

RURBAN FINANCIAL CORP
Form 10-Q
November 16, 2009

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

FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from _____ to _____

Commission file number 0-13507

RURBAN FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Ohio
(State or other jurisdiction of
incorporation or organization)

34-1395608
(I.R.S. Employer Identification No.)

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

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

None &# 160;
(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

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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
(class)

4,861,779 shares
(Outstanding at November 16, 2009)

RURBAN FINANCIAL CORP.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

| | (Unaudited) September 30, 2009 | December 31, 2008 |
|--|--------------------------------------|-----------------------|
| Assets | | |
| Cash and due from banks | \$ 31,055,035 | \$ 18,059,532 |
| Federal funds sold | - | 10,000,000 |
| Cash and cash equivalents | 31,055,035 | 28,059,532 |
| Available-for-sale securities | 111,561,500 | 102,606,475 |
| Loans held for sale | 11,370,884 | 3,824,499 |
| Loans, net of unearned income | 448,392,963 | 450,111,653 |
| Allowance for loan losses | (5,934,165) | (5,020,197) |
| Premises and equipment | 17,217,039 | 17,621,262 |
| Purchased software | 5,273,311 | 5,867,395 |
| Federal Reserve and Federal Home Loan Bank stock | 3,748,250 | 4,244,100 |
| Foreclosed assets held for sale, net | 1,748,376 | 1,384,335 |
| Interest receivable | 2,851,934 | 2,964,663 |
| Goodwill | 21,414,790 | 21,414,790 |
| Core deposits and other intangibles | 5,177,508 | 5,835,936 |
| Cash value of life insurance | 12,953,972 | 12,625,015 |
| Other | 6,917,729 | 6,079,451 |
| Total assets | \$ 673,749,126 | \$ 657,618,909 |

See notes to condensed consolidated financial statements (unaudited)

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

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

| | (Unaudited) September 30, 2009 | December 31, 2008 |
|---|--------------------------------------|-----------------------|
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Deposits | | |
| Demand | \$ 54,149,280 | \$ 52,242,626 |
| Savings, interest checking and money market | 213,738,928 | 189,461,755 |
| Time | 224,404,005 | 242,516,203 |
| Total deposits | 492,292,213 | 484,220,584 |
| Notes payable | 2,357,816 | 1,000,000 |
| Federal Home Loan Bank advances | 39,868,884 | 36,646,854 |
| Repurchase agreements | 46,138,646 | 43,425,978 |
| Trust preferred securities | 20,620,000 | 20,620,000 |
| Interest payable | 1,382,015 | 1,965,842 |
| Other liabilities | 6,421,448 | 8,077,647 |
| Total liabilities | 609,081,022 | 595,956,905 |
| Commitments and Contingent Liabilities | | |
| Stockholders' Equity | | |
| Common stock, \$2.50 stated value; authorized 10,000,000 shares; issued 5,027,433 shares; outstanding September 2009 – 4,861,779 shares, December 2008 – 4,881,452 shares | 12,568,583 | 12,568,583 |
| Additional paid-in capital | 15,132,715 | 15,042,781 |
| Retained earnings | 36,737,207 | 35,785,317 |
| Accumulated other comprehensive income (loss) | 1,998,910 | (121,657) |
| Treasury Stock, at cost | | |
| Common; September 2009 – 165,654 shares, December 2008 – 145,981 shares | (1,769,311) | (1,613,020) |
| Total stockholders' equity | 64,668,104 | 61,662,004 |
| Total liabilities and stockholders' equity | \$ 673,749,126 | \$ 657,618,909 |

See notes to condensed consolidated financial statements (unaudited)

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

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

| | September 30, 2009 | September 30, 2008 |
|--|-----------------------|-----------------------|
| Interest Income | | |
| Loans | | |
| Taxable | \$ 6,884,515 | \$ 6,736,100 |
| Tax-exempt | 20,944 | 22,125 |
| Securities | | |
| Taxable | 944,579 | 1,135,931 |
| Tax-exempt | 294,716 | 109,805 |
| Other | 41,621 | 17,635 |
| Total interest income | 8,186,375 | 8,021,596 |
| Interest Expense | | |
| Deposits | 1,559,730 | 2,258,470 |
| Other borrowings | 43,745 | 16,803 |
| Repurchase agreements | 437,419 | 465,452 |
| Federal Home Loan Bank advances | 417,359 | 416,696 |
| Trust preferred securities | 391,407 | 415,686 |
| Total interest expense | 2,849,660 | 3,573,107 |
| Net Interest Income | 5,336,715 | 4,448,489 |
| Provision for Loan Losses | 898,050 | 146,173 |
| Net Interest Income After Provision for Loan Losses | 4,438,665 | 4,302,316 |
| Non-interest Income | | |
| Data service fees | 4,806,359 | 4,947,727 |
| Trust fees | 644,427 | 780,726 |
| Customer service fees | 700,042 | 626,008 |
| Net gains on loan sales | 722,234 | 132,999 |
| Loan servicing fees | 126,265 | 57,356 |
| Gain (loss) on sale of assets | (52,976) | 222,815 |
| Other | 129,360 | 221,081 |
| Total non-interest income | \$ 7,075,711 | \$ 6,988,712 |

See notes to condensed consolidated financial statements (unaudited)

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

| | September 30, 2009 | September 30, 2008 |
|-------------------------------------|-----------------------|-----------------------|
| Non-interest Expense | | |
| Salaries and employee benefits | \$ 5,422,005 | \$ 4,239,578 |
| Net occupancy expense | 752,532 | 526,301 |
| Equipment expense | 2,041,339 | 1,553,188 |
| Data processing fees | 151,320 | 120,151 |
| Professional fees | 705,415 | 489,910 |
| Marketing expense | 232,294 | 247,120 |
| Printing and office supplies | 104,036 | 115,667 |
| Telephone and communications | 406,673 | 415,120 |
| Postage and delivery expense | 511,525 | 511,522 |
| State, local and other taxes | 235,067 | 235,647 |
| Employee expense | 293,634 | 272,315 |
| Other | 598,275 | 552,379 |
| Total non-interest expense | 11,454,115 | 9,278,898 |
| Income Before Income Tax | 60,261 | 2,012,130 |
| (Credit) Provision for Income Taxes | (99,421) | 588,090 |
| Net Income | \$ 159,682 | \$ 1,424,040 |
| Basic Earnings Per Share | \$ 0.03 | \$ 0.29 |
| Diluted Earnings Per Share | \$ 0.03 | \$ 0.29 |
| Dividends Declared Per Share | \$ 0.09 | \$ 0.09 |

See notes to condensed consolidated financial statements (unaudited)

