

RURBAN FINANCIAL CORP  
Form 10-Q  
May 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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 (I.R.S. Employer Identification No.)  
incorporation or organization)

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  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the 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

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

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 May 9, 2012)

**RURBAN FINANCIAL CORP.**

**FORM 10-Q**

**TABLE OF CONTENTS**

**PART I – FINANCIAL INFORMATION**

Item 1. Financial Statements	3
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	30
Item 3. Quantitative and Qualitative Disclosures About Market Risk	39
Item 4. Controls and Procedures	39

**PART II – OTHER INFORMATION**

Item 1. Legal Proceedings	40
Item 1A. Risk Factors	40
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	40
Item 3. Defaults Upon Senior Securities	40
Item 4. Mine Safety Disclosures	40
Item 5. Other Information	41
Item 6. Exhibits	41
Signatures	42

**PART I – FINANCIAL INFORMATION**

**Item 1. Financial Statements**

The interim condensed consolidated financial statements of Rurban Financial Corp. (“Rurban” or the “Company”) are unaudited; however, the information contained herein reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of financial condition and results of operations for the interim periods presented. All adjustments reflected in these financial statements are of a normal recurring nature in accordance with Rule 10-01 of Regulation S-X. Results of operations for the three months ended March 31, 2012 are not necessarily indicative of results for the complete year.

**Rurban Financial Corp.**Condensed Consolidated Balance Sheets  
March 31, 2012 and December 31, 2011

	March 31, 2012 (Unaudited)	December 31, 2011
(\$'s in Thousands)		
<b>ASSETS</b>		
Cash and due from banks	\$ 29,602	\$ 14,846
Investment Securities:		
Securities available for sale, at fair value	110,603	111,978
Other securities - FRB and FHLB Stock	3,685	3,685
Total investment securities	114,288	115,663
Loans held for sale	11,384	5,238
Loans, net of unearned income	439,721	442,554
Allowance for loan losses	(6,609 )	(6,529 )
Net loans	433,112	436,025
Premises and equipment, net	13,282	13,773
Purchased software	386	159
Cash surrender value of life insurance	12,312	12,224
Goodwill	16,353	16,353
Core deposits and other intangibles	1,691	1,849
Foreclosed assets held for sale, net	1,807	1,830
Mortgage servicing rights	3,359	2,820
Accrued interest receivable	1,802	1,635
Other assets	5,598	6,249
Total assets	\$ 644,976	\$ 628,664
<b>LIABILITIES AND EQUITY</b>		
Deposits		
Non interest bearing demand	\$ 71,077	\$ 65,963
Interest bearing demand	118,898	107,446
Savings	52,599	49,665
Money market	82,799	74,244
Time deposits	210,119	221,447
Total deposits	535,492	518,765
Notes payable	2,519	2,788

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

Advances from Federal Home Loan Bank	12,611	12,776
Repurchase agreements	17,771	18,779
Trust preferred securities	20,620	20,620
Accrued interest payable	3,556	2,954
Other liabilities	3,381	4,050
Total liabilities	595,950	580,732
Equity		
Preferred stock	-	-
Common stock	12,569	12,569
Additional paid-in capital	15,338	15,323
Retained earnings	21,438	20,466
Accumulated other comprehensive income	1,450	1,343
Treasury stock	(1,769 )	(1,769 )
Total equity	49,026	47,932
Total liabilities and equity	\$ 644,976	\$ 628,664

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements at that date

**Rurban Financial Corp.****Condensed Consolidated Statements Income (Unaudited)**

(\$'s in Thousands)	Three Months Ended	
	March 31, 2012	March 31, 2011
Interest income		
Loans		
Taxable	\$ 5,928	\$ 5,852
Nontaxable	23	11
Securities		
Taxable	399	611
Nontaxable	147	336
Total interest income	6,497	6,810
Interest expense		
Deposits	854	1,049
Other borrowings	34	25
Repurchase agreements	68	426
Federal Home Loan Bank advances	74	133
Trust preferred securities	592	344
Total interest expense	1,622	1,977
Net interest income	4,875	4,833
Provision for loan losses	450	499
Net interest income after provision for loan losses	4,425	4,334
Noninterest income		
Data service fees	643	912
Trust fees	642	695
Customer service fees	631	581
Gain on sale of mortgage loans and OMSR's	1,181	425
Mortgage loan servicing fees, net	329	139
Gain on sale of non-mortgage loans	-	43
Loss on sale or disposal of assets	(56 )	(100 )
Other income	211	168
Total non-interest income	3,581	2,863
Noninterest expense		
Salaries and employee benefits	3,499	3,530
Net occupancy expense	548	584
Equipment expense	711	711

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

FDIC insurance expense	214	318
Data processing fees	113	144
Professional fees	385	474
Marketing expense	90	56
Printing and office supplies	78	76
Telephone and communication	144	157
Postage and delivery expense	229	344
State, local and other taxes	120	144
Employee expense	106	96
Other intangible amortization expense	157	197
Other expenses	282	229
Total non-interest expense	6,676	7,060
Income before income tax expense	1,330	137
Income tax expense	358	126
Net income	\$ 972	\$ 11
Common share data:		
Basic earnings per common share	\$ 0.20	\$ 0.00
Diluted earnings per common share	\$ 0.20	\$ 0.00
Average shares outstanding:		
Basic:	4,862	4,862
Diluted:	4,862	4,862

*See notes to condensed consolidated financial statements (unaudited)*



**Rurban Financial Corp.**

**Condensed Consolidated Statements of Other Comprehensive Income (Unaudited)**

**Three Months Ended March 31,**

(\$'s in thousands)	2012	2011
Net income	\$972	\$11
Other comprehensive income		
Investment securities available for sale		
Change in net unrealized gains during the period	162	313
Tax expense	(55 )	(106 )
Comprehensive income	\$1,079	\$218
Accumulated other comprehensive income	\$1,450	\$1,343

*See notes to condensed consolidated financial statements (unaudited)*

**Rurban Financial Corp.**

**Condensed Consolidated Statements of Changes in**

**Stockholders' Equity (unaudited)**

(\$'s in thousands)	Three Months Ended March 31,	
	2012	2011
Balance at beginning of period	\$ 47,932	\$ 46,024
Net income	972	11
Unrealized holding gains arising during the year, net of tax	107	207
Share-based compensation	15	23
Balance at end of period	\$ 49,026	\$ 46,265

See notes to condensed consolidated financial statements (unaudited)

Rurban Financial Corp.

