RURBAN FINANCIAL CORP
Form 10-Q
August 13, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from _________________to___________________________

Commission file number 0-13507

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

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

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

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

None
(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

Common Shares, without par value	4,862,679 shares
(class)	(Outstanding at August 13, 2009)

RURBAN FINANCIAL CORP.

FORM 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The interim condensed consolidated financial statements of Rurban Financial Corp. (“Rurban” or the “Company”) are unaudited; however, the information contained herein reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of financial condition and results of operations for the interim periods presented. All adjustments reflected in these financial statements are of a normal recurring nature in accordance with Rule 10-01 of Regulation S-X. Results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of results for the complete year.

Rurban Financial Corp.
Condensed Consolidated Balance Sheets
June 30, 2009 and December 31, 2008

	(Unaudited) June 30, 2009	December 31, 2008
Assets		
Cash and due from banks	$ 25,617,514	$ 18,059,532
Federal funds sold	-	10,000,000
Cash and cash equivalents	25,617,514	28,059,532
Available-for-sale securities	109,988,049	102,606,475
Loans held for sale	13,310,045	3,824,499
Loans, net of unearned income	441,217,413	450,111,653
Allowance for loan losses	(5,873,146)	(5,020,197)
Premises and equipment	16,636,308	17,621,262
Purchased software	5,567,099	5,867,395
Federal Reserve and Federal Home Loan Bank stock	3,748,250	4,244,100
Foreclosed assets held for sale, net	1,346,449	1,384,335
Interest receivable	2,512,786	2,964,663
Goodwill	21,414,790	21,414,790
Core deposits and other intangibles	5,392,114	5,835,936
Cash value of life insurance	12,845,586	12,625,015
Other	7,821,698	6,079,451
Total assets	$ 661,544,955	$ 657,618,909

See notes to condensed consolidated financial statements (unaudited)

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

Rurban Financial Corp.
Condensed Consolidated Balance Sheets
June 30, 2009 and December 31, 2008

	(Unaudited) June 30, 2009	December 31, 2008
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Demand	$ 52,755,779	$ 52,242,626
Savings, interest checking and money market	200,679,708	189,461,755
Time	219,558,052	242,516,203
Total deposits	472,993,539	484,220,584
Notes payable	2,563,687	1,000,000
Federal Home Loan Bank advances	40,466,373	36,646,854
Fed Funds Purchased	10,000,000	-
Repurchase agreements	42,703,632	43,425,978
Trust preferred securities	20,620,000	20,620,000
Interest payable	1,750,093	1,965,842
Other liabilities	7,034,918	8,077,647
Total liabilities	598,132,242	595,956,905
Commitments and Contingent Liabilities		
Stockholders' Equity		
Common stock, $2.50 stated value; authorized 10,000,000 shares; issued 5,027,433 shares; outstanding June 2009 – 4,863,979 shares, December 2008 – 4,881,452 shares	12,568,583	12,568,583
Additional paid-in capital	15,102,913	15,042,781
Retained earnings	37,015,166	35,785,317
Accumulated other comprehensive income (loss)	478,565	(121,657)
Treasury Stock, at cost		
Common; June 2009 – 163,454 shares, December 2008 – 145,981 shares	(1,752,514)	(1 ,613,020)
Total stockholders' equity	63,412,713	61,662,004
Total liabilities and stockholders' equity	$ 661,544,955	$ 657,618,909

See notes to condensed consolidated financial statements (unaudited)

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

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

	June 30, 2009	June 30, 2008
Interest Income		
Loans		
Taxable	$ 6,855,627	$ 7,023,308
Tax-exempt	25,390	20,469
Securities		
Taxable	1,134,573	1,090,570
Tax-exempt	244,331	165,798
Other	29,745	15,380
Total interest income	8,289,666	8,315,525
Interest Expense		
Deposits	1,657,345	2,623,590
Other borrowings	33,411	9,483
Repurchase agreements	431,336	450,763
Federal Home Loan Bank advances	411,556	377,146
Trust preferred securities	394,629	422,385
Total interest expense	2,928,277	3,883,367
Net Interest Income	5,361,389	4,432,158
Provision for Loan Losses	798,850	212,997
Net Interest Income After Provision for Loan Losses	4,562,539	4,219,161
Non-interest Income		
Data service fees	4,956,034	4,948,783
Trust fees	641,033	815,734
Customer service fees	649,003	612,825
Net gains on loan sales	938,345	183,145
Net realized gain on sales of securities	423,784	-
Loan servicing fees	103,863	55,220
Gain (loss) on sale of assets	16,241	(390)
Other	169,488	185,841
Total non-interest income	$ 7,897,791	$ 6,801,158

See notes to condensed consolidated financial statements (unaudited)

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

		June 30, 2009		June 30, 2008
Non-interest Expense				
Salaries and employee benefits	$	5,298,604	$	4,435,657
Net occupancy expense		911,719		511,179
Equipment expense		1,698,905		1,625,708
Data processing fees		208,726		104,792
Professional fees		642,988		284,536
Marketing expense		234,557		156,090
Printing and office supplies		117,335		119,686
Telephone and communications		399,835		421,858
Postage and delivery expense		514,490		535,813
State, local and other taxes		233,157		186,418
Employee expense		257,204		303,372
Other		590,537		425,237
Total non-interest expense		11,108,057		9,110,346
Income Before Income Tax		1,352,273		1,909,973
Provision for Income Taxes		348,687		554,149
Net Income	$	1,003,586	$	1,355,824
Basic Earnings Per Share	$	0.20	$	0.28
Diluted Earnings Per Share	$	0.20	$	0.28
Dividends Declared Per Share	$	0.09	$	0.08

See notes to consolidated financial statements (unaudited)

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

	June 30, 2009	June 30, 2008
Interest Income		
Loans		
Taxable	$ 13,670,260	$ 13,831,504
Tax-exempt	50,847	41,819
Securities		
Taxable	2,214,070	2,130,464
Tax-exempt	472,215	324,165
Other	29,877	112,789
Total interest income	16,437,269	16,440,741
Interest Expense		
Deposits	3,555,649	5,715,492
Other borrowings	47,803	26,989
Repurchase agreements	858,823	911,315
Federal Home Loan Bank advances	804,128	679,482
Trust preferred securities	793,614	858,089
Total interest expense	6,060,017	8,191,367
Net Interest Income	10,377,252	8,249,374
Provision for Loan Losses	1,293,992	405,215
Net Interest Income After Provision for Loan Losses	9,083,260	7,844,159
Non-interest Income		
Data service fees	9,928,583	10,213,348
Trust fees	1,224,656	1,670,841
Customer service fees	1,223,702	1,199,032
Net gains on loan sales	2,016,392	457,748
Net realized gain on sales of securities	477,591	-
Net proceeds from VISA IPO	-	132,106
Investment securities recoveries	-	197,487
Loan servicing fees	171,736	118,160
Loss on sale of assets	(42,414)	(71,422)
Other	345,050	399,371
Total non-interest income	$ 15,345,296	$ 14,316,671

See notes to condensed consolidated financial statements (unaudited)

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

	June 30, 2009	June 30, 2008
Non-interest Expense		
Salaries and employee benefits	$ 10,222,726	$ 8,874,421
Net occupancy expense	1,584,120	1,077,195
Equipment expense	3,312,298	3,193,345
Data processing fees	344,462	201,359
Professional fees	1,141,043	855,223
Marketing expense	423,303	337,837
Printing and office supplies	331,877	305,738
Telephone and communications	806,228	843,787
Postage and delivery expense	1,123,512	1,138,447
State, local and other taxes	466,053	367,186
Employee expense	517,142	533,983
Other	1,310,317	983,185
Total non-interest expense	21,583,081	18,711,706
Income Before Income Tax	2,845,475	3,449,124
Provision for Income Taxes	738,336	983,944
Net Income	$ 2,107,139	$ 2,465,180
Basic Earnings Per Share	$ 0.43	$ 0.50
Diluted Earnings Per Share	$ 0.43	$ 0.50
Dividends Declared Per Share	$ 0.18	$ 0.16

See notes to condensed consolidated financial statements (unaudited)

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

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Balance at beginning of period	$ 63,620,510	$ 59,870,312	$ 61,662,004	$ 59,325,235
Cumulative effect adjustment for split dollar BOLI	-	-	-	(116,303)
Net Income	1,003,586	1,355,824	2,107,139	2,465,180
Unrealized gains (losses) on securities				
Unrealized holding gains (losses) arising during the year	(464,173)	(1,193,931)	915,432	(843,737)
Less: reclassification adjustment for gains (losses) realized in net income	279,697	-	315,210	-
Total comprehensive income	259,716	161,893	2,707,361	1,621,443
Cash dividend	(438,333)	(395,356)	(877,291)	(793,269)
Purchase of treasury shares	(59,246)	(295,600)	(139,494)	(716,600)
Share-based compensation	30,066	20,480	60,133	41,223
Balance at end of period	$ 63,412,713	$ 59,361,729	$ 63,412,713	$ 59,361,729

See notes to condensed consolidated financial statements (unaudited)

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

	June 30, 2009	June 30, 2008
Operating Activities		
Net income	$ 2,107,139	$ 2,465,180
Items not requiring (providing) cash		
Depreciation and amortization	1,830,970	1,921,112
Provision for loan losses	1,293,922	405,215
Expense of share-based compensation plan	60,133	41,224
Amortization of premiums and discounts on securities	324,964	57,364
Amortization of intangible assets	443,822	346,763
Deferred income taxes	(984,182)	434,652
FHLB Stock Dividends	-	(83,800)
Proceeds from sale of loans held for sale	204,379,921	15,212,601
Originations of loans held for sale	(211,849,075)	(15,749,144)
Gain from sale of loans	(2,016,392)	(457,748)
Gain on available for sale securities	(477,591)	-
(Gain) loss on sale of foreclosed assets	15,414	(10,097)
Loss on sales of fixed assets	27,000	71,422
Changes in		
Interest receivable	451,877	251,445
Other assets	(1,903,768)	619,093
Interest payable and other liabilities	(583,503)	630,415
Net cash provided by (used in) operating activities	(6,879,349)	6,155,697
Investing Activities		
Purchases of available-for-sale securities	(44,042,933)	(46,231,265)
Proceeds from maturities of available-for-sale securities	21,932,628	40,850,667
Proceeds from sales of available-for-sale securities	15,790,787	-
Proceeds from sales of Fed Stock	700,000	-
Purchase of FHLB Stock	(204,150)	-
Net change in loans	8,095,458	(16,955,034)
Purchase of premises and equipment and software	(613,597)	(2,582,000)
Proceeds from sales of premises and equipment	40,877	286,816
Proceeds from sale of foreclosed assets	321,231	162,385
Net cash provided by (used in) investing activities	$ 2,020,301	$ (24,468,431)

See notes to condensed consolidated financial statements (unaudited)

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

	June 30, 2009	June 30, 2008
Financing Activities		
Net increase in demand deposits, money market, interest checking and savings accounts	$ 11,731,106	$ 13,008,870
Net decrease in certificates of deposit	(22,958,151)	(16,482,135)
Net increase (decrease) in securities sold under agreements to repurchase	(722,346)	1,503,073
Net increase in federal funds purchased	10,000,000	3,600,000
Proceeds from Federal Home Loan Bank advances	7,500,000	21,000,000
Repayment of Federal Home Loan Bank advances	(3,680,481)	(7,191,736)
Proceeds from notes payable	4,200,000	-
Repayment of notes payable	(2,636,313)	(922,457)
Purchase of treasury stock	(139,494)	(716,600)
Dividends paid	(877,291)	(793,269)
Net cash provided by financing activities	2,417,030	13,005,746
Decrease in Cash and Cash Equivalents	(2,442,018)	(5,306,988)
Cash and Cash Equivalents, Beginning of Year	28,059,532	17,183,627
Cash and Cash Equivalents, End of Period	$ 25,617,514	$ 11,876,639
Supplemental Cash Flows Information		
Interest paid	$ 6,275,766	$ 8,565,333
Transfer of loans to foreclosed assets	$ 297,042	$ 1,640,007
Income Taxes Paid	$ -	$ 414,000

See notes to condensed consolidated financial statements (unaudited)

RURBAN FINANCIAL CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows of the Company. Those adjustments consist only of normal recurring adjustments. Results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of results for the complete year.

The condensed consolidated balance sheet of the Company as of December 31, 2008 has been derived from the audited consolidated balance sheet of the Company as of that date.

For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

NOTE B—EARNINGS PER SHARE

Earnings per share (EPS) have been computed based on the weighted average number of shares outstanding during the periods presented. For the periods ended June 30, 2009 and 2008, share based awards totaling 327,263 and 316,263 common shares, respectively, were not considered in computing EPS as they were anti-dilutive. The number of shares used in the computation of basic and diluted earnings per share were:

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Basic earnings per share	4,868,063	4,934,241	4,871,978	4,948,334
Diluted earnings per share	4,868,063	4,934,241	4,871,978	4,948,334

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

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

	June 30, 2009	December 31, 2008
Commercial	$ 82,365,308	$ 83,645,408
Commercial real estate	167,217,842	161,566,005
Agricultural	43,197,218	43,641,132
Residential real estate	94,595,196	107,905,198
Consumer	53,782,826	53,338,523
Lease financing	308,500	266,348
Total loans	441,466,890	450,362,614
Less		
Net deferred loan fees, premiums and discounts	(249,477)	(250,961)

Loans, net of unearned income	$	441,217,413	$	450,111,653
Allowance for loan losses	$	(5,873,146)	$	(5,020,197)

13

The following is a summary of the activity in the allowance for loan losses account for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Balance, beginning of period	$ 5,348,952	$ 4,016,230	$ 5,020,197	$ 3,990,455
Provision charged to expense	798,850	212,997	1,293,992	405,215
Recoveries	60,921	28,150	81,915	58,998
Loans charged off	(335,577)	(10,583)	(522,958)	(207,874)
Balance, end of period	$ 5,873,146	$ 4,246,794	$ 5,873,146	$ 4,246,794

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

	June 30, 2009	December 31, 2008
Non-accrual loans	$ 10,172,511	$ 5,177,694
Accruing loans which are contractually past due 90 days or more as to interest or principal payments	-	-
Total non-performing loans	$ 10,172,511	$ 5,177,694

In addition to the above mentioned non-performers, management was very proactive in reaching out to customers to restructure loans. On June 30, 2009, approximately $7.06 million in loans were restructured and are currently paying under the new terms. At December 31, 2008, $151,000 in loans were restructured and paying under the new terms.

Individual loans determined to be impaired were as follows:

	June 30, 2009	December 31, 2008
Loans with no allowance for loan losses allocated	$ 2,223,000	$ 1,857,000
Loans with allowance for loan losses allocated	7,535,000	866,000
Total impaired loans	$ 9,758,000	$ 2,723,000
Amount of allowance allocated	$ 2,136,000	$ 322,000

NOTE D – REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and State Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and of Tier I capital to average assets (as defined in the regulations). As of June 30, 2009 and December 31, 2008, the Company and State Bank exceeded all "well-capitalized" requirements to which they were subject.

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

The Company's consolidated, and State Bank's actual, capital amounts (in millions) and ratios, as of June 30, 2009 and December 31, 2008, are also presented in the following table.

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2009						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 63.2	13.7%	$ 36.8	8.0%	$ —	N/A
State Bank	51.5	11.6	35.6	8.0	44.5	10.0
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	57.5	12.2	18.4	4.0	—	N/A
State Bank	46.0	10.3	17.8	4.0	26.7	6.0
Tier I Capital (to Average Assets)						
Consolidated	57.5	9.0	25.5	4.0	—	N/A
State Bank	46.0	7.2	25.6	4.0	32.1	5.0
As of December 31, 2008						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 59.5	13.0%	$ 36.5	8.0%	$ —	N/A
State Bank	50.0	11.3	35.4	8.0	44.3	10.0

Tier I Capital (to Risk-Weighted Assets)						
Consolidated	54.5	11.9	18.3	4.0	—	N/A
State Bank	45.0	10.2	17.7	4.0	26.6	6.0
Tier I Capital (to Average Assets)						
Consolidated	54.5	9.5	23.1	4.0	—	N/A
State Bank	45.0	7.7	23.5	4.0	29.3	5.0

NOTE E – CONTINGENT LIABILITIES

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

NOTE F - NEW ACCOUNTING PRONOUNCEMENTS

In June of 2009, the FASB issued FASB Statement 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. Statement 168 establishes the FASB Accounting Standards Codification (Codification) as the single source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. Statement 168 and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. Following Statement 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: (a) update the Codification; (b) provide background information about the guidance; and (c) provide the bases for conclusions on the change(s) in the Codification. Adoption of this Statement is not expected to have a material effect on the Company's financial position or results of operations.

In May of 2009 the FASB issued Statement 165, Subsequent Events. Statement 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, Statement 165 provides:

The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements;

The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and

The disclosure that an entity should make about events or transactions that occurred after the balance sheet date.

Statement 165 is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. Adoption of statement 165 has not had a material effect on the Company's financial position or results of operations.

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

- FSP "SFAS 157-4 Determining Fair Value When the Volume and Level of Activity for the Assets or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" addresses the criteria to be used in the determination of an active market in determining whether observable transactions are Level 1 or Level 2 under the framework established by SFAS 157, "Fair Value Measurements." The FSP reiterates that fair value is based on the notion of exit price in an orderly transaction between willing market participants at the valuation date.

- FSP "SFAS 115-2 and SFAS 124-2, Recognition and Presentation of Other-than-Temporary Impairments" provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on debt securities.

- FSP "SFAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments" enhances consistency in financial reporting by increasing the frequency of fair value disclosures.

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

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

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

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

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

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits the Company to choose to measure certain financial assets and liabilities at fair value that are not currently required to be measured at fair value (the “Fair Value Option”). Election of the Fair Value Option is made on an instrument-by-instrument basis and is irrevocable. At the adoption date, unrealized gains and losses on financial assets and liabilities for which the Fair Value Option has been elected would be reported as a cumulative adjustment to beginning retained earnings. If the Company elects the Fair Value Option for certain financial assets and liabilities, the Company will report unrealized gains and losses due to changes in their fair value in earnings at each subsequent reporting date. SFAS No. 159 is effective as of January 1, 2008. The Company has not elected the Fair Value Option for any financial assets or liabilities at June 30, 2009.

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

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

NOTE G – COMMITMENTS AND CREDIT RISK

As of June 30, 2009, loan commitments and unused lines of credit totaled $75,170,000, standby letters of credit totaled $279,000 and no commercial letters of credit were outstanding. At December 31, 2008, loan commitments and unused lines of credit totaled $67,785,000, standby letters of credit totaled $5,436,000 and no commercial letters of credit were outstanding.

NOTE H – SEGMENT INFORMATION

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

As of and for the three months ended June 30, 2009

Income statement information:	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	$ 5,789,863	$ (34,003)	$ (394,471)	$ 5,361,389		$ 5,361,389
Non-interest income - external customers	2,917,326	4,959,034	21,431	7,897,791		7,897,791
Non-interest income - other segments	24,164	391,439	355,002	770,605	(770,605)	-
Total revenue	8,731,353	5,316,470	(18,038)	14,029,785	(770,605)	13,259,180
Non-interest expense	6,506,659	4,394,358	977,645	11,878,662	(770,605)	11,108,057
Significant non-cash items:						
Depreciation and amortization	260,966	638,417	25,027	924,410	-	924,410
Provision for loan losses	798,850	-	-	798,850	-	798,850
Income tax expense (benefit)	379,246	313,518	(344,077)	348,687	-	348,687
Segment profit (loss)	$ 1,046,598	$ 608,594	$ (651,606)	$ 1,003,586	$ -	$ 1,003,586
Balance sheet information:						
Total assets	$ 639,781,723	$ 22,837,374	$ 3,753,803	$ 666,372,900	$ (4,827,945)	$ 661,544,955
Goodwill and intangibles	$ 19,792,840	$ 7,014,064	$ -	$ 26,806,904	$ -	$ 26,806,904
Premises and equipment expenditures	$ 226,491	$ 25,854	$ 13,981	$ 266,326	$ -	$ 266,326

18

NOTE H – SEGMENT INFORMATION (Continued)

As of and for the three months ended June 30, 2008

Income statement information:	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	$ 4,880,961	$ (32,309)	$ (416,494)	$ 4,432,158		$ 4,432,158
Non-interest income - external customers	1,831,915	4,948,502	20,741	6,801,158		6,801,158
Non-interest income - other segments	15,845	369,549	381,584	766,978	(766,978)	-
Total revenue	6,728,721	5,285,742	(14,169)	12,000,294	(766,978)	11,233,316
Non-interest expense	4,813,165	4,316,685	747,474	9,877,324	(766,978)	9,110,346
Significant non-cash items:						
Depreciation and amortization	226,187	698,446	19,453	944,086	-	944,086
Provision for loan losses	212,997	-	-	212,997	-	212,997
Income tax expense (benefit)	486,384	329,479	(261,714)	554,149	-	554,149
Segment profit (loss)	$ 1,216,175	$ 639,578	$ (499,929)	$ 1,355,824	$ -	$ 1,355,824
Balance sheet information:						
Total assets	$ 557,808,821	$ 20,118,493	$ 6,284,412	$ 584,211,726	$ (7,698,900)	$ 576,512,826
Goodwill and intangibles	$ 11,468,086	$ 7,260,997	$ -	$ 18,729,083	$ -	$ 18,729,083
Premises and equipment expenditures	$ 350,170	$ 1,279,652	$ 3,688	$ 1,633,510	$ -	$ 1,633,510

NOTE H – SEGMENT INFORMATION (Continued)

As of and for the six months ended June 30, 2009

Income statement information:	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expe						