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

| | September 30, 2009 | September 30, 2008 |
|--|-----------------------|-----------------------|
| Interest Income | | |
| Loans | | |
| Taxable | \$ 20,554,775 | \$ 20,567,604 |
| Tax-exempt | 71,791 | 63,944 |
| Securities | | |
| Taxable | 3,158,649 | 3,266,395 |
| Tax-exempt | 766,931 | 433,970 |
| Other | 71,498 | 130,424 |
| Total interest income | 24,623,644 | 24,462,337 |
| Interest Expense | | |
| Deposits | 5,115,379 | 7,973,962 |
| Other borrowings | 91,548 | 43,792 |
| Repurchase agreements | 1,296,242 | 1,376,767 |
| Federal Home Loan Bank advances | 1,221,487 | 1,096,178 |
| Trust preferred securities | 1,185,021 | 1,273,775 |
| Total interest expense | 8,909,677 | 11,764,474 |
| Net Interest Income | 15,713,967 | 12,697,863 |
| Provision for Loan Losses | 2,192,042 | 551,388 |
| Net Interest Income After Provision for Loan Losses | 13,521,925 | 12,146,475 |
| Non-interest Income | | |
| Data service fees | 14,734,942 | 15,161,075 |
| Trust fees | 1,869,083 | 2,451,567 |
| Customer service fees | 1,923,744 | 1,825,040 |
| Net gains on loan sales | 2,738,626 | 590,747 |
| Net realized gain on securities | 477,591 | - |
| Net proceeds from VISA IPO | - | 132,106 |
| Investment securities recoveries | - | 197,487 |
| Loan servicing fees | 298,001 | 175,516 |
| Gain (Loss) on sale of assets | (95,390) | 151,393 |
| Other | 474,410 | 620,452 |
| Total non-interest income | \$ 22,421,007 | \$ 21,305,383 |

See notes to condensed consolidated financial statements (unaudited)

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

| | September 30, 2009 | September 30, 2008 |
|--------------------------------|-----------------------|-----------------------|
| Non-interest Expense | | |
| Salaries and employee benefits | \$ 15,644,731 | \$ 13,113,999 |
| Net occupancy expense | 2,336,652 | 1,603,496 |
| Equipment expense | 5,353,637 | 4,746,533 |
| Data processing fees | 495,782 | 321,510 |
| Professional fees | 1,846,458 | 1,345,133 |
| Marketing expense | 655,597 | 584,957 |
| Printing and office supplies | 435,913 | 421,405 |
| Telephone and communications | 1,212,901 | 1,258,907 |
| Postage and delivery expense | 1,635,037 | 1,649,969 |
| State, local and other taxes | 701,120 | 602,833 |
| Employee expense | 810,776 | 806,298 |
| Other | 1,908,592 | 1,535,564 |
| Total non-interest expense | 33,037,196 | 27,990,604 |
| Income Before Income Tax | 2,905,736 | 5,461,254 |
| Provision for Income Taxes | 638,915 | 1,572,034 |
| Net Income | \$ 2,266,821 | \$ 3,889,220 |
| Basic Earnings Per Share | \$ 0.46 | \$ 0.79 |
| Diluted Earnings Per Share | \$ 0.46 | \$ 0.79 |
| Dividends Declared Per Share | \$ 0.27 | \$ 0.25 |

See notes to condensed consolidated financial statements (unaudited)

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|---------------|-------------------|---------------|
| | Sept 30, 2009 | Sept 30, 2008 | Sept 30, 2009 | Sept 30, 2008 |
| Balance at beginning of period | \$ 63,412,713 | \$ 59,361,729 | \$ 61,662,004 | \$ 59,325,235 |
| Cumulative effect adjustment for split dollar BOLI | - | - | - | (116,303) |
| Net Income | 159,682 | 1,424,040 | 2,266,821 | 3,889,220 |
| Unrealized gains (losses) on securities | | | | |
| Unrealized holding gains (losses) arising during the year, net of tax | 1,520,345 | (183,016) | 2,402,777 | (1,026,753) |
| Less: reclassification adjustment for gains realized in net income, net of tax | - | - | 282,210 | - |
| Total comprehensive income | 1,680,027 | 1,241,024 | 4,387,388 | 2,862,467 |
| Cash dividend | (437,641) | (442,254) | (1,314,932) | (1,235,524) |
| Purchase of treasury shares | (16,797) | (74,758) | (156,291) | (791,358) |
| Share-based compensation | 29,802 | 31,392 | 89,935 | 72,616 |
| Balance at end of period | \$ 64,668,104 | \$ 60,117,133 | \$ 64,668,104 | \$ 60,117,133 |

See notes to condensed consolidated financial statements (unaudited)

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

| | September 30, 2009 | September 30, 2008 |
|--|-----------------------|------------------------|
| Operating Activities | | |
| Net income | \$ 2,266,821 | \$ 3,889,220 |
| Items not requiring (providing) cash | | |
| Depreciation and amortization | 3,077,533 | 2,752,284 |
| Provision for loan losses | 2,192,042 | 551,388 |
| Expense of share-based compensation plan | 89,935 | 72,616 |
| Amortization of premiums and discounts on securities | 476,693 | 91,901 |
| Amortization of intangible assets | 658,428 | 520,144 |
| Deferred income taxes | (1,231,352) | 528,933 |
| FHLB Stock Dividends | - | (127,200) |
| Proceeds from sale of loans held for sale | 258,045,357 | 31,021,863 |
| Originations of loans held for sale | (262,853,116) | (30,259,691) |
| Gain from sale of loans | (2,738,626) | (590,747) |
| Gain on sale of available for sale securities | (477,591) | - |
| Loss on sale of foreclosed assets | 66,116 | 5,066 |
| Gain on sale of branch office building | - | (243,000) |
| Loss on sales of fixed assets | 29,274 | 86,541 |
| Changes in | | |
| Interest receivable | 112,729 | 173,416 |
| Other assets | (1,017,991) | 1,491,304 |
| Interest payable and other liabilities | (2,101,088) | (957,768) |
| Net cash provided by (used in) operating activities | (3,404,836) | 9,006,270 |
| Investing Activities | | |
| Purchases of available-for-sale securities | (49,982,386) | (46,231,265) |
| Proceeds from maturities of available-for-sale securities | 28,400,454 | 42,808,714 |
| Proceeds from sales of available-for-sale securities | 15,790,787 | - |
| Proceeds from sales of Fed Stock | 700,000 | - |
| Purchase of FHLB Stock | (204,150) | - |
| Net change in loans | (494,016) | (12,983,338) |
| Purchase of premises and equipment and software | (2,167,462) | (6,843,233) |
| Proceeds from sales of premises and equipment | 58,962 | 2,041,511 |
| Proceeds from sale of foreclosed assets | 405,230 | 174,722 |
| Net cash used in investing activities | \$ (7,492,581) | \$ (21,032,889) |

See notes to condensed consolidated financial statements (unaudited)