## Condensed Consolidated Statements of Cash Flows (Unaudited)

Three Months Ended March 31,

(\$'s in thousands)	2012	2011
<b>Operating Activities</b>		
Net Income	\$972	\$11
Items not requiring (providing) cash		
Depreciation and amortization	334	454
Provision for loan losses	450	499
Expense of share-based compensation plan	15	23
Amortization of premiums and discounts on securities	368	432
Amortization of intangible assets	157	197
Amortization of originated mortgage servicing rights	349	71
Deferred income taxes	(55 )	(107 )
Proceeds from sale of loans held for sale	62,897	31,865
Originations of loans held for sale	(68,331)	(28,005)
Gain on sale of loans	(1,181 )	(425 )
Loss on sale of foreclosed assets	15	100
Recapture of originated mortgage servicing rights impairment	(419 )	-
Income from bank owned life insurance	(88 )	(94 )
Changes in		
Interest receivable	(167 )	(295 )
Other assets	665	400
Interest payable and other liabilities	(68 )	(359 )
<b>Net cash provided by (used in) operating activities</b>	<b>(4,086 )</b>	<b>4,768</b>
<b>Investing Activities</b>		
Purchase of available-for-sale securities	(11,295)	(4,039 )
Proceeds from maturities of available-for-sale securities	12,463	5,631
Proceeds from bank owned life insurance	-	1,354
Net change in loans	2,432	4,357
Purchase of premises and equipment and software	(771 )	(119 )
Proceeds from sales or disposal of premises and equipment	701	-
Proceeds from sale of foreclosed assets	27	923
<b>Net cash from investing activities</b>	<b>\$3,557</b>	<b>\$8,107</b>

See notes to condensed consolidated financial statements (unaudited)



Rurban Financial Corp.

Condensed Consolidated Statements of Cash Flows (Unaudited) *(continued)*  
Three Months Ended March 31,

(\$'s in thousands)	2012	2011
<b>Financing Activities</b>		
Net increase (decrease) in demand deposits, money market, interest checking and savings accounts	\$28,055	\$(2,319)
Net decrease in certificates of deposit	(11,328)	(397)
Net (decrease) increase in securities sold under agreements to repurchase	(1,008)	3,714
Repayment of Federal Home Loan Bank advances	(165)	(6,127)
Repayment of notes payable	(269)	(72)
Net cash provided by (used in) financing activities	15,285	(5,202)
Increase in Cash and Cash Equivalents	14,756	7,673
Cash and Cash Equivalents, Beginning of Year	14,846	30,418
Cash and Cash Equivalents, End of Period	\$29,602	\$38,090
<b>Supplemental Cash Flows Information</b>		
Interest Paid	\$1,020	\$1,753
Transfer of loans to foreclosed assets	\$14	\$400

See notes to condensed consolidated financial statements (unaudited)

RURBAN FINANCIAL CORP.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE A—BASIS OF PRESENTATION**

Rurban Financial Corp. (the “Company”) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, The State Bank and Trust Company (“State Bank”), RFCBC, Inc. (“RFCBC”), Rurbanc Data Services, Inc. dba RDSI Banking Systems (“RDSI”), Rurban Statutory Trust I (“RST I”), and Rurban Statutory Trust II (“RST II”). State Bank owns all the outstanding stock of Rurban Mortgage Company (“RMC”), Rurban Investments, Inc. (“RII”) and State Bank Insurance, LLC (“SBI”).

The consolidated financial statements include the accounts of the Company, State Bank, RFCBC, RDSI, RMC, RII, and SBI. All significant intercompany accounts and transactions have been eliminated in consolidation.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows of the Company. Those adjustments consist only of normal recurring adjustments. Results of operations for the three months ended March 31, 2012 are not necessarily indicative of results for the complete year.

The condensed consolidated balance sheet of the Company as of December 31, 2011 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, 2011.

**NOTE B—EARNINGS PER SHARE**

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

Earnings per share (EPS) have been computed based on the weighted average number of shares outstanding during the periods presented. For the periods ended March 31, 2012 and 2011, share based awards totaling 303,974 and 325,951 common shares, respectively, were not considered in computing diluted EPS as they were anti-dilutive. The number of shares used in the computation of basic and diluted earnings per share were:

	Three Months Ended	
	March 31,	
	2012	2011
Basic earnings per share	4,861,779	4,861,779
Diluted earnings per share	4,861,779	4,861,779

**Note C - Securities**

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

\$'s in thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-Sale Securities:				
March 31, 2012:				
U.S. Treasury and				
Government agencies	\$ 23,412	\$ 176	(58 )	\$ 23,530
Mortgage-backed securities	67,305	891	(49 )	68,147
State and political subdivisions	15,268	1,241	(3 )	16,506
Money Market Mutual Fund	2,397	-	-	2,397
Equity securities	23	-	-	23
	\$ 108,405	\$ 2,308	\$ (110 )	\$ 110,603

\$'s in thousands	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
December 31, 2011:				
U.S. Treasury and				
Government agencies	\$ 25,238	\$ 186	\$ -	\$ 25,424
Mortgage-backed securities	67,056	761	(119 )	67,698
State and political subdivisions	15,586	1,210	(3 )	16,793
Money Market Mutual Fund	2,040	-	-	2,040
Equity securities	23	-	-	23
	\$ 109,943	\$ 2,157	\$ (122 )	\$ 111,978

The amortized cost and fair value of securities available for sale at March 31, 2012, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

\$'s in thousands	Amortized Cost	Available for Sale Fair Value
Within one year	\$ 384	383



Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

Due after one year through five years	1,695	1,768
Due after five years through ten years	10,318	10,554
Due after ten years	26,283	27,331
	38,680	40,036
Mortgage-backed securities, money market mutual funds & equity securities	69,725	70,567
Totals	\$108,405	\$110,603

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$57.2 million at March 31, 2012 and \$52.8 million at December 31, 2011. The securities delivered for repurchase agreements were \$21.2 million at March 31, 2012 and \$21.0 million at December 31, 2011.

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 \$16.3 million at March 31, 2012 and \$15.2 million at December 31, 2011, which was approximately 15 and 14 percent, respectively, of the Company's available-for-sale investment portfolio at such dates. Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

Securities with unrealized losses, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2012 and December 31, 2011 are as follows (\$'s in thousands):

March 31, 2012	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	\$ 6,738	\$ (58 )	\$ -	\$ -	\$6,738	\$ (58 )
Mortgage-backed securities	8,201	(14 )	819	(35 )	9,020	(49 )
State and political subdivisions	504	(3 )	-	-	504	(3 )
	\$ 15,443	\$ (75 )	\$ 819	\$ (35 )	\$16,262	\$ (110 )
December 31, 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:						
Mortgage-backed securities	\$ 11,321	(56 )	\$ 844	\$ (63 )	\$12,165	\$ (119 )
State and political subdivisions	501	(3 )	-	-	501	(3 )
	\$ 11,822	\$ (59 )	\$ 844	\$ (63 )	\$12,666	\$ (122 )

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.

## NOTE D – LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoffs, are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Generally, loans are placed on non-accrual status not later than 90 days past due, unless the loan is well-secured and in the process of collection. All interest accrued, but not collected for loans that are placed on non-accrual or charged-off, is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the non-collectability of a loan balance is probable. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as new information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected on the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that State Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration each of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan-by-loan basis for commercial, agricultural, and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

When State Bank moves a loan to non-accrual status, total unpaid interest accrued to date is reversed from income. Subsequent payments are applied to the outstanding principal balance with the interest portion of the payment recorded on the balance sheet as a contra-loan. Interest received on impaired loans may be realized once all contractual principal amounts are received or when a borrower establishes a history of six consecutive timely principal and interest payments. It is at the discretion of management to determine when a loan is placed back on accrual status upon receipt of six consecutive timely payments.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, State Bank does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Categories of loans at March 31, 2012 and December 31, 2011 include:

(\$'s in thousands)	March 31, 2012	December 31, 2011
Commercial	\$ 78,450	\$ 78,112
Commercial real estate	188,984	187,829
Agricultural	37,741	38,361
Residential real estate	84,771	87,656
Home Equity & Consumer	49,855	50,681
Leasing	207	216
Total loans	440,008	442,855
Less		
Net deferred loan fees, premiums and discounts	(287 )	(301 )
Loans, net of unearned income	\$ 439,721	\$ 442,554
Allowance for loan losses	\$(6,609 )	\$(6,529 )

The following table presents the Company's nonperforming loans at March 31, 2012 and December 31, 2011.

(\$'s in thousands)	March 31, 2012	December 31, 2011
Commercial	\$ 2,021	\$ 2,393
Commercial real estate	1,481	1,456
Agricultural	113	-
Residential real estate	1,840	2,471
Home Equity & Consumer	1,056	580
Leasing	-	-
Total nonaccruing loans	6,511	6,900
Accruing Troubled Debt Restructures (TDR's)	1,593	1,334
Total Nonperforming Loans	\$ 8,104	\$ 8,234

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 as of March 31, 2012, December 31, 2011 and March 31, 2011.

March 31, 2012	Commercial			Residential		Home Equity		Unallocated	Total
(\$'s in thousands)	Commercial	Real Estate	Agricultural	First Mortgage	& Consumer	Other			
<b>ALLOWANCE FOR LOAN AND LEASE LOSSES</b>									
Beginning balance	\$ 1,914	\$ 2,880	\$ 51	\$ 956	\$ 599	\$ 139	\$ (10 )	\$ 6,529	
Charge Offs	(205 )	(42 )	-	(51 )	(160 )	(16 )	-	(474 )	
Recoveries	2	23	1	71	2	3	1	104	
Provision	144	52	-	24	212	9	9	450	
Ending Balance	\$ 1,855	\$ 2,913	\$ 53	\$ 1,000	\$ 653	\$ 135	\$ -	\$ 6,609	
Ending balance: individually evaluated for impairment	\$ 517	\$ 231	\$ 3	\$ 403	\$ 178	\$-	\$ -	\$ 1,332	
Ending balance: collectively evaluated for impairment	\$ 1,338	\$ 2,682	\$ 50	\$ 597	\$ 475	\$ 135	\$ -	\$ 5,277	
Loans: Ending balance: individually evaluated for impairment	\$ 1,945	\$ 2,035	\$ 115	\$ 2,375	\$ 518	\$-	\$ -	\$ 6,988	
Ending balance: collectively evaluated for impairment	\$ 76,505	\$ 186,949	\$ 37,626	\$ 82,396	\$ 49,337	\$ 207	\$ -	\$ 433,020	

December 31, 2011	Commercial			Residential		Home Equity		Unallocated	Total
(\$'s in thousands)	Commercial	Real Estate	Agricultural	First Mortgage	& Consumer	Other			
<b>ALLOWANCE FOR LOAN AND LEASE LOSSES</b>									
Beginning balance	\$ 1,723	\$ 3,774	\$ 16	\$ 643	\$ 401	\$ 128	\$ 30	\$ 6,715	
Charge Offs	(642 )	(2,057 )	-	(248 )	(460 )	-	-	(3,407 )	
Recoveries	465	32	3	700	21	6	-	1,227	

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

Provision	368	1,131	32	(139 )	637	5	(40 )	1,994
Ending Balance	\$ 1,914	\$ 2,880	\$ 51	\$ 956	\$ 599	\$ 139	\$ (10 )	\$ 6,529
Ending balance: individually evaluated for impairment	\$ 1,017	\$ 19	\$ 5	\$ 280	\$ 212	\$-	\$ -	\$ 1,533
Ending balance: collectively evaluated for impairment	\$ 897	\$ 2,861	\$ 46	\$ 676	\$ 387	\$ 139	\$ (10 )	\$ 4,996
Loans: Ending balance: individually evaluated for impairment	\$ 3,283	\$ 2,473	\$ 5	\$ 2,074	\$ 543	\$-	\$ -	\$ 8,378
Ending balance: collectively evaluated for impairment	\$ 74,829	\$ 185,356	\$ 38,356	\$ 85,582	\$ 50,138	\$ 216	\$ -	\$ 434,477



March 31, 2011	Commercial		Agricultural	Residential	Home Equity & Consumer	Other	Unallocated	Total
(\$'s in thousands)	Commercial	Real Estate		First Mortgage				
<b>ALLOWANCE FOR LOAN AND LEASE LOSSES</b>								
Beginning balance	\$ 1,723	\$ 3,774	\$ 16	\$ 643	\$ 401	\$ 128	\$ 30	\$ 6,715
Charge Offs	(209 )	(100 )	-	(103 )	(200 )	(27 )	-	(639 )
Recoveries	5	3	1	-	7	2	-	18
Provision	247	(354 )	1	386	243	5	(29 )	499
Ending Balance	\$ 1,766	\$ 3,322	\$ 18	\$ 926	\$ 451	\$ 108	\$ 1	\$ 6,593
Ending balance: individually evaluated for impairment	\$ 901	\$ 935	\$ -	\$ 219	\$ 32	\$ -	\$ -	\$ 2,087
Ending balance: collectively evaluated for impairment	\$ 865	\$ 2,387	\$ 18	\$ 707	\$ 419	\$ 108	\$ 1	\$ 4,506
Loans:								
Ending balance: individually evaluated for impairment	\$ 2,842	\$ 6,174	\$ -	\$ 1,409	\$ 175	\$ -	\$ -	\$ 10,600
Ending balance: collectively evaluated for impairment	\$ 67,777	\$ 175,576	\$ 37,206	\$ 81,026	\$ 50,077	\$ 182	\$ -	\$ 411,845

### **Credit Risk Profile**

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass (1-4) rated loans.

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of March 31, 2012 and December 31, 2011 (\$'s in thousands).

March 31, 2012	Commercial	Commercial RE & Construction	Agricultural	Residential Real Estate	Home Equity & Consumer	Leases	Total
1-2	\$ 825	\$ 123	\$ 122	\$ -	\$ 2	\$ -	\$1,072
3	24,185	60,257	10,836	72,933	44,732	24	212,967
4	49,534	113,642	26,617	7,601	3,562	183	201,139
Total Pass	74,544	174,022	37,575	80,534	48,296	207	415,178
5	74	10,075	115	1,569	441	-	12,274
6	1,924	3,310	51	949	42	-	6,276
7	1,908	1,577	-	1,719	1,076	-	6,280
8	-	-	-	-	-	-	-
Total	\$ 78,450	\$ 188,984	\$ 37,741	\$ 84,771	\$ 49,855	\$ 207	\$440,008

December 31, 2011	Commercial	Commercial RE & Construction	Agricultural	Residential Real Estate	Home Equity & Consumer	Leases	Total
1-2	\$ 909	\$ 188	\$ 152	\$ 1,548	\$ 127	\$ 140	\$3,064
3	24,375	62,506	13,203	78,122	43,814	-	222,020
4	48,004	110,633	24,950	1,576	6,095	76	191,334
Total Pass	73,288	173,327	38,305	81,246	50,036	216	416,418
5	610	9,703	5	1,666	72	-	12,056
6	2,037	3,358	51	1,834	92	-	7,372
7	2,177	1,441	-	2,910	481	-	7,009
8	-	-	-	-	-	-	-
Total	\$ 78,112	\$ 187,829	\$ 38,361	\$ 87,656	\$ 50,681	\$ 216	\$442,855

The following tables present the Company's loan portfolio aging analysis as of March 31, 2012 and December 31, 2011 (\$'s in thousands).

March 31, 2012	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Commercial	\$ 11	\$ -	\$ 2,021	\$ 2,032	\$76,418	\$ 78,450
Commercial RE	-	-	1,481	1,481	187,503	188,984
Agricultural	-	-	113	113	37,628	37,741
Residential Real Estate	149	276	806	1,231	83,540	84,771
Home Equity & Consumer	111	18	505	634	49,221	49,855
Leases	-	-	-	-	207	207
Loans & Lease	271	294	4,926	5,491	434,517	440,008

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

Loans held for Sale	-	-	-	-	11,384	11,384
Total	\$ 271	\$ 294	\$ 4,926	\$ 5,491	\$ 445,901	\$ 451,392

December 31, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable
Commercial	\$ 58	\$ -	\$ 2,334	\$ 2,392	\$ 75,720	\$ 78,112
Commercial RE	67	-	1,656	1,723	186,106	187,829
Agricultural	-	-	-	-	38,361	38,361
Residential Real Estate	412	784	569	1,765	85,891	87,656
Home Equity & Consumer	465	194	505	1,164	49,517	50,681
Leases	-	-	-	-	216	216
Loans & Lease	1,002	978	5,064	7,044	435,811	442,855
Loans held for Sale	-	-	-	-	5,238	5,238
Total	\$ 1,002	\$ 978	\$ 5,064	\$ 7,044	\$ 441,049	\$ 448,093

All loans past due 90 days are systematically placed on nonaccrual status.

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

The following tables present impaired loan activity for the three months ended March 31, 2012 and 2011, and for the twelve months ended December 31, 2011:

Three Months Ended March 31, 2012 (\$'s in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 118	\$ 468	\$ -	\$ 127	\$ -
Commercial Real Estate	1,032	1,992	-	2,037	6
Agricultural	112	112	-	113	-
Residential	675	675	-	772	14
Home Equity Consumer & Other	211	244	-	315	4
All Impaired Loans < \$100,000	1,157	1,157	-	1,157	-
With a specific allowance recorded:					
Commercial	1,827	3,887	517	1,896	-
Commercial Real Estate	1,003	2,192	231	1,145	-
Agricultural	3	3	3	113	-
Residential	1,700	1,710	403	1,768	21
Home Equity Consumer & Other	307	307	178	251	2
All Impaired Loans < \$100,000	-	-	-	-	-
Totals:					
Commercial	\$ 1,945	\$ 4,355	\$ 517	\$ 2,023	\$ -
Commercial Real Estate	\$ 2,035	\$ 4,184	\$ 231	\$ 3,182	\$ 6
Agricultural	\$ 115	\$ 115	\$ 3	\$ 226	\$ -
Residential	\$ 2,375	\$ 2,385	\$ 403	\$ 2,540	\$ 35
Home Equity Consumer & Other	\$ 518	\$ 551	\$ 178	\$ 566	\$ 6
All Impaired Loans < \$100,000	\$ 1,157	\$ 1,157	\$ -	\$ 1,157	\$ -

Twelve Months Ended December 31, 2011 (\$'s in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial	\$ 1,206	\$ 1,856	\$ -
Commercial Real Estate	1,061	2,149	-
Agricultural	-	-	-
Residential	581	581	-
Home Equity Consumer & Other	189	217	-
All Impaired Loans < \$100,000	1,065	1,065	-
With a specific allowance recorded:			
Commercial	2,077	3,787	1,017
Commercial Real Estate	1,412	2,827	19
Agricultural	5	5	5
Residential	1,493	1,596	280
Home Equity Consumer & Other	354	354	212
All Impaired Loans < \$100,000	-	-	-

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

Totals:			
Commercial	\$ 3,283	\$ 5,643	\$ 1,017
Commercial Real Estate	\$ 2,473	\$ 4,976	\$ 19
Agricultural	\$ 5	\$ 5	\$ 5
Residential	\$ 2,074	\$ 2,177	\$ 280
Home Equity Consumer & Other	\$ 543	\$ 571	\$ 212
All Impaired Loans < \$100,000	\$ 1,065	\$ 1,065	\$ -

Three Months Ended March 31, 2011 (\$'s in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	\$ 349	\$ 698	\$ -	\$ 360	\$ (2 )
Commercial Real Estate	2,058	2,920	-	2,917	(3 )
Agricultural	-	-	-	-	-
Residential	410	460	-	462	3
Home Equity Consumer & Other	91	91	-	93	1
With a specific allowance recorded:					
Commercial	2,493	4,142	901	2,877	(5 )
Commercial Real Estate	4,116	4,215	935	5,144	(1 )
Agricultural	-	-	-	-	-
Residential	999	1,237	219	1,231	8
Home Equity Consumer & Other	84	84	32	32	1
Totals:					
Commercial	\$ 2,842	\$ 4,841	\$ 901	\$ 3,238	\$ (7 )
Commercial Real Estate	\$ 6,174	\$ 7,136	\$ 935	\$ 8,061	\$ (4 )
Agricultural	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	\$ 1,409	\$ 1,698	\$ 219	\$ 1,693	\$ 11
Home Equity Consumer & Other	\$ 175	\$ 175	\$ 32	\$ 126	\$ 2

Impaired loans less than \$100,000 are included in groups of homogenous loans. These loans are evaluated based on delinquency status.

Interest income recognized on a cash basis does not materially differ from interest income recognized on an accrual basis.

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 commercial loans but also include loans modified in 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**

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

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 TDRs, 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:



Lengthens the amortization period of the amortized principal beyond market terms. This concession reduces the (1) 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.

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

Extends the maturity date or dates of the debt beyond what the collateral supports. This concession generally (3) 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 the activity of TDRs during the three months ended March 31, 2012 and the twelve months ended December 31, 2011.

Three Months Ended March 31, 2012			
(\$'s in thousands)	Number of Contracts	Pre-Modification	Post-Modification
		Recorded Investment	Recorded Investment
Residential Real Estate	4	\$ 116	\$ 116

Twelve Months Ended December 31, 2011			
(\$'s in thousands)	Number of Contracts	Pre-Modification	Post-Modification
		Recorded Investment	Recorded Investment
Residential Real Estate	14	\$ 1,011	\$ 1,011

Of the TDRs entered into during 2012, none had subsequently defaulted as of March 31, 2012. Redefauls are defined as loans that were performing TDRs that became 90 days or more past due post restructuring. The Company has specifically allocated \$0.8 million of the \$6.6 million in loan loss allowance to all TDR loans. All TDRs resulted from

a reduction to a borrowers rate or change in amortization. No principal reductions have been granted.

## NOTE E - NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

The amendments in this update are effective for the first interim or annual period beginning on or after December 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Management adopted ASU 2011-03 effective January 1, 2012, as required, without a material impact on Rurban's Condensed Consolidated Financial Statements.

*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.*

This 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 adopted ASU 2011-04 effective January 1, 2012, as required, without a material impact on Rurban's Condensed Consolidated Financial Statements.

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

This ASU amends Topic 220 to give 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 issued 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 adopted ASU 2011-05 effective January 1, 2012, as required. The statements of comprehensive income have been included within this Form 10-Q.

*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 anticipates no material effect to Rurban's Condensed Consolidated Financial Statements.

**NOTE F – 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 F — SEGMENT INFORMATION

As of and for the three months ended March 31, 2012

Income statement information (\$'s in thousands)	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	\$5,501	\$(13 )	\$(613 )	\$4,875		\$ 4,875
Non-interest income - external customers	2,963	620	17	3,600		3,600
Non-interest income - other segments	80	814	54	948	(967 )	(19 )
Total revenue	8,544	1,421	(542 )	9,423	(967 )	8,456
Non-interest expense	6,447	883	295	7,625	(949 )	6,676
Significant non-cash items:						
Depreciation and amortization	225	106	3	334	-	334
Provision for loan losses	450	-	-	450	-	450
Income tax expense (benefit)	465	183	(290 )	358	-	358
Segment profit (loss)	\$1,182	\$ 355	\$(547 )	\$990	\$ (19 )	\$ 972
Balance sheet information						
Total assets	\$639,389	\$ 2,856	\$6,216	\$648,461	\$ (3,485 )	\$ 644,976
Goodwill and intangibles	\$18,044	\$ -	\$-	\$18,044	\$ -	\$ 18,044
Premises and equipment expenditures	\$769	\$ 2	\$-	\$771	\$ -	\$ 771

## NOTE F — SEGMENT INFORMATION

As of and for the three months ended March 31, 2011

Income statement information (\$'s in thousands)	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Net interest income (expense)	\$5,227	\$ (79 )	\$(315 )	\$4,833		\$ 4,833
Non-interest income - external customers	1,940	912	11	2,863		2,863
Non-interest income - other segments	50	381	38	469	(469 )	-
Total revenue	7,217	1,214	(266 )	8,165	(469 )	7,696
Non-interest expense	5,661	1,507	361	7,529	(469 )	7,060
Significant non-cash items:						
Depreciation and amortization	226	226	2	454	-	454
Provision for loan losses	499	-	-	499	-	499
Income tax expense (benefit)	226	(100 )	-	126	-	126
Segment profit (loss)	\$831	\$ (193 )	\$(627 )	\$11	\$ -	\$ 11
Balance sheet information						
Total assets	\$648,875	\$ 6,085	\$5,228	\$660,188	\$ (5,220 )	\$ 654,968
Goodwill and intangibles	\$18,674	\$ 448	\$-	\$19,122	\$ -	\$ 19,122
Premises and equipment expenditures	\$119	\$ -	\$-	\$119	\$ -	\$ 119

## NOTE G – FAIR VALUE OF ASSETS AND LIABILITIES

Fair value is 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. A fair value measurement must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of 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

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis, recognized in the accompanying balance sheets, as well as the general classifications of such assets pursuant to the valuation hierarchy.

### 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 included 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.



Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

The following table presents the fair value measurements of assets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2012 and December 31, 2011 (\$'s in thousands):

Fair Value Measurements Using:

Description	Fair Values at 3/31/2012	Level 1	Level 2	Level 3
Available-for-Sale Securities:				
U.S. Treasury and Government Agencies	\$ 23,530	\$-	\$23,530	\$ -
Mortgage-backed securities	68,147	-	68,147	-
State and political subdivisions	16,506	-	16,506	-
Money Market Mutual Fund	2,397	2,397	-	-
Equity securities	23	-	23	-

## Fair Value Measurements Using:

Description	Fair Values at 12/31/2011	Level 1	Level 2	Level 3
Available-for-Sale Securities:				
U.S. Treasury and Government Agencies	\$ 25,424	\$-	\$25,424	\$ -
Mortgage-backed securities	67,698	-	67,698	-
State and political subdivisions	16,793	-	16,793	-
Money Market Mutual Funds	2,040	2,040	-	-
Equity Securities	23	-	23	-

Level 1 – Quoted Prices in Active Markets for Identical Assets

Level 2 – Significant Other Observable Inputs

Level 3 – Significant Unobservable Inputs

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Impaired Loans (Collateral-dependent)

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 March 31, 2012 and December 31, 2011.

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.

Software

The Company reviews the carrying value of software for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors.

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 March 31, 2012 and December 31, 2011 (\$'s in thousands):

## Fair Value Measurements Using:

Description	Fair Values at 03/31/12	Level 1	Level 2	Level 3
Impaired loans	\$ 5,253	\$ -	\$ -	\$5,253
Mortgage servicing rights	3,359	-	-	3,359
Foreclosed assets	14	-	-	14

## Fair Value Measurements Using:

Description	Fair Values at 12/31/2011	Level 1	Level 2	Level 3
Impaired loans	\$ 5,575	\$ -	\$ -	\$5,575
Mortgage servicing rights	2,820	-	-	2,820
Foreclosed assets	877	-	-	877
Impaired software	159	-	-	159

**Unobservable (Level 3) Inputs**

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill.

Fair Value at	Valuation	Range (Weighted
------------------	-----------	--------------------

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

	3/31/2012	Technique	Unobservable Inputs	Average)	
Other real estate owned	\$ 5,253	Market comparable properties	Comparability adjustments (%)	Not available	
Collateral-dependent impaired loans	3,359	Market comparable properties	Marketability discount	10.0	%
Mortgage servicing rights	14	Discounted cash flow	Discount Rate	8.5	%
			Constant prepayment rate	16.6	%
			P&I earnings credit	0.24	%
			T&I earnings credit	1.2	%
			Inflation for cost of servicing	1.5	%

There were no changes in the inputs or methodologies used to determine fair value at March 31, 2012 as compared to December 31, 2011.

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.

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value.

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 March 31, 2012 and December 31, 2011, 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 March 31, 2012 and December 31, 2011.

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

March 31, 2012 and are not considered significant to this presentation.

March 31, 2012 \$'s in thousands	Carrying Amount	Fair Value Measurements Using		
		(Level 1)	(Level 2)	(Level 3)
<b>Financial assets</b>				
Cash and cash equivalents	\$29,602	\$29,602	\$-	\$ -
Loans held for sale	11,384	-	11,587	-
Loans, net of allowance for loan losses	433,112	-	439,293	-
Federal Reserve and FHLB Bank stock	3,685	-	3,685	-
Accrued interest receivable	1,802	-	1,802	-
<b>Financial liabilities</b>				
Deposits	\$535,492	\$-	\$538,523	\$ -
Short-term borrowings	17,771	-	17,836	-
Notes payable	2,519	-	2,531	-
FHLB advances	12,611	-	12,968	-
Trust preferred securities	20,620	-	8,584	-
Accrued interest payable	3,556	-	3,556	-

December 31, 2011	Carrying Amount	Fair Value Measurements Using		
		(Level 1)	(Level 2)	(Level 3)
\$'s in thousands				
<b>Financial assets</b>				
Cash and cash equivalents	\$14,846	\$14,846	\$-	\$ -
Loans held for sale	5,238	-	5,334	-
Loans, net of allowance for loan losses	436,025	-	443,727	-
Federal Reserve and FHLB Bank stock, at cost	3,685	-	3,685	-
Interest receivable	1,635	-	1,635	-
<b>Financial liabilities</b>				
Deposits	\$518,765	\$-	\$518,765	\$ -
Short-term borrowings	18,779	-	18,903	-
Notes payable	2,788	-	2,815	-
Federal Home Loan Bank advances	12,776	-	13,149	-
Trust preferred securities	20,620	-	8,320	-
Interest payable	2,954	-	2,954	-

**NOTE H: DEBT COVENANT**

Pursuant to a covenant contained in a loan agreement between the Company and First Tennessee Bank, National Association ("FTB"), the Company's Banking Subsidiary, State Bank, must maintain certain performance ratios, including a minimum Tier 1 Capital to average assets ratio of 7.5 percent, a year-to-date return on assets (ROA) of 50 basis points and a nonperforming asset ratio (calculated as non-performing loans plus OREO divided by total loans plus OREO) of less than 2.25 percent. In addition the issuance of any regulatory order would constitute a covenant violation.

At March 31, 2012, State Bank's compliance with the loan covenants were as follows: Tier 1 capital to average assets was 8.2 percent, year -to-date ROA was 75 basis points and the nonperforming asset ratio was 1.87 percent. On March 9, 2010, a consent order was issued for RDSI which is still in place as of March 31, 2012. FTB agreed to waive this non-financial covenant violation and enter into a new agreement which requires full payout of the obligation by October 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", "expects", "projects", "estimates", "should", "may", "would be", "will allow", "will likely result", "will continue", "will remain", or other expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying those statements. Forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation, changes in interest rates, changes in the competitive environment, and changes in banking regulations or other regulatory or legislative requirements affecting bank holding companies. Additional detailed information concerning a number of important factors which could cause actual results to differ materially from the forward-looking statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations is available in the Company's filings with the Securities and Exchange Commission, including the disclosure under the heading "Item 1A. Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, 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 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.

On August 5, 2010, the Company notified the trustees of the Capital Securities of the Company's election to defer (a) the quarterly interest payments on the RST II Capital Securities, beginning on September 15, 2010 and extending through September 15, 2012, and (b) the semi-annual interest payments on the RST I Capital Securities, beginning on September 7, 2010 and extending through September 7, 2012. During any interest deferral period, the trust preferred indentures prohibit the Company from paying common stock dividends or repurchasing shares of common stock. As of March 31, 2012, the accumulative deferred interest totaled \$2.9 million.

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

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

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

### **Recent Regulatory Developments**

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") was enacted into law on July 21, 2010. The Dodd-Frank Act is significantly changing 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.

Among the provisions already implemented pursuant to the Dodd-Frank Act, the following provisions have or may have an effect on the business of the Corporation and its subsidiaries:

- a new Consumer Financial Protection Bureau has been formed with broad powers to adopt and enforce consumer protection regulations;

- the federal law prohibiting the payment of interest on commercial demand deposit accounts was eliminated effective in July 2011;

the standard maximum amount of deposit insurance per customer was permanently increased to \$250,000 and non-interest-bearing transaction accounts have unlimited insurance through December 31, 2012;

the assessment base for determining deposit insurance premiums has been expanded from domestic deposits to average assets minus average tangible equity; and

public companies in all industries are or will be required to provide shareholders the opportunity to cast a non-binding advisory vote on executive compensation.

Additional provisions not yet implemented that may have an effect on the Company and its subsidiaries include the following:

new capital regulations for bank holding companies will be adopted, which may impose stricter requirements, and any new trust preferred securities issued after May 19, 2010 will no longer constitute Tier I capital; 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 consider the independence of compensation advisors and to make additional disclosures in proxy statements with respect to compensation matters.

Many provisions of the Dodd-Frank Act have not yet been implemented and will require interpretation and rule making by federal regulators. As a result, the ultimate effect of the Dodd-Frank Act on the Company cannot yet be determined. However, it is likely that the implementation of these provisions will increase compliance costs and fees paid to regulators, along with possibly restricting the operations of the Company and its subsidiaries.

### **Recent Developments regarding RDSI**

On March 9, 2011, Rurban Financial Corp. (“Rurban”) and its wholly-owned nonbank data services subsidiary, Rurban 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.

The existence of this Consent Order may limit the ability of RDSI to secure new clients as well as to retain existing clients.

### **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, 2011 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

**Three Months Ended March 31, 2012 compared to Three Months Ended March 31, 2011**

**Net Income:** Net income for the first quarter of 2012 was \$0.97 million or \$0.20 per diluted share, compared to a net income of \$0.01 million, or \$0.00 per diluted share, for the first quarter of 2011. For the quarter, the Banking Group (consisting primarily of The State Bank and Trust Company), had net income of \$1.2 million which is up 42 percent from the net income of \$0.83 million from the year ago first quarter. RDSI reported net income of \$355 thousand compared to a net loss of \$193 thousand from the year ago first quarter.

**Provision for Loan Losses:** The first quarter provision for loan losses was \$0.45 million compared to \$0.30 million and \$0.50 million, respectively, for the linked and year-ago quarters. 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 March 31, 2012, the allowance for loan losses stood at \$6.6 million, or 1.50 percent of total loans (excluding loans held-for-sale), compared to 1.56 percent for the year-ago first quarter. The Company's non-performing assets ("NPAs") at March 31, 2012 were \$9.9 million, down \$4.4 million, or 30.6 percent, since March 31, 2011. At the 2012 first quarter-end, non-performing assets were 1.54 percent of total assets compared to 2.18 percent at March 31, 2011.

**Asset Quality Review**

	March 31, 2012	December 31, 2011	March 31, 2011		
<i>(\$'s in Thousands)</i>					
Net charge-offs	\$371	\$ 6	\$621		
Non-accruing loans	\$6,511	\$ 6,900	\$12,121		
Trouble Debt Restructures	\$1,593	\$ 1,334	\$1,229		
Non-performing loans	\$8,104	\$ 8,234	\$13,350		
OREO / OAO	\$1,807	\$ 1,830	\$924		
Non-performing assets	\$9,911	\$ 10,064	\$14,274		
Non-performing assets / Total assets	1.54 %	1.60 %	2.18 %		
Allowance for loan losses / Total loans	1.50 %	1.48 %	1.56 %		
Allowance for loan losses / Non-performing loans	81.6 %	79.3 %	49.4 %		

**Consolidated Revenue:** Total revenue, consisting of net interest income and noninterest income, was \$8.5 million for the first quarter of 2012, an increase of \$0.76 million, or 9.9 percent, from the \$7.7 million generated during the 2011 first quarter.

Net interest income was \$4.9 million, which is up \$0.42 million from the prior year first quarter. The Company had a \$3.0 million reduction in earning assets, which was offset by a 18 basis point reduction in the rate paid on interest bearing liabilities. The net interest margin was 3.60 percent, which was flat compared to the prior year first quarter.



Noninterest income was \$3.6 million for the 2012 first quarter compared to \$2.9 million for the prior year period. Excluding data service fees, which are contributed by Rurban's data services subsidiary, the remaining noninterest income is generated by the Banking Group.

Mortgage refinancing has provided Rurban with a sizable opportunity for diversification and growth of fee income. Following a record 2011 fourth quarter, origination activity continued at a high level in the first quarter of 2012. State Bank originated \$68.3 million of mortgage loans in the first quarter of 2012. These first quarter 2012 originations and subsequent sales resulted in \$1.2 million of gains, which compares to gains of \$0.43 million for the first quarter of 2011. The 177 percent increase in gains from mortgage sales in 2012 reflect the combined impact of a 114 percent increase in mortgages sold and a 42 basis point, or 29.6 percent, increase in the first quarter 2012 spread to 1.84 percent, compared to the year-earlier quarter.

**Consolidated Noninterest Expense:** Noninterest expense for the first quarter of 2012 was \$6.7 million compared to \$7.1 million in the prior-year first quarter. The 24 FTE employee decline represents a workforce reduction of 11 percent during the course of the year, from 227 employees at December 31, 2011 to 203 at March 31, 2012. Significant contributing factors outside of compensation expenses were reductions in FDIC premiums, professional fees and postage and delivery expenses from RDSI.

**Income Taxes:** Income taxes for the first quarter of 2012 were \$358 thousand compared to \$126 thousand for the first quarter of 2011. The increase was due primarily to the increase in pre-tax income from the prior year.

### **Changes in Financial Condition**

Total assets at March 31, 2012 were \$645.0 million, down \$10.0 million, or 1.5 percent, since the 2011 March quarter-end, and an increase of \$16.3 million since 2011 year-end. Rurban ended the first quarter 2012 with securities lower by \$20.5 million and loans higher by \$17.6 million compared to the first quarter of 2011.

Total loans, net of unearned income, were \$439.7 million as of March 31, 2012, up \$17.6 million from the year ago first quarter, an increase of 4.2 percent.

### **Capital Resources**

At March 31, 2012, actual capital levels and minimum required levels were as follows (\$'s in thousands):

	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	\$53,041	11.7 %	\$ 36,340	8.0 %	\$ -	N/A
State Bank	\$55,804	12.4 %	\$ 36,039	8.0 %	\$ 45,049	10.0 %

Both the Company and State Bank were categorized as well capitalized at March 31, 2012.

## **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 \$151.6 million at March 31, 2012 compared to \$132.1 million at December 31, 2011.

Liquidity risk arises from the possibility that the Company may not be able to meet the Company's financial obligations and operating cash needs or may become overly reliant upon external funding sources. In order to manage this risk, the Board of Directors of the Company has established a Liquidity Policy that identifies primary sources of liquidity, establishes procedures for monitoring and measuring liquidity and quantifies minimum liquidity requirements. This policy designates the Asset/Liability Committee ("ALCO") as the body responsible for meeting these objectives. The ALCO reviews liquidity regularly and evaluates significant changes in strategies that affect balance sheet or cash flow positions. Liquidity is centrally managed on a daily basis by the Company's Chief Financial Officer and Asset Liability Manager.

The Company's commercial real estate, first mortgage residential and multi-family mortgage portfolio of \$268.9 million at March 31, 2012 and \$264.7 million at December 31, 2011, which can and has been used to collateralize borrowings, is an additional source of liquidity. Management believes the Company's current liquidity level, without these borrowings, is sufficient to meet its liquidity needs. At March 31, 2012, all eligible commercial real estate, first mortgage residential and multi-family mortgage loans were pledged under an FHLB blanket lien.

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 three months ended March 31, 2012 and 2011 follows.

The Company experienced negative cash flows from operating activities for the three months ended March 31, 2012 and positive cash flows for the three months ended March 31, 2011. Net cash used in operating activities was \$4.1 million for the three months ended March 31, 2012 and net cash provided was \$4.8 million for the three months ended March 31, 2011. Highlights for the current quarter include \$62.9 million in proceeds from the sale of loans, which is up \$33.3 million from the prior year. Originations of loans held for sale was a use of cash of \$68.3 million, which is also up from the prior year, by \$42.8 million. During the current quarter, there was a recapture of OMSR impairment of \$0.42 million.

The Company experienced positive cash flows from investing activities for the three months ended March 31, 2012 and for the three months ended March 31, 2011. Net cash flow from investing activities was \$3.6 million for the three months ended March 31, 2012 and \$8.1 million for the three months ended March 31, 2011. Highlights for the current quarter include \$11.3 million in purchases of available-for-sale securities, which is up \$7.3 million from the prior year. These cash payments were offset by \$12.5 million in proceeds from maturities and sales of securities, which is also up \$6.8 million from the prior year. During the first quarter of 2011, the Company terminated several life insurance policies on retired executives and realized a cash inflow of \$1.3 million. The Company experienced a \$2.4 million positive change in loans, which is down from the \$4.4 million during the prior year. Sales of foreclosed assets provided cash of \$0.92 million for the prior year first quarter.

The Company experienced positive cash flows from financing activities for the three months ended March 31, 2012 and negative cash flows from financing activities for the three months ended March 31, 2011. Net cash flow provided by financing activities was \$15.3 million for the three months ended March 31, 2012 and a use of cash of \$5.2 million for the three months ended March 31, 2011. Highlights for the current quarter include a \$28.1 million increase in non time deposits for the three months ended March 31, 2012, which compares favorably with a \$2.3 million decrease in non time deposits for the three months ended March 31, 2011.

Also, as of March 31, 2012, the Company had commitments to sell mortgage loans totaling \$29.2 million. The Company believes that it has adequate resources to fund commitments as they arise and that it can adjust the rate on savings certificates to retain deposits in changing interest rate environments. If the Company requires funds beyond its

internal funding capabilities, advances from the FHLB of Cincinnati and other financial institutions are available.

ALCO uses an economic value of equity (“EVE”) analysis to measure risk in the balance sheet incorporating all cash flows over the estimated remaining life of all balance sheet positions. The EVE analysis calculates the net present value of the Company’s assets and liabilities in rate shock environments that range from -400 basis points to +400 basis points. The likelihood of a decrease in rates as of March 31, 2012 was considered to be remote given the current interest rate environment and therefore, was not included in this analysis. The results of this analysis are reflected in the following tables for March 31, 2012 and December 31, 2011.

March 31, 2012

Economic Value of Equity  
(\$'s in thousands)

Change in Rates	\$ Amount	\$ Change	% Change
+400 basis points	119,815	21,921	22.39 %
+300 basis points	116,758	18,864	19.27 %
+200 basis points	112,808	14,913	15.23 %
+100 basis points	106,860	8,965	9.16 %
Base Case	97,895	-	-

December 31, 2011

Economic Value of Equity  
(\$'s in thousands)

Change in Rates	\$ Amount	\$ Change	% Change
+400 basis points	112,424	19,890	21.49 %
+300 basis points	110,164	17,630	19.05 %
+200 basis points	106,833	14,299	15.45 %
+100 basis points	101,331	8,796	9.51 %
Base Case	92,534	-	-

**Off-Balance-Sheet Borrowing Arrangements:**

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

The Company's commercial real estate, first mortgage residential and multi-family mortgage portfolios of \$268.9 million have been pledged to meet FHLB collateralization requirements as of March 31, 2012. Based on the current collateralization requirements of the FHLB, the Company had approximately \$24.1 million of additional borrowing capacity at March 31, 2012. The Company also had \$29.6 million in unpledged securities that may be used to pledge for additional borrowings.

At March 31, 2012, the Company had unused federal funds lines totaling \$11.5 million, with a zero balance outstanding.

The Company's contractual obligations as of March 31, 2012 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 \$12.6 million. Other debt obligations are comprised of Trust Preferred securities of \$20.6 million and Notes Payable of \$2.5 million. The operating lease obligation is a lease on the RDSI-North building of \$162 thousand per year and the DCM-Lansing facility of \$105 thousand per year. Total time deposits at March 31, 2012 were \$210.1 million, of which \$106.4 million matures beyond one 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, 2011.

### **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 March 31, 2012, 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. On December 30, 2011, New Core filed an amended answer and counterclaims alleging that RDSI breached the merger agreement and certain other agreements and also breached its fiduciary duties to New Core. 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, 2011. There have been no material changes to the risk factors as presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

### **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 three months ended March 31, 2012.

**Item 3. Defaults Upon Senior Securities**

Not applicable

**Item 4. Mine Safety Disclosures**

Not applicable

40

**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)

41

**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: May 9, 2012 By  
Mark A. Klein  
President & Chief Executive Officer

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