees	9,475	10,653	21	64	0.22 %	0.60 %
Other	4,691	2,929	-	-	0.00 %	0.00 %
Total	$ 438,926	$ 427,544	$ 7,331	$ 12,283	1.67 %	2.87 %
Residential Loans held for sale	10,590	9,055				
Allowance for loan and lease losses	$ (6,235)	$ (6,715)				

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 nine months ended as of September 30, 2011and the year ended as of December 31, 2010.

For the Nine Months Ended Sept. 30, 2011 ($'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Unallocated	Total
Beginning balance	$ 1,723	$ 3,774	$ 16	$ 643	$ 401	$ 128	$ 30	$ 6,715
Charge Offs	(607)	(1,560)	-	(238)	(350)	(4)	-	(2,759)
Recoveries	416	27	3	115	19	4	-	584
Provision	20	875	21	402	408	$ (29)	(2)	1,695
Ending Balance	$ 1,552	$ 3,116	$ 40	$ 922	$ 478	$ 99	$ 28	$ 6,235
Ending balance: individually evaluated for impairment	$ 732	$ 429	$ -	$ 153	$ 119	$ -	$ -	$ 1,433
Ending balance: collectively evaluated for impairment	$ 820	$ 2,687	$ 40	$ 769	$ 359	$ 99	$ 28	$ 4,802
Loans:								
Ending balance: individually								

evaluated for impairment	$ 2,391	$ 2,675	$ -	$ 1,311	$ 95	$ -	$ -	$ 6,472
Ending balance:								
collectively evaluated for impairment	$ 70,231	$ 173,521	$ 38,601	$ 97,461	$ 47,949	$ 4,691	$ -	$ 432,454

For the nine months ended September 30, 2010, the beginning balance for the allowance for loan loss was $7.03 million. During the nine month period of 2010, the Company incurred charge-offs of $9.74 million, received recoveries of $0.38 million, and had provision for loan loss of $8.79 million, for an ending balance of $6.45 million.

For the Three Months Ended Sept. 30, 2011 ($'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Unallocated	Total
Beginning balance	$ 1,522	$ 3,444	$ 27	$ 894	$ 427	$ 99	$ 31	$ 6,444
Charge Offs	(11)	(352)	-	(72)	(87)	(5)	-	(527)
Recoveries	2	11	1	1	1	5	-	21
Provision	39	13	12	99	137	-	(3)	297
Ending Balance	$ 1,552	$ 3,116	$ 40	$ 922	$ 478	$ 99	$ 28	$ 6,235
Ending balance: individually evaluated for impairment	$ 732	$ 429	$ -	$ 153	$ 119	$ -	$ -	$ 1,433
Ending balance: collectively evaluated for impairment	$ 820	$ 2,687	$ 40	$ 769	$ 359	$ 99	$ 28	$ 4,802
Loans:								
Ending balance: individually evaluated for impairment	$ 2,391	$ 2,675	$ -	$ 1,311	$ 95	$ -	$ -	$ 6,472
Ending balance: collectively evaluated for impairment	$ 70,231	$ 173,521	$ 38,601	$ 97,461	$ 47,949	$ 4,691	$ -	$ 432,454

For the three months ended September 30, 2010, the beginning balance for the allowance for loan loss was $7.00 million. During the three month period of 2010, the Company incurred charge-offs of $1.58 million, received recoveries of $0.13 million, and had provision for loan loss of $0.90 million, for an ending balance of $6.45 million.

For the Year Ended December 31, 2010 ($'s in thousands)	Commercial & Industrial	Commercial RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Unallocated	Total
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. 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 September 30, 2011 and December 31, 2010 (dollars in thousands).

Sept. 30, 2011 Loan Grade	Commercial & Industrial	Comm. RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
1-2	$ 667	$ 414	$ 171	$ 1,593	$ 126	$ 57	$ 3,028
3	24,531	63,571	14,538	76,862	44,916	1,317	225,735
4	42,928	97,121	23,748	14,593	2,457	3,317	184,164
Total Pass	68,126	161,106	38,457	93,048	47,499	4,691	412,927
Special Mention	236	9,706	5	1,126	28	-	11,101
Substandard	1,819	3,188	51	1,731	87	-	6,876
Doubtful	2,441	2,196	88	2,867	430	-	8,022
Loss	-	-	-	-	-	-	-
Total	$ 72,622	$ 176,196	$ 38,601	$ 98,772	$ 48,044	$ 4,691	$ 438,926

December 31, 2010 Loan Grade	Commercial & Industrial	Comm. RE & Construction	Agricultural & Farmland	Residential Real Estate	Home Equity & Consumer	Other	Total
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 September 30, 2011 and December 31, 2010 (dollars in thousands).

Sept. 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	$13	$-	$ 2,391	$2,405	$70,217	$72,622
Commercial RE & Construction	-	-	2,553	2,553	173,643	176,196
Agricultural & Farmland	-	-	87	87	38,514	38,601
Residential Real Estate	223	35	730	988	97,784	98,772
Home Equity & Consumer	336	111	291	738	47,306	48,044
Other	-	-	-	-	4,691	4,691
Loans	573	146	6,052	6,771	432,155	438,926
Loans held for Sale	-	-	-	-	10,590	10,590
Total	$573	$146	$ 6,052	$6,771	$442,744	$449,515

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 September 30, 2011 and December 31, 2010.

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

Nine Months Ended Sept. 30, 2011 ($'s in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial & Industrial	$165	$515	$-
Commercial Real Estate	504	1,367	-
Agricultural & Farmland	-	-	-
Residential Real Estate	438	485	-
Home Equity & Consumer	43	43	-
All Impaired Loans < $100,000	1,381	1,381	-
With a specific allowance recorded:			
Commercial & Industrial	2,226	4,074	732
Commercial Real Estate	2,171	3,260	480
Agricultural & Farmland	-	-	-
Residential Real Estate	873	1,081	221
Home Equity & Consumer	52	87	-
All Impaired Loans < $100,000	-	-	-
Totals:			
Commercial & Industrial	$2,391	$4,589	$732
Commercial Real Estate	$2,675	$4,627	$480
Agricultural & Farmland	$-	$-	$-
Residential Real Estate	$1,311	$1,567	$221
Home Equity & Consumer	$95	$130	$-
All Impaired Loans < $100,000	1,381	1,381	-

Sept. 30, 2011 ($'s in thousands)	Nine Months Ended Average Recorded Investment	Nine Months Ended Interest Income Recognized	Three Months Ended Average Recorded Investment	Three Months Ended Interest Income Recognized
With no related allowance recorded:				
Commercial & Industrial	$210	$-	$210	$-
Commercial RE & Construction	700	-	504	-
Agricultural & Farmland	-	-	-	-
Residential Real Estate	531	17	525	5
Home Equity & Consumer	43	-	43	-
All Impaired Loans < $100,000	1,381	-	1,381	-
With a specific allowance recorded:				
Commercial & Industrial	2,663	-	2,664	-
Commercial RE & Construction	3,121	13	3,133	4
Agricultural & Farmland	-	-	-	-
Residential Real Estate	1,106	22	1,120	8
Home Equity & Consumer	83	3	82	1
All Impaired Loans < $100,000	-	-	-	-
Totals:				
Commercial & Industrial	$2,873	$-	$2,874	$-
Commercial RE & Construction	$3,821	$13	$3,637	$4
Agricultural & Farmland	$-	$-	$-	$-
Residential Real Estate	$1,637	$39	$1,645	$12
Home Equity & Consumer	$126	$3	$125	$1
All Impaired Loans < $100,000	$1,381	$-	$1,381	$-

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.

Troubled Debt Restructured (TDR) Loans

TDR's are modified loans where a concession was provided to a borrower experiencing financial difficulties. Loan modifications are considered TDR's when the concessions provided are not available to the borrower through either normal channels or other sources. However, not all loan modifications are TDR's.

TDR Concession Types

The Company's standards relating to loan modifications consider, among other factors, minimum verified income requirements, cash flow analysis, and collateral valuations. Each potential loan modification is reviewed individually and the terms of the loan are modified to meet a borrower's specific circumstances at a point in time. All loan modifications, including those classified as TDR's, are reviewed and approved. The types of concessions provided to borrowers include:

- Interest rate reduction: A reduction of the stated interest rate to a nonmarket rate for the remaining original life of the debt. The Company also may grant interest rate concessions for a limited timeframe on a case by case basis.
- Amortization or maturity date change beyond what the collateral supports, including any of the following:

(1) Lengthens the amortization period of the amortized principal beyond market terms. This concession reduces the minimum monthly payment and increases the amount of the balloon payment at the end of the term of the loan. Principal is generally not forgiven.

(2) Reduces the amount of loan principal to be amortized. This concession also reduces the minimum monthly payment and increases the amount of the balloon payment at the end of the term of the loan. Principal is generally not forgiven.

(3) Extends the maturity date or dates of the debt beyond what the collateral supports. This concession generally applies to loans without a balloon payment at the end of the term of the loan. In addition, there may be instances where renewing loans potentially require non-market terms and would then be reclassified as TDRs.

- Other: A concession that is not categorized as one of the concessions described above. These concessions include, but are not limited to: principal forgiveness, collateral concessions, covenant concessions, and reduction of accrued interest. Principal forgiveness may result from any TDR modification of any concession type.

The table below presents our accruing and nonaccruing TDR's at period-end for each of the past five quarters:

($'s in thousands)	September 2011	June 2011	March 2011	December 2010	September 2010
TDR's - accruing:					
Commercial & Industrial	$-	$-	$-	$-	$1
Commercial RE & Construction	569	547	576	581	587
Agricultural & Farmland	5	5	5	6	6
Residential Real Estate	675	683	440	452	587
Home Equity & Consumer	62	50	52	68	47
Other	-	-	-	-	-
Total TDR's - accruing:	1,311	1,285	1,073	1,107	1,228
TDR's - nonaccruing:					
Commercial & Industrial	$1,884	$1,908	$2,119	$1,907	$2,166
Commercial RE & Construction	-	138	190	190	-
Agricultural & Farmland	-	-	-	-	-
Residential Real Estate	338	236	419	399	316
Home Equity & Consumer	-	-	-	-	22
Other	-	-	-	-	-
Total TDR's - nonaccruing:	2,222	2,282	2,728	2,496	2,504
Total TDR loans	3,533	3,567	3,801	3,603	3,732

	Three Months Ended September 30, 2011			Nine Months Ended September 30, 2011		
	Number of Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Contracts	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Residential Real Estate	1	$ 102	$ 102	2	$ 315	$ 315

There were no loans modified in a TDR from October 1, 2010 through September 30, 2011 that subsequently defaulted during the three and nine months ended September 30, 2011.

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. The Company adopted this standard effective July 1, 2011 retroactive to January 1, 2011. The effect of this adoption has had no impact on the financial results of the Company. These new disclosures are included in Note C - Loans and Allowance for Loan Losses.

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 assts 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 2011-04, Fair Value Measurements and Disclosures (Topic 820:) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.

The ASU amends Topic 820 to add both additional clarifications to existing fair value measurement and disclosure requirements and changes to existing principles and disclosure guidance. Clarifications were made to the relevancy of the highest and best use valuation concept, measurement of an instrument classified in an entity's shareholder's equity and disclosure of quantitative information about the unobservable inputs for level 3 fair value measurements. Changes to existing principles and disclosures included measurement of financial instruments managed within a portfolio, the application of premiums and discounts in fair value measurement, and additional disclosures related to fair value measurements. The updated guidance and requirements are effective for financial statements issued for the first interim or annual period beginning after December 15, 2011, and should be applied prospectively. Early adoption is permitted. Management does not believe the principle amendments will have a material impact on Rurban's Condensed Consolidated Financial Statements.

ASU 2011-05, Other Comprehensive Income (Topic 220): Presentation of Comprehensive Income.

The ASU amends Topic 220 to require an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. An entity is also required to present on the face of the financial statement reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. The amendments do not change items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, only the format for presentation. The updated guidance and requirements are effective for financial statements issued for the fiscal years, and the interim periods within those years, beginning after December 15, 2011. The amendments should be applied retrospectively. On October 21, 2011, the FASB exposed a proposed deferral of the requirement that companies present reclassification adjustments for each component of OCI in both net income and OCI on the face of the financial statements. Early adoption is permitted. Management is currently evaluating the impact of the guidance on Rurban's Condensed Consolidated Financial Statements.

ASC 2011-08 - Intangibles - Goodwill and Other (Topic 350): Testing Goodwill for Impairment.

The ASU amends Topic 350 to permit an entity the option to first assess qualitative factors to determine whether it is more likely than not (50% threshold) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. Management has decided to adopt the ASU as of September 30, 2011.

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.

NOTE E — SEGMENT INFORMATION

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

Income statement information	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	$5,786,550	$(75,832)	$(325,286)	$5,385,433		$5,385,432
Non-interest income - external customers	1,719,808	747,650	7,464	2,474,922		2,474,922
Non-interest income - other segments	126,045	332,623	34,325	492,993	(492,993)	-
Total revenue	7,632,403	1,004,441	(283,497)	8,353,348	(492,993)	7,860,354
Non-interest expense	5,744,248	1,257,739	314,143	7,316,130	(492,993)	6,823,137
Significant non-cash items:						
Depreciation and amortization	215,492	227,348	2,423	445,263	-	445,263
Provision for loan losses	297,368	-	-	297,368	-	297,368
Income tax expense (benefit)	429,321	(86,121)	(205,844)	137,356	-	137,356
Segment profit (loss)	$1,161,466	$(167,177)	$(391,796)	$602,493	$-	$602,493
Balance sheet information						
Total assets	$618,000,292	$4,894,805	$5,885,002	$628,780,099	$(4,986,711)	$623,793,388
Goodwill and intangibles	$18,359,027	$380,748	$-	$18,739,775	$-	$18,739,775
Premises and equipment expenditures	$19,126	$103,932	$13,218	$136,276	$-	$136,276

NOTE E — SEGMENT INFORMATION

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

Income statement information	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	$5,336,846	$(95,642)	$(360,561)	$4,880,643		$4,880,643
Non-interest income - external customers	3,072,667	2,033,803	20,466	5,126,936		5,126,936
Non-interest income - other segments	23,399	297,671	-	321,070	(321,070)	-
Total revenue	8,432,912	2,235,832	(340,095)	10,328,649	(321,070)	10,007,579
Non-interest expense	6,985,683	2,317,726	348,452	9,651,861	(321,070)	9,330,791
Significant non-cash items:						
Depreciation and amortization	235,390	555,208	12,977	803,575	-	803,575
Fixed asset & software impairment	-	-	-	-		-
Provision for loan losses	898,570	-	-	898,570	-	898,570
Income tax expense (benefit)	244	(27,803)	(220,137)	(247,696)	-	(247,696)
Segment profit (loss)	$548,415	$(54,091)	$(468,410)	$25,914	$-	$25,914
Balance sheet information						
Total assets	$668,817,793	$12,150,499	$5,439,547	$686,407,839	$(5,218,082)	$681,189,757
Goodwill and intangibles	$18,991,531	$6,800,370	$-	$25,791,901	$-	$25,791,901
Premises and equipment expenditures	$253,022	$17,250	$-	$270,272	$-	$270,272

NOTE E — SEGMENT INFORMATION

As of and for the nine months ended September 30, 2011

Income statement information	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	$16,622,347	$(232,379)	$(957,836)	$15,432,132		$15,432,132
Non-interest income - external customers	7,440,049	2,968,327	26,337	10,434,713		10,434,713
Non-interest income - other segments	225,643	1,054,121	109,325	1,389,089	(1,389,089)	-
Total revenue	24,288,039	3,790,069	(822,174)	27,255,934	(1,389,089)	25,866,845
Non-interest expense	18,377,084	4,121,215	1,171,896	23,670,195	(1,389,089)	22,281,106
Significant non-cash items:						
Depreciation and amortization	660,666	676,626	6,981	1,344,273	-	1,344,273
Provision for loan losses	1,694,648	-	-	1,694,648	-	1,694,648
Income tax expense (benefit)	1,065,375	(112,589)	(451,906)	500,880	-	500,880
Segment profit (loss)	$3,150,932	$(218,557)	$(1,542,164)	$1,390,211	$ -	$1,390,211
Balance sheet information						
Total assets	$618,000,292	$4,894,805	$5,885,002	$628,780,099	$(4,986,711)	$623,793,388
Goodwill and intangibles	$18,359,027	$380,748	$-	$18,739,775	$ -	$18,739,775
Premises and equipment expenditures	$508,950	$103,932	$13,218	$626,100	$ -	$626,100

NOTE E — SEGMENT INFORMATION

As of and for the nine months ended September 30, 2010

Income statement information	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	$16,317,471	$(367,603)	$(1,106,723)	$14,843,145		$14,843,145
Non-interest income - external customers	7,850,469	8,671,978	98,343	16,620,790		16,620,790
Non-interest income - other segments	73,209	893,824	428,773	1,395,806	(1,395,806)	-
Total revenue	24,241,149	9,198,199	(579,607)	32,859,741	(1,395,806)	31,463,935
Non-interest expense	19,687,929	17,563,271	1,356,697	38,607,897	(1,395,806)	37,212,091
Significant non-cash items:						
Depreciation and amortization	741,837	3,120,117	44,489	3,906,443	-	3,906,443
Fixed asset & software impairment	-	4,892,231	-	4,892,231		4,892,231
Provision for loan losses	5,788,713	3,000,000	-	8,788,713	-	8,788,713
Income tax expense (benefit)	(842,714)	(3,986,484)	(678,756)	(5,507,954)	-	(5,507,954)
Segment profit (loss)	$(392,779)	$(7,378,588)	$(1,257,548)	$(9,028,915)	$-	$(9,028,915)
Balance sheet information						
Total assets	$668,817,793	$12,150,499	$5,439,547	$686,407,839	$(5,218,082)	$681,189,757
Goodwill and intangibles	$18,991,531	$6,800,370	$-	$25,791,901	$-	$25,791,901
Premises and equipment expenditures	$411,571	$1,153,000	$-	$1,564,571	$-	$1,564,571

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 September 30, 2011 and December 31, 2010:

	Fair Value Measurements Using:			
Description	9/30/2011	(Level 1)	(Level 2)	(Level 3)
Available-for-Sale Securities:				
U.S. Treasury and Government Agencies	$25,777,477	-	$25,777,477	-
Mortgage-backed securities	61,083,547	-	61,083,547	-
State and political subdivisions	17,493,801	-	17,493,801	-
Money Market Mutual Fund	237,052	237,052	-	-
Equity securities	23,000	-	23,000	-

	Fair Value Measurements Using:			
Description	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 September 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 September 30, 2011 and December 31, 2010:

	Fair Value Measurements Using:			
Description	Fair Values at 09/30/11	(Level 1)	(Level 2)	(Level 3)
Impaired loans	$4,374,881	-	-	$4,374,881
Mortgage Servicing Rights	$2,709,222	-	-	$2,709,222

	Fair Value Measurements Using:			
Description	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 September 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 September 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 September 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 September 30, 2011 and are not considered significant to this presentation.

	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	$13,764,025	$13,764,000
Available-for-sale securities	104,614,877	104,615,000
Loans held for sale	10,589,706	10,872,000
Loans, net of allowance for loan losses	432,690,807	435,075,000
Federal Reserve and FHLB Bank stock	3,748,250	3,748,000
Accrued interest receivable	2,061,201	2,061,000
Financial liabilities		
Deposits	$514,348,675	$516,396,000
Short-term borrowings	18,777,909	18,957,000
Notes payable	2,865,123	2,883,000
FHLB advances	12,939,598	13,314,000
Trust preferred securities	20,620,000	21,596,000
Accrued interest payable	2,704,466	2,704,000

	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:				
September 30, 2011:				
U.S. Treasury and Government agencies	$25,598,965	$183,237	$(4,725)	$25,777,477
Mortgage-backed securities	60,298,111	848,499	(63,063)	61,083,547
State and political subdivisions	16,550,930	947,546	(4,675)	17,493,801
Money Market Mutual Fund	237,052	-	-	237,052
Equity securities	23,000	-	-	23,000
	$102,708,058	$1,979,282	$(72,463)	$104,614,877

	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 year, the Company realized gains from the sale of securities totaling $1,871,387. These gains were part of a balance sheet deleveraging. These trades were executed 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 September 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.

	Available for Sale	
	Amortized Cost	Fair Value
Within one year	$857,178	$861,935
Due after one year through five years	6,474,552	6,585,364
Due after five years through ten years	8,495,511	8,631,401
Due after ten years	26,322,654	27,192,578
	42,149,895	43,271,278
Mortgage-backed securities, equity securities and money market mutual funds	60,558,163	61,343,599
Totals	$102,708,058	$104,614,877

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $52,599,778 at September 30, 2011 and $30,412,621 at December 31, 2010. The securities delivered for repurchase agreements were $21,995,134 at September 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 $13,567,012 at September 30, 2011 and $40,399,444 at December 31, 2010, which was approximately 13 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 September 30, 2011 and December 31, 2010 were as follows:

September 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	$2,495,275	$(4,725)	$-	$-	$2,495,275	$(4,725)
Mortgage-backed securities	9,620,464	(35,254)	950,018	(27,809)	10,570,482	(63,063)
State and political subdivisions	501,255	(4,675)	-	-	501,255	(4,675)
	$12,616,994	$(44,654)	$950,018	$(27,809)	$13,567,012	$(72,463)

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 September 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 September 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 asset ratio was 2.02 percent, the year-to-date ROA was 66 basis points and the Tier 1 Capital Ratio was 7.95 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 this debt covenant. This covenant violation could result in the note being called by FTB. This note, which has an outstanding balance of $1.5 million, matured on June 30, 2011, and was extended to October 31, 2011. The Company and FTB have entered into a renewal of the loan agreement which requires periodic principal payments. This new agreement requires full payment of the obligation by the new maturity date of December 31, 2013.

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," "expect "projects," "estimates," "should," "may," "would be," "will allow," "will likely result," "will continue," "will remain," or o 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 Rurb 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 Deleveraging

In a series of transactions completed during June of 2011, the Company completed a balance sheet deleveraging. The deleveraging 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.

Small Business Lending Fund

The Company applied for $21.5 million in capital from the Small Business Lending Fund (SBLF) in January of 2011. Subsequent to that application, changes were made to the program that prevented the Company's participation. The Company has no immediate plans to issue any of the preferred shares that were authorized by shareholders and contemplated to be issued as part of the SBLF application.

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

Nine Months Ended September 30, 2011 compared to Nine Months Ended September 30, 2010

Net Income: For the first nine months of 2011, Rurban reported net income of $1.39 million, or $0.29 per diluted share, compared to a net loss of $9.03 million, or ($1.86) per diluted share, for the first nine months of 2010.

Asset Quality Review ($ in Thousands)	Sept. 30, 2011		December 31, 2010		Sept. 30, 2010	
Net charge-offs - for the quarter ended	$506		$ 1,535		$1,448	
Net charge-offs - year to date	$2,175		$ 10,902		$9,367	
Non-performing loans	$7,331		$ 12,283		$10,107	
OREO / OAO	$1,970		$ 1,538		$1,947	
Non-performing assets	$9,301		$ 13,822		$12,054	
Non-performing assets / Total assets	1.49	%	2.09	%	1.77	%
Allowance for loan losses / Total loans	1.42	%	1.57	%	1.52	%
Allowance for loan losses / Non-performing loans	85.1	%	54.7	%	63.8	%

Provision for Loan Losses: The provision for loan losses for the first nine months of 2011 was $1.7 million compared to $8.8 million for the prior year first nine 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 September 30, 2011, the allowance for loan losses stood at $6.2 million, or 1.42 percent of total loans, compared to 1.52 percent for the prior year. The Company's non-performing assets ("NPAs") at September 30, 2011 were $9.3 million, down $2.8 million, or 23.1 percent, since September 30, 2010. At September 30, 2011, NPAs were 1.49 percent of assets compared to 1.77 percent at September 30, 2010.

Consolidated Revenue: Total revenue, consisting of net interest income and noninterest income, was $25.9 million for the first nine months of 2011, a decline of $4.8 million, or 15.6 percent, from the $30.7 million generated during the first nine months of 2010. Absent securities gains in 2011 and 2010 of $1.9 million and $0.45 million, respectively, total revenue was down $6.2 million due to the large decline in data servicing fees and the lower gains on mortgage loan sales.

Net interest income was $15.4 million for the first nine months of 2011, an increase of $0.59 million, or 4.0 percent, from the $14.8 million reported in the year earlier period; a $4.2 million decline in average earning assets was partially offset by a fourteen basis point improvement in the tax equivalent net interest margin, to 3.79 percent.

Noninterest income was $10.4 million for the first nine months of 2011 compared to $15.8 million for the prior year period. During the second quarter of 2011, a significant deleveraging of the Company's balance sheet was executed. This deleveraging resulted in 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 nine months of 2011 and 2010, respectively, noninterest income from operations declined by $6.8 million, or 44.4 percent, from the prior year, primarily from the $5.7 million decline in data service fees.

Wealth management fees generated by Reliance Financial Services, a division of State Bank, were $2.0 million for the first nine months of 2011, up $0.11 million, or 5.8 percent, from the prior year; assets under management now stand at $289 million. Customer service fees of $1.88 million for the first nine months of 2011 were virtually unchanged from the prior year.

State Bank originated $135.1 million of mortgage loans in the first nine months of 2011. These 2011 originations and subsequent sales resulted in $2.1 million of gains, which compares to gains of $2.65 million for the first nine months of 2010. The 21.2 percent decline in gains from mortgage sales in 2011 reflects the impact of a 20.9 percent decline in mortgages sold. In addition to the gains from mortgage sales, the Company sold other loans that generated gains of $0.08 million and $0.23 million in the first nine months of 2011 and 2010, respectively.

Consolidated Noninterest Expense: Noninterest expense for the first nine months of 2011 was $22.3 million compared to $36.4 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 $3.4 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 full time equivalent (FTE) headcount decline represents a workforce reduction of 16 percent during the course of the year, from 257 FTE to 215 (FTE) at September 30, 2011. Year to date, the Company has incurred valuation adjustments on its Originated Mortgage Servicing Rights (OMSRs) of $0.89 million.

In the first nine months of 2010, RDSI incurred expense write-downs related to Single Source software 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.

Income Taxes: Income taxes for the first nine months of 2011 were $0.50 million compared to a tax benefit of $5.5 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 September 30, 2011 compared to Three Months Ended September 30, 2010

Net Income: Net income for the three months ended September 30, 2011 was $0.60 million or $0.12 per diluted share, compared to net income of $0.03 million, or $0.01 per diluted share, for the three months ended September 30, 2010. For the quarter, the Banking Group (consisting primarily of The State Bank and Trust Company), had net income of $1.16 million which is flat to the net income of $1.16 million from the linked quarter, but up from the net income of $0.55 million from the year ago quarter. RDSI reported a net loss of $0.17 million compared to net income of $0.14 million from the linked quarter and a net loss of $0.05 million from the year ago third quarter. In the linked quarter, RDSI had a contract buyout, which increased net income.

Provision for Loan Losses: The third quarter provision for loan losses was $0.3 million compared to $0.9 million and $0.9 million, respectively, for the linked and year-ago quarters. Total net charge-offs for the quarter were $0.51 million compared to $1.1 million for the linked quarter and $1.4 million for the prior year third quarter.

Consolidated Revenue: Total revenue, consisting of net interest income and noninterest income, was $7.9 million for the third quarter of 2011, compared to $10.3 million for the linked quarter and $9.4 million generated during the 2010 second quarter.

Net interest income was $5.4 million, an increase of $0.50 million, or 10.3 percent, from the $4.9 million reported in the year earlier quarter. Compared to the linked quarter, net interest income is up $172 thousand due to an increase in average earning assets and lower cost of funds.

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Noninterest income was $2.5 million for the 2011 third quarter compared to $4.5 million for the prior year period with the reduction all due to data service fee declines. Compared to the linked quarter, adjusted for the $1.9 million gain realized in the linked quarter, noninterest income is down $0.70 million due to RDSI fees. During the quarter, the Banking Group generated fees from Wealth Management of $0.63 million, Customer service fees of $0.66 million and Gain on sale of mortgage loans of $1.1 million.

Consolidated Noninterest Expense: Noninterest expense for the third quarter of 2011 was $6.8 million compared to $8.7 million in the prior-year third quarter. Total compensation and benefits for the third quarter was down $0.5 million from the prior year, which reflects the reduction of 42 employees from the prior year. Compared to the linked quarter, expenses were down $1.6 million, which is an 18.8 percent decrease. The majority of the decrease was due to the FHLB prepayment penalty of $1.1 million in the linked quarter.

Income Taxes: Income taxes for the third quarter of 2011 were $0.14 million compared to a benefit of $0.25 million for the third quarter of 2010. The current quarter's income tax rate of 18.6 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 deleveraging.

Changes in Financial Condition:

Total assets as of September 30, 2011 were $623.8 million, up by $5.7 million, or .9 percent, from the linked quarter, and down by $57.4 million, or 8.4 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, recognizing a gain on sale of $1.9 million. The proceeds were applied to the pay down of $32.0 million in borrowings with a weighted average rate of 4.64 percent. The prepayment penalty for the pay down of the $30 million in repos and $2 million in Federal Home Loan Bank (FHLB) advances was $1.1 million.

Total loans increased by $1.3 million from the linked quarter to $438.9 million, and are up from the prior year by $13.9 million, or 3.3 percent, when total loans were $425.0 million. As of September 30, 2011, real estate related loans comprised 77 percent of the loan portfolio. The total loan portfolio includes $98.8 million in residential real estate, $89.8 million in investor owned commercial real estate and $38.6 million in home equity loans. Total deposits at $514.3 million are up $18.4 million from the linked quarter but are down $8.0 million from the September 2010 quarter. Due to the deleveraging, total wholesale borrowings (FHLB, repos, fed funds) declined to $31.6 million from $75.5 million in the September 2010 quarter. Total equity balances are up $1.9 million from the linked quarter but are down $6.2 million from the prior year due to the losses at RDSI.

Capital Resources

At September 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	$50.9	11.2	%	$36.3	8.0	%	$-	N/A

State Bank	$53.3	11.9 %	$36.0	8.0 %	$45.0	10.0 %

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

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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 $129.0 million at September 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 October 31, 2011 and has been renewed to December 31, 2013.

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 nine months ended September 30, 2011 and September 30, 2010 follows.

The Company experienced positive cash flows from operating activities for the nine months ended September 30, 2011 and for the nine months ended September 30, 2010. Net cash from operating activities was $6.6 million for the nine months ended September 30, 2011 and $8.5 million for the nine months ended September 30, 2010. Highlights include $135.7 million in proceeds from the sale of loans, which is down $36.0 million from the prior year. Originations of loans held for sale was a use of cash of $135.1 million, which is also down from the prior year, by over $30.3 million. For the first nine months of 2011, the Company had depreciation and amortization of $1.3 million, provision for loan loss of $1.7 million, gain on sale of mortgage loans of $2.1 million and gain on sale of securities of $1.9 million. This compares to depreciation and amortization of $3.6 million, provision for loan loss of $8.8 million, gain on sale of mortgage loans of $2.5 million and gain on sale of securities of $0.5 million for the first nine 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 nine months ended September 30, 2011 and for the nine months ended September 30, 2010. Net cash flow from investing activities was $15.3 million for the nine months ended June 30, 2011 and $6.7 million for the nine months ended September 30, 2010. Highlights include $36.6 million in purchases of available-for-sale securities, which is down $15.5 million from the prior year. These cash payments were offset by $65.6 million in proceeds from maturities and sales of securities, which is up $22.8 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 $15.7 million negative change in loans, which is down $29.3 million from the prior year, when the change in loans was a positive $13.6 million. Sales of foreclosed assets provided cash of $1.4 million for the nine months ended September 30, 2011 and $4.3 million for the nine months ended September 30, 2010.

The Company experienced negative cash flows from financing activities in the amount of $38.6 million for the nine months ended September 30, 2011 and positive cash flow from financing activities in the amount of $20.5 million for the nine months ended September 30, 2010. Highlights include a $8.1 million decrease in non time deposits for the nine months ended September 30, 2011, which compares unfavorably with a $23.1 million increase in non time deposits for the nine months ended September 30, 2010. The Company had a net negative cash flow from FHLB advance activity of $9.9 million in the first nine months of 2011 and a net negative cash flow of $9.2 million for the first nine months of 2010. During the nine months ended September 30, 2011, the company sold repos of $27.0 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 are currently pledged to FHLB under a blanket lien. The total amount pledged to meet FHLB collateralization requirements as of September 30, 2011, and December 31, 2010, were $275.0 million, and $264.9 million, respectively. Based on the current collateralization requirements of the FHLB, the Company had approximately $20.5 million of additional borrowing capacity at September 30, 2011. The Company also had $27.8 million in unpledged securities that may be used to pledge for additional borrowings.

At September 30, 2011, the Company had federal funds lines totaling $11.5 million, with zero outstanding. The Company also has a $5.0 million line of credit with a regional bank (detailed in Note H), with advances totaling $1.5 million at September 30, 2011.

The Company's contractual obligations as of September 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 $12.9 and repos of $18.8 million. Other debt obligations are comprised of trust preferred securities of $20.6 million and notes payable of $2.9 million. Total time deposits at September 30, 2011 were $221.7 million, of which $98.1 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 thousand 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 September 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). New Core filed an answer to the complaint on October 14, 2011. 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 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 nine months ended September 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 September 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 September 30, 2011 (unaudited) and December 31, 2010; (ii) the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010 (unaudited); (iii) the Condensed Consolidated Statements of Changes in Stockholders' Equity for the three and nine months ended September 30, 2011 and 2010 (unaudited); (iv) the Condensed Consolidated Statements of Cash Flows for the nine months ended September 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: November 14, 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