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

| | September 30, 2009 | September 30, 2008 |
|---|-----------------------|-----------------------|
| Financing Activities | | |
| Net increase in demand deposits, money market, interest checking and savings accounts | \$ 26,183,827 | \$ 18,604,838 |
| Net decrease in certificates of deposit | (18,112,198) | (18,181,676) |
| Net increase in securities sold under agreements to repurchase | 2,712,668 | 1,547,417 |
| Net increase in federal funds purchased | - | 5,000,000 |
| Proceeds from Federal Home Loan Bank advances | 7,500,000 | 24,000,000 |
| Repayment of Federal Home Loan Bank advances | (4,277,970) | (7,770,077) |
| Proceeds from notes payable | 4,200,000 | - |
| Repayment of notes payable | (2,842,184) | (922,457) |
| Purchase of treasury stock | (156,291) | (791,358) |
| Dividends paid | (1,314,932) | (1,235,524) |
| Net cash provided by financing activities | 13,892,920 | 20,251,163 |
| Increase in Cash and Cash Equivalents | 2,995,503 | 8,224,544 |
| Cash and Cash Equivalents, Beginning of Year | 28,059,532 | 17,183,627 |
| Cash and Cash Equivalents, End of Period | \$ 31,055,035 | \$ 25,408,171 |
| Supplemental Cash Flows Information | | |
| Interest paid | \$ 9,493,504 | \$ 12,722,242 |
| Transfer of loans to foreclosed assets | \$ 822,113 | \$ 1,856,977 |
| Income Taxes Paid | \$ - | \$ 556,000 |

See notes to condensed consolidated financial statements (unaudited)

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

NOTE A—BASIS OF PRESENTATION

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

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

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

NOTE B—EARNINGS PER SHARE

Earnings per share (EPS) have been computed based on the weighted average number of shares outstanding during the periods presented. For the periods ended September 30, 2009 and 2008, share based awards totaling 311,713 and 316,263 common shares, respectively, were not considered in computing EPS as they were anti-dilutive. The number of shares used in the computation of basic and diluted earnings per share were:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|----------------------------|------------------------------------|-----------|-----------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Basic earnings per share | 4,862,574 | 4,911,015 | 4,868,800 | 4,935,804 |
| Diluted earnings per share | 4,866,563 | 4,911,015 | 4,871,574 | 4,935,881 |

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

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

| | September 30, 2009 | December 31, 2008 |
|--|-----------------------|----------------------|
| Commercial | \$ 82,147,159 | \$ 83,645,408 |
| Commercial real estate | 174,944,881 | 161,566,005 |
| Agricultural | 44,683,395 | 43,641,132 |
| Residential real estate | 91,840,233 | 107,905,198 |
| Consumer | 54,708,658 | 53,338,523 |
| Lease financing | 354,110 | 266,348 |
| Total loans | 448,678,436 | 450,362,614 |
| Less | | |
| Net deferred loan fees, premiums and discounts | (285,473) | (250,961) |

| | | |
|-------------------------------|----------------|----------------|
| Loans, net of unearned income | \$ 448,392,963 | \$ 450,111,653 |
| Allowance for loan losses | \$ (5,934,165) | \$ (5,020,197) |

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

| | Three Months Ended | | Nine Months Ended | |
|------------------------------|--------------------|--------------|-------------------|--------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Balance, beginning of period | \$ 5,873,146 | \$ 4,246,794 | \$ 5,020,197 | \$ 3,990,455 |
| Provision charged to expense | 898,050 | 146,173 | 2,192,042 | 551,388 |
| Recoveries | 45,528 | 64,475 | 127,443 | 123,472 |
| Loans charged off | (882,559) | (400,229) | (1,405,517) | (608,103) |
| Balance, end of period | \$ 5,934,165 | \$ 4,057,213 | \$ 5,934,165 | \$ 4,057,213 |

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

| | September 30, 2009 | December 31, 2008 |
|--|--------------------------|----------------------|
| Non-accrual loans | \$ 9,645,886 | \$ 5,177,694 |
| Accruing loans which are contractually past due 90 days or more as to interest or principal payments | 161 | - |
| Total non-performing loans | \$ 9,646,047 | \$ 5,177,694 |

In addition to the above mentioned non-performers, management was very proactive in reaching out to customers to restructure loans. On September 30, 2009, approximately \$6.90 million in loans were restructured and are currently paying under the new terms. At December 31, 2008, \$151,000 in loans were restructured and paying under the new terms.

Individual loans determined to be impaired were as follows:

| | September 30, 2009 | December 31, 2008 |
|---|-----------------------|----------------------|
| Loans with no allowance for loan losses allocated | \$ 7,940,000 | \$ 1,857,000 |
| Loans with allowance for loan losses allocated | 6,688,000 | 866,000 |
| Total impaired loans | \$ 14,628,000 | \$ 2,723,000 |
| Amount of allowance allocated | \$ 2,023,000 | \$ 322,000 |

NOTE D – REGULATORY MATTERS

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

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

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

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

| | Actual | | Minimum Required For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---------|-------|---|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of September 30, 2009 | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated | \$ 61.9 | 13.1% | \$ 37.9 | 8.0% | \$ — | N/A |
| State Bank | 52.0 | 11.3 | 36.7 | 8.0 | 45.9 | 10.0 |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated | 57.7 | 12.2 | 18.9 | 4.0 | — | N/A |
| State Bank | 46.2 | 10.1 | 18.3 | 4.0 | 27.5 | 6.0 |
| Tier I Capital (to Average Assets) | | | | | | |
| Consolidated | 57.7 | 8.7 | 26.6 | 4.0 | — | N/A |
| State Bank | 46.2 | 7.2 | 25.7 | 4.0 | 32.2 | 5.0 |
| As of December 31, 2008 | | | | | | |
| Total Capital | | | | | | |

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| | | | | | | | |
|----------------------------------|----|------|-------|----|------|------|-----------|
| (to Risk-Weighted Assets) | | | | | | | |
| Consolidated | \$ | 59.5 | 13.0% | \$ | 36.5 | 8.0% | \$ — N/A |
| State Bank | | 50.0 | 11.3 | | 35.4 | 8.0 | 44.3 10.0 |

| | | | | | | | |
|---|--|------|------|--|------|-----|----------|
| Tier I Capital (to Risk-Weighted Assets) | | | | | | | |
| Consolidated | | 54.5 | 11.9 | | 18.3 | 4.0 | — N/A |
| State Bank | | 45.0 | 10.2 | | 17.7 | 4.0 | 26.6 6.0 |

| | | | | | | | |
|---|--|------|-----|--|------|-----|----------|
| Tier I Capital (to Average Assets) | | | | | | | |
| Consolidated | | 54.5 | 9.5 | | 23.1 | 4.0 | — N/A |
| State Bank | | 45.0 | 7.7 | | 23.5 | 4.0 | 29.3 5.0 |

NOTE E – CONTINGENT LIABILITIES

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

NOTE F - NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC" 105), Generally Accepted Accounting Principles ("GAAP"), which established the FASB Accounting Standards Codification (the "Codification" or "ASC") as the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission ("SEC") under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative. The Codification was made effective by the FASB for periods ending on or after September 15, 2009. This quarterly report reflects the guidance in the Codification.

FASB ASC 805-10 concerning business combinations seeks to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. This guidance introduces new accounting concepts, and several of these changes have the potential to generate greater earnings volatility, in connection with and after an acquisition. Some of the more significant changes include:

- Transaction costs and restructuring charges will now be expensed.
- The accounting for certain assets acquired and liabilities assumed will change significantly. The most significant to the Company being that allowance for loan losses at acquisition date will be eliminated.
- Contingent consideration will be measured at fair value until settled.
- Equity issued in an acquisition will be valued at the closing date, as opposed to the announcement date.
- Material adjustments made to the initial acquisition will be recorded back to the acquisition date.

FASB ASC 805-10 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, and may not be applied before that date. The Company adopted FASB ASC 805-10 effective January 1, 2009, as required, without material effect on the Company's financial position or results of operations.

In May 2009, the FASB issued guidance establishing principles and requirements for subsequent events accounting and disclosure, setting forth general principles of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provide specific guidance on the accounting treatment for subsequent events or transactions. This guidance is effective prospectively for interim or annual financial periods ending after June 15, 2009. We adopted this guidance, and it did not have a material impact on our consolidated financial statements.

FASB ASC 820-10 concerns determining fair value when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. The guidance was issued on April 9, 2009 and provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. FASB ASC 820-10 also includes guidance on identifying circumstances that indicate a transaction is not orderly. Even if there has been a significant decrease in the volume and level of activity regardless of valuation technique, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FASB ASC 820-10 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, only if FASB ASC 320-10 and FASB ASC 825-10 are adopted concurrently. FASB ASC 820-10 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. The Company adopted FASB ASC 820-10 effective June 30, 2009, as required, without material effect on the Company's financial position or results of operations.

On June 16, 2008, the FASB issued guidance on whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. The guidance is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The adoption of this guidance has not impacted the Corporation's consolidated financial statements.

FASB ASC 815-10 concerning disclosures about derivative instruments and hedging activities was issued in March 2008 and amends and expands the disclosure requirements of previous guidance to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under FASB ASC 815-10 and its related interpretations and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, FASB ASC 815-10 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. FASB ASC 815-10 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company adopted FASB ASC 815-10 effective January 1, 2009, as required, without material effect on the Company's financial position or results of operations.

FASB ASC 810-10 concerning noncontrolling interests in consolidated financial statements establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Before this statement was issued, limited guidance existed for reporting noncontrolling interests. As a result, considerable diversity in practice existed. So called minority interests were reported in the consolidated statement of financial position as liabilities or in the mezzanine section between liabilities and equity. This guidance improves comparability by eliminating that diversity. The FASB ASC 810-10 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company adopted FASB ASC 810-10 effective January 1, 2009, as required, without material effect on the Company's financial position or results of operations.

FASB ASC 805-20 concerns accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies and clarifies previous guidance regarding the initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination. FASB ASC 805-20 eliminates the distinction between contractual and noncontractual contingencies discussed in FASB ASC 805-10, specifies whether contingencies should be measured at fair value or in accordance with FASB ASC 450-10, provides application guidance on subsequent accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies and establishes new disclosure requirements. FASB ASC 805-20 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted FASB ASC 805-20 effective January 1, 2009, as required, without material effect on the Company's financial position or results of operations.

FASB ASC 320-10 concerns recognition and presentation of other-than-temporary impairments and was issued on April 9, 2009. The guidance requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FASB ASC 320-10 is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009, only if FASB ASC 820-10 and FASB ASC 825-10 are adopted concurrently. FASB ASC 320-10 does not require disclosures for earlier periods presented for comparative purposes at initial adoption. The Company adopted FASB ASC 320-10 effective June 30, 2009, as required, without material effect on the Company's financial position or results of operations.

FASB ASC 825-10 concerning interim disclosures about fair value of financial instruments was issued on April 9, 2009 and amends the other-than-temporary guidance in United States generally accepted accounting principles for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FASB ASC 825-10 does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities and does not require disclosures for earlier periods presented for comparative purposes at initial adoption. Effective for interim reporting periods ending after June 15, 2009, early adoption is permitted for periods ending after March 15, 2009, only if FASB ASC 820-10 and FASB ASC 320-10 are adopted concurrently. The Company adopted FASB ASC 825-10 effective June 30, 2009, as required, without material effect on the Company's financial position or results of operations.

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

FASB ASC 860-10 concerning accounting for transfers of financial assets was issued in June 2009 and changes the derecognition guidance for transferors of financial assets, including entities that sponsor securitizations, to align that guidance with the original intent of previous guidance. FASB ASC 860-10 also eliminates the exemption from consolidation for qualifying special-purpose entities (QSPEs). As a result, all existing QSPEs need to be evaluated to determine whether the QSPE should be consolidated in accordance with FASB ASC 860-10.

FASB ASC 860-10 is effective as of the beginning of a reporting entity’s first annual reporting period beginning after November 15, 2009 (January 1, 2010, as to the Company), for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The recognition and measurement provisions of FASB ASC 860-10 must be applied to transfers that occur on or after the effective date. Early application is prohibited. FASB ASC 860-10 also requires additional disclosures about transfers of financial assets that occur both before and after the effective date. The Company does not believe that the adoption of FASB ASC 860-10 will have a significant effect on its consolidated financial statements.

FASB ASC 860-10 also improves how enterprises account for and disclose their involvement with variable interest entities (VIE’s), which are special-purpose entities, and other entities whose equity at risk is insufficient or lack certain characteristics. Among other things, FASB ASC 860-10 changes how an entity determines whether it is the primary beneficiary of a variable interest entity (VIE) and whether that VIE should be consolidated. FASB ASC 860-10 requires an entity to provide significantly more disclosures about its involvement with VIEs. As a result, the Company must comprehensively review its involvements with VIEs and potential VIEs, including entities previously considered to be qualifying special purpose entities, to determine the effect on its consolidated financial statements and related disclosures. FASB ASC 860-10 is effective as of the beginning of a reporting entity’s first annual reporting period that begins after November 15, 2009 (January 1, 2010, as to the Company), and for interim periods within the first annual reporting period. Earlier application is prohibited. The Company does not believe that the adoption of FASB ASC 860-10 will have a significant effect on its consolidated financial statements.

NOTE G – COMMITMENTS AND CREDIT RISK

As of September 30, 2009, loan commitments and unused lines of credit totaled \$82,216,000, standby letters of credit totaled \$279,000 and no commercial letters of credit were outstanding. At December 31, 2008, loan commitments and unused lines of credit totaled \$67,785,000, standby letters of credit totaled \$5,436,000 and no commercial letters of credit were outstanding.

NOTE H – SEGMENT INFORMATION

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

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NOTE H — SEGMENT INFORMATION (Continued)

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

| Income statement information: | Data | | | Total Segments | Intersegment Elimination | Consolidated Totals |
|---|----------------|---------------|--------------|-------------------|-----------------------------|------------------------|
| | Banking | Processing | Other | | | |
| Net interest income (expense) | \$ 5,771,303 | \$ (43,344) | \$ (391,244) | \$ 5,336,715 | | \$ 5,336,715 |
| Non-interest income - external customers | 2,249,206 | 4,806,359 | 20,146 | 7,075,711 | | 7,075,711 |
| Non-interest income - other segments | 23,560 | 395,071 | 388,747 | 807,378 | (807,378) | - |
| Total revenue | 8,044,069 | 5,158,086 | 17,649 | 13,219,804 | (807,378) | 12,412,426 |
| Non-interest expense | 6,256,451 | 5,144,578 | 860,464 | 12,261,493 | (807,378) | 11,454,115 |
| Significant non-cash items: | | | | | | |
| Depreciation and amortization | 254,768 | 966,758 | 25,037 | 1,246,563 | - | 1,246,563 |
| Provision for loan losses | 898,050 | - | - | 898,050 | - | 898,050 |
| Income tax expense (benefit) | 177,837 | 5,459 | (282,717) | (99,421) | - | (99,421) |
| Segment profit (loss) | \$ 711,731 | \$ 8,049 | \$ (560,098) | \$ 159,682 | \$ - | \$ 159,682 |
| Balance sheet information: | | | | | | |
| Total assets | \$ 652,343,870 | \$ 22,658,239 | \$ 3,211,396 | \$ 678,213,505 | \$ (4,464,379) | \$ 673,749,126 |
| Goodwill and intangibles | \$ 19,632,662 | \$ 6,959,636 | \$ - | \$ 26,592,298 | \$ - | \$ 26,592,298 |
| Premises and equipment expenditures | \$ 157,579 | \$ 1,388,936 | \$ 7,350 | \$ 1,553,865 | \$ - | \$ 1,553,865 |

NOTE H — SEGMENT INFORMATION (Continued)

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

| Income statement information: | Data | | | Total Segments | Intersegment Elimination | Consolidated Totals |
|---|----------------|---------------|--------------|-------------------|-----------------------------|------------------------|
| | Banking | Processing | Other | | | |
| Net interest income (expense) | \$ 4,891,436 | \$ (21,947) | \$ (421,000) | \$ 4,448,489 | | \$ 4,448,489 |
| Non-interest income - external customers | 1,974,017 | 4,947,727 | 66,968 | 6,988,712 | | 6,988,712 |
| Non-interest income - other segments | 10,417 | 366,995 | 360,685 | 738,097 | (738,097) | - |
| Total revenue | 6,875,870 | 5,292,775 | 6,653 | 12,175,298 | (738,097) | 11,437,201 |
| Non-interest expense | 5,002,593 | 4,285,797 | 728,605 | 10,016,995 | (738,097) | 9,278,898 |
| Significant non-cash items: | | | | | | |
| Depreciation and amortization | 260,253 | 518,659 | 52,260 | 831,172 | - | 831,172 |
| Provision for loan losses | 146,173 | - | - | 146,173 | - | 146,173 |
| Income tax expense (benefit) | 493,656 | 342,376 | (247,942) | 588,090 | - | 588,090 |
| Segment profit (loss) | \$ 1,233,448 | \$ 664,602 | \$ (474,010) | \$ 1,424,040 | \$ - | \$ 1,424,040 |
| Balance sheet information: | | | | | | |
| Total assets | \$ 564,608,095 | \$ 20,602,272 | \$ 5,259,746 | \$ 590,470,113 | \$ (5,448,337) | \$ 585,021,776 |
| Goodwill and intangibles | \$ 11,356,438 | \$ 7,199,264 | \$ - | \$ 18,555,702 | \$ - | \$ 18,555,702 |
| Premises and equipment expenditures | \$ 518,769 | \$ 3,701,633 | \$ 40,831 | \$ 4,261,233 | \$ - | \$ 4,261,233 |

NOTE H — SEGMENT INFORMATION (Continued)

As of and for the nine months ended September 30, 2009

| Income statement information: | Data | | | Total Segments | Intersegment Elimination | Consolidated Totals |
|---|----------------|---------------|----------------|-------------------|-----------------------------|------------------------|
| | Banking | Processing | Other | | | |
| Net interest income (expense) | \$ 17,000,819 | \$ (102,422) | \$ (1,184,430) | \$ 15,713,967 | | \$ 15,713,967 |
| Non-interest income - external customers | 7,648,452 | 14,710,064 | 62,491 | 22,421,007 | | 22,421,007 |
| Non-interest income - other segments | 67,596 | 1,214,526 | 1,122,342 | 2,404,464 | (2,404,464) | - |
| Total revenue | 24,716,867 | 15,822,168 | 403 | 40,539,438 | (2,404,464) | 38,134,974 |
| Non-interest expense | 19,070,894 | 13,723,716 | 2,647,050 | 35,441,660 | (2,404,464) | 33,037,196 |
| Significant non-cash items: | | | | | | |
| Depreciation and amortization | 785,852 | 2,217,131 | 74,550 | 3,077,533 | - | 3,077,533 |
| Provision for loan losses | 2,192,042 | - | - | 2,192,042 | - | 2,192,042 |
| Income tax expense (benefit) | 832,145 | 714,340 | (907,570) | 638,915 | - | 638,915 |
| Segment profit (loss) | \$ 2,621,786 | \$ 1,384,112 | \$ (1,739,077) | \$ 2,266,821 | \$ - | \$ 2,266,821 |
| Balance sheet information: | | | | | | |
| Total assets | \$ 652,343,870 | \$ 22,658,239 | \$ 3,211,396 | \$ 678,213,505 | \$ (4,464,379) | \$ 673,749,126 |
| Goodwill and intangibles | \$ 19,632,662 | \$ 6,959,636 | \$ - | \$ 26,592,298 | \$ - | \$ 26,592,298 |
| Premises and equipment expenditures | \$ 480,715 | \$ 1,640,225 | \$ 46,522 | \$ 2,167,462 | \$ - | \$ 2,167,462 |

NOTE H — SEGMENT INFORMATION (Continued)

As of and for the nine months ended September 30, 2008

| Income statement information: | Data | | | Total Segments | Intersegment Elimination | Consolidated Totals |
|---|----------------|---------------|----------------|-------------------|-----------------------------|------------------------|
| | Banking | Processing | Other | | | |
| Net interest income (expense) | \$ 14,067,748 | \$ (97,496) | \$ (1,272,389) | \$ 12,697,863 | | \$ 12,697,863 |
| Non-interest income - external customers | 5,965,120 | 15,155,795 | 184,468 | 21,305,383 | | 21,305,383 |
| Non-interest income - other segments | 35,628 | 1,125,947 | 1,052,267 | 2,213,842 | (2,213,842) | - |
| Total revenue | 20,068,496 | 16,184,246 | (35,654) | 36,217,088 | (2,213,842) | 34,003,246 |
| Non-interest expense | 14,833,645 | 12,995,624 | 2,375,177 | 30,204,446 | (2,213,842) | 27,990,604 |
| Significant non-cash items: | | | | | | |
| Depreciation and amortization | 756,546 | 1,884,267 | 111,471 | 2,752,284 | - | 2,752,284 |
| Provision for loan losses | 551,388 | - | - | 551,388 | - | 551,388 |
| Income tax expense (benefit) | 1,316,387 | 1,084,135 | (828,488) | 1,572,034 | - | 1,572,034 |
| Segment profit (loss) | \$ 3,367,076 | \$ 2,104,487 | \$ (1,582,343) | \$ 3,889,220 | \$ - | \$ 3,889,220 |
| Balance sheet information: | | | | | | |
| Total assets | \$ 564,608,095 | \$ 20,602,272 | \$ 5,259,746 | \$ 590,470,113 | \$ (5,448,337) | \$ 585,021,776 |
| Goodwill and intangibles | \$ 11,356,438 | \$ 7,199,264 | \$ - | \$ 18,555,702 | \$ - | \$ 18,555,702 |
| Premises and equipment expenditures | \$ 1,423,734 | \$ 5,321,346 | \$ 98,153 | \$ 6,843,233 | \$ - | \$ 6,843,233 |

NOTE I – FAIR VALUE OF ASSETS AND LIABILITIES

The Company adopted the guidance on fair value measurements now codified as FASB ASC Topic 820, on January 1, 2008. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 has been applied prospectively as of the beginning of the period.

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

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

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

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

Available-for-Sale Securities

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

The following table presents the fair value measurements of assets measured at fair value on a recurring basis and the level within ASC 820 fair value hierarchy in which the fair value measurements fall at September 30, 2009, December 31, 2008 and September 30, 2008:

| Description | Fair Values at 9/30/2009 | Fair Value Measurements Using: | | |
|---------------------------------------|--------------------------------|--|--|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available-for-Sale Securities | | | | |
| U.S. Treasury and Government Agencies | \$ 11,137,540 | - | \$ 11,137,540 | - |
| Mortgage-backed securities | \$ 67,538,135 | - | \$ 67,538,135 | - |
| State and political subdivisions | \$ 31,887,348 | - | \$ 31,887,348 | - |
| Equity securities | \$ 23,000 | - | \$ 23,000 | - |
| Other securities | \$ 975,477 | - | \$ 975,477 | - |

| Description | Fair Values at 12/31/2008 | Fair Value Measurements Using: | | |
|---------------------------------------|---------------------------------|--|--|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available-for-Sale Securities | | | | |
| U.S. Treasury and Government Agencies | \$ 15,183,883 | - | \$ 15,183,883 | - |
| Mortgage-backed securities | \$ 64,546,425 | - | \$ 64,546,425 | - |
| State and political subdivisions | \$ 22,801,431 | - | \$ 22,801,431 | - |
| Equity securities | \$ 23,000 | - | \$ 23,000 | - |
| Other securities | \$ 51,736 | - | \$ 51,736 | - |

| Description | Fair Values at 9/30/2008 | Fair Value Measurements Using: | | |
|---------------------------------------|--------------------------------|--|--|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available-for-Sale Securities | | | | |
| U.S. Treasury and Government Agencies | \$ 14,961,794 | - | \$ 14,961,794 | - |
| Mortgage-backed securities | \$ 63,603,648 | - | \$ 63,603,648 | - |
| State and political subdivisions | \$ 15,796,794 | - | \$ 15,796,794 | - |
| Equity securities | \$ 23,000 | - | \$ 23,000 | - |
| Other securities | \$ 51,114 | - | \$ 51,114 | - |

Impaired Loans

Loans for which it is probable the Company will not collect all principal and interest due according to contractual terms are measured for impairment. Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans, or where a loan is determined not to be collateral dependent, using the discounted cash flow method. If the impaired loan is collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining an independent appraisal of the collateral and applying a discount factor to the value based on the Company's loan review policy. All impaired loans held by the Company were collateral dependent at September 30, 2009, December 31, 2008 and September 30, 2008.

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 market discount 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 on 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.

The following table presents the fair value measurements of assets measured at fair value on a nonrecurring basis and the level within the FAS 157 fair value hierarchy in which the fair value measurements fall at September 30, 2009, December 31, 2008 and September 30, 2008:

| Description | Fair Values at 9/30/2009 | Fair Value Measurements Using: | | |
|---------------------------|--------------------------------|--|---|--|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans | \$ 4,547,000 | - | - | \$ 4,547,000 |
| Mortgage Servicing Rights | \$ 1,715,000 | - | - | \$ 1,715,000 |
| Foreclosed Assets | \$ 759,000 | - | - | \$ 759,000 |

| Description | Fair Value Measurements Using: | | | |
|---------------------------|--------------------------------|--|---|---|
| | Fair Values at 12/31/2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans | \$ 457,000 | - | - | \$ 457,000 |
| Mortgage Servicing Rights | \$ 607,078 | - | - | \$ 607,078 |

| Description | Fair Value Measurements Using: | | | |
|----------------|--------------------------------|--|---|---|
| | Fair Values at 9/30/2008 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans | \$ 141,000 | - | - | \$ 141,000 |

There were no changes in the inputs or methodologies used to determine fair value during the quarter ended September 30, 2009 as compared to the quarters ended December 31, 2008 and September 30, 2008.

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

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

The carrying amount approximates the fair value.

Loans

The estimated fair value for loans receivable, including loans held for sale, net, is based on estimates of the rate State Bank would charge for similar loans at September 30, 2009 and December 31, 2008, applied for the time period until the loans are assumed to re-price or be paid.

Deposits & Other Borrowings

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates the fair value. The estimated fair value for fixed-maturity time deposits, as well as borrowings, is based on estimates of the rate State Bank could pay on similar instruments with similar terms and maturities at September 30, 2009 and December 31, 2008.

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The estimated fair value for other financial instruments and off-balance-sheet loan commitments approximate cost at September 30, 2009 and are not considered significant to this presentation.

| | September 30, 2009 | |
|--|--------------------|----------------|
| | Carrying Amount | Fair Value |
| Financial assets | | |
| Cash and cash equivalents | \$ 31,055,035 | \$ 31,055,000 |
| Available-for-sale securities | 111,561,500 | 111,562,000 |
| Loans, net of allowance for loan losses | 453,829,682 | 456,547,080 |
| Federal Reserve and FHLB Bank stock | 3,748,250 | 3,748,000 |
| Accrued interest receivable | 2,851,934 | 2,852,000 |
| Financial liabilities | | |
| Deposits | \$ 492,292,213 | \$ 494,287,000 |
| Securities sold under agreements to repurchase | 46,138,646 | 47,320,000 |
| Notes payable | 2,357,816 | 2,358,000 |
| FHLB advances | 39,868,884 | 41,477,000 |
| Trust preferred securities | 20,620,000 | 20,239,000 |
| Accrued interest payable | 1,382,015 | 1,382,000 |

| | December 31, 2008 | |
|--|--------------------|----------------|
| | Carrying Amount | Fair Value |
| Financial assets | | |
| Cash and cash equivalents | \$ 28,059,532 | \$ 28,060,000 |
| Available-for-sale securities | 102,606,475 | 102,606,000 |
| Loans, net of allowance for loan losses | 448,915,955 | 455,629,000 |
| Federal Reserve and FHLB Bank stock | 4,244,100 | 4,244,000 |
| Accrued interest receivable | 2,964,663 | 2,965,000 |
| Financial liabilities | | |
| Deposits | \$ 484,220,584 | \$ 486,787,000 |
| Securities sold under agreements to repurchase | 43,425,978 | 45,976,000 |
| Notes payable | 1,000,000 | 1,000,000 |
| FHLB advances | 36,646,854 | 38,196,000 |
| Trust preferred securities | 20,620,000 | 19,996,000 |
| Accrued interest payable | 1,965,842 | 1,966,000 |

Note J - Securities

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Approximate Fair Value |
|--|-------------------|------------------------------|-------------------------------|---------------------------|
| Available-for-Sale Securities: | | | | |
| September 30, 2009 | | | | |
| U.S. Treasury and Government agencies | | | | |
| | \$ 11,114,769 | \$ 23,407 | \$ (636) | \$ 11,137,540 |
| Mortgage-backed securities | 65,781,261 | 2,258,149 | (501,275) | 67,538,135 |
| State and political subdivisions | 30,638,151 | 1,286,440 | (37,243) | 31,887,348 |
| Equity securities | 23,000 | - | - | 23,000 |
| Other securities | 975,477 | - | - | 975,477 |
| | \$ 108,532,658 | \$ 3,567,996 | \$ (539,154) | \$ 111,561,500 |

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Approximate Fair Value |
|--|-------------------|------------------------------|-------------------------------|---------------------------|
| Available-for-Sale Securities: | | | | |
| December 31, 2008 | | | | |
| U.S. Treasury and Government agencies | \$ 15,146,301 | \$ 65,978 | \$ (28,396) | \$ 15,183,883 |
| Mortgage-backed securities | 64,329,865 | 1,014,453 | (797,893) | 64,546,425 |
| State and political subdivisions | 23,241,636 | 22,010 | (462,215) | 22,801,431 |
| Equity securities | 23,000 | - | - | 23,000 |
| Other securities | 50,000 | 1,736 | - | 51,736 |
| | \$ 102,790,802 | \$ 1,104,177 | \$ (1,288,504) | \$ 102,606,475 |

The amortized cost and fair value of securities available for sale at September 30, 2009, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost | Available for Sale Fair Value |
|--|-------------------|-------------------------------------|
| Within one year | \$ 3,405,830 | \$ 3,413,753 |
| Due after one year through five years | 4,547,924 | 4,733,308 |
| Due after five years through ten years | 8,525,567 | 8,755,174 |
| Due after ten years | 25,273,599 | 26,122,653 |
| | 41,752,920 | 43,024,888 |
| Mortgage-backed securities & equity and other securities | 66,779,738 | 68,536,612 |
| Totals | \$ 108,532,658 | \$ 111,561,500 |

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$27,744,885 at September 30, 2009 and \$45,770,494 at December 31, 2008. The securities delivered for repurchase agreements were \$55,169,486 at September 30, 2009 and 51,419,727 at December 31, 2008.

Gross gains of \$477,591 resulting from sales of available-for-sale securities were realized as of September 30, 2009. The tax expense for net security gains for September 30, 2009 was \$162,381.

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 \$8,140,308 at September 30, 2009 and \$26,135,897 at December 31, 2008 which was approximately 7 and 25 percent, respectively, of the Company's available-for-sale investment portfolio at such dates. Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

Securities with unrealized losses at September 30, 2009 and December 31, 2008 are as follows:

| September 30, 2009 | Less than 12 Months | | 12 Months or Longer | | Total | |
|---------------------------------------|---------------------|-------------------|---------------------|-------------------|---------------|-------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Available-for-Sale Securities: | | | | | | |
| U.S. Treasury and Government agencies | \$ 2,299,745 | \$ (636) | \$ - | \$ - | \$ 2,299,745 | \$ (636) |
| Mortgage-backed securities | 1,715,872 | (7,102) | 2,636,910 | (494,173) | 4,352,782 | (501,275) |
| State and political subdivisions | 475,337 | (7,460) | 1,012,239 | (29,783) | 1,487,576 | (37,243) |
| | \$ 4,490,954 | \$ (15,198) | \$ 3,649,149 | \$ (523,956) | \$ 8,140,103 | \$ (539,154) |
| December 31, 2008 | | | | | | |
| December 31, 2008 | 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 | \$ 974,720 | \$ (28,396) | \$ - | \$ - | \$ 974,720 | \$ (28,396) |
| Mortgage-backed securities | 9,619,369 | (571,239) | 1,590,836 | (226,654) | 11,210,205 | (797,893) |
| State and political subdivisions | 12,756,053 | (441,439) | 1,194,919 | (20,776) | 13,950,972 | (462,215) |
| | \$ 23,350,142 | \$ (1,041,074) | \$ 2,785,755 | \$ (247,430) | \$ 26,135,897 | \$ (1,288,504) |

The total unrealized losses on the mortgage-backed securities portfolio are derived 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 to be 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 K – Strategic Partnership

On April 27, 2009, the Company announced a strategic partnership between RDSI and New Core Holdings, Inc. d/b/a New Core Banking Systems, headquartered in Birmingham, AL (“New Core”). As part of this partnership, RDSI and New Core Banking Systems entered into a Reseller Software License and Support Agreement pursuant to which RDSI was granted rights as the exclusive provider of New Core’s Single Source™ software. RDSI and New Core also entered into an agreement and plan of merger pursuant to which New Core would be merged with a newly-created subsidiary of RDSI and become a wholly-owned subsidiary of RDSI. A prerequisite of this merger would be the spin-off of RDSI from Rurban, resulting in RDSI becoming a separate independent public company. This would be followed immediately by the merger of RDSI and New Core. It is anticipated that New Core shareholders would receive between 15½% and 31% of the shares of the separately reorganized RDSI. On October 22, 2009, the Company announced that its Board of Directors had approved proceeding with the appropriate filings with the SEC in connection with the contemplated spin-off of RDSI. The Company anticipates that the spin-off would be completed in the first quarter of 2010, subject to the satisfaction of a number of conditions, including final approval by the Company’s Board of Directors of the spin-off and its terms.

Note L – Dividends on Common Stock

On October 21, 2009, the Company’s Board of Directors approved a quarterly cash dividend of \$0.09 per share for the third quarter of 2009, payable on November 20, 2009 to all shareholders of record on November 6, 2009.

Note M – Subsequent Events

Subsequent events have been evaluated through November 16, 2009, which is the date the financial statements were issued.

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

Cautionary Statement Regarding Forward-Looking Information

Management's Discussion and Analysis of Financial Condition and Results of Operations contains 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," "may," "would be," "will allow," "will likely result," "will continue," "will remain," or other similar 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, under the Securities Exchange Act of 1934, 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, 2008 and under the heading "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 is a bank holding company registered with the Federal Reserve Board. Rurban's wholly-owned subsidiary, The State Bank and Trust Company ("State Bank" or "the Bank"), is engaged in commercial banking. Rurban's technology subsidiary, Rurbanc Data Services, Inc. ("RDSI"), provides computerized data and item processing services to community banks and businesses.

Rurban Statutory Trust I ("RST") was established in August 2000. In September 2000, RST completed a pooled private offering of 10,000 Capital Securities with a liquidation amount of \$1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures of the Company with terms substantially similar to the Capital 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 the Company of the obligations of RST under the Capital Securities.

Rurban Statutory Trust II ("RST II") was established in August 2005. In September 2005, RST II completed a pooled private offering of 10,000 Capital Securities with a liquidation amount of \$1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures of the Company with terms substantially similar to the Capital 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 the Company of the obligations of RST II under the Capital Securities.

RFCBC, Inc. ("RFCBC") is an Ohio corporation and wholly-owned subsidiary of the Company 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 the Bank that was incorporated in January 2009. RII holds mortgage backed and municipal securities.

Recent Regulatory Developments

FDIC Insurance Assessments. On May 22, 2009, The Board of Directors of the Federal Deposit Insurance Corporation (the "FDIC") issued a final rule imposing a special assessment on insured institutions as part of the agency's efforts to rebuild the Deposit Insurance Fund (DIF) and help maintain public confidence in the banking system. The final rule established a special assessment of five basis points on each FDIC-insured depository institution's assets, minus its Tier 1 capital, as of June 30, 2009. The special assessment, in the amount of \$300,000, was expensed during the second quarter and was collected from State Bank on September 30, 2009. In its May 22, 2009 final rule, the FDIC also announced that an additional assessment of approximately the same amount later in 2009 was probable.

On September 29, 2009, the FDIC adopted a Notice of Proposed Rulemaking that would require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012, in lieu of a second FDIC special assessment. On November 12, 2009, the FDIC adopted a final rule implementing the proposed prepaid assessments. The prepaid assessments for these periods will be collected on December 30, 2009, along with the regular quarterly risk-based deposit insurance assessment for the third quarter of 2009. For the fourth quarter of 2009 and for all of 2010, the prepaid assessment rate will be based on each institution's total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect for the institution on September 30, 2009, has been in effect for the entire third quarter of 2009. The prepaid assessment rate for 2011 and 2012 will be equal to that institution's modified third quarter 2009 total base assessment rate plus 3 basis points. Each institution's prepaid assessment base would be calculated using its third quarter 2009 assessment base, adjusted quarterly for a five percent annual growth rate in the assessment base through the end of 2012. The Company estimates that the three year prepayment will be approximately \$2.8 million for State Bank, which will be expensed over the three-year life of the asset.

Troubled Asset Relief Program. On October 3, 2008, President Bush signed into law the Emergency Economic Stabilization Act of 2008 (EESA), which created the Troubled Asset Relief Program ("TARP") to provided the U.S. Treasury with broad authority to implement certain actions to help restore stability and liquidity to U.S. markets. On October 14, 2008 the U.S. Treasury announced a voluntary Capital Purchase Program pursuant to TARP to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. Under the program, Treasury was authorized to purchase up to \$250 billion of senior preferred shares on standardized terms as described in the program's term sheet. The program was made available to qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies. On November 12, 2008, the Company announced that, after a careful review of the Company's strategic plan, its capital position, and the constraints and uncertainties of the TARP Capital Purchase Program, the Company's Board of Directors elected not to apply or participate in the U.S. Treasury's Capital Purchase Program.

Temporary Liquidity Guarantee Program. EESA also instituted a Temporary Liquidity Guarantee Program (TLGP) through December 31, 2009 to further insure customer deposits at FDIC member institutions. The TLGP consists of two programs – the Debt Guarantee Program and the Transaction Account Guarantee Program. Pursuant to the Debt Guarantee Program, the FDIC will guarantee newly issued senior unsecured debt of eligible institutions, including FDIC-insured banks and thrifts, as well as certain holding companies. After careful consideration of the risks and benefits of the Temporary Liquidity Guarantee Program, the Company concluded that it would not participate in the program.

Pursuant to the Transaction Account Guarantee Program, the FDIC will provide a temporary 100% guarantee of all balances (unlimited coverage) in noninterest bearing transaction accounts. The expanded coverage under the FDIC's Transaction Account Guarantee Program has been extended through June 30, 2010. The Company evaluated the benefits of the Transaction Account Guarantee Program and elected to participate in the program.

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, 2008 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 of future periods.

Impact of Accounting Changes

None

Three Months Ended September 30, 2009 compared to Three Months Ended September 30, 2008

Net Income: Net income for the third quarter of 2009 was \$160 thousand or \$0.03 per diluted share, compared to \$1.42 million, or \$0.29 per diluted share, for the third quarter of 2008. The quarter reflects an increase in non-interest expense of \$2.18 million and an increase in the provision for loan losses of \$752 thousand. These items are partially offset by an \$888 thousand increase in net interest income and an \$87 thousand increase in non-interest income. The primary driver of the increase in net interest income was an increase of \$62.3 million in average earning assets, acquired mainly in the acquisition of National Bank of Montpelier (NBM), coupled with a 31 basis point increase in the net interest margin. The main driver behind the increase in non-interest income was mortgage banking and associated fees and loan sale gains, as production for the third quarter of 2009 was \$42.1 million compared with \$7.2 million for the 2008 third quarter. The increase in non-interest expense was driven by the addition of four retail branches associated with the purchase of NBM, legal fees of \$155 thousand associated with the planned RDSI spin-off, accelerated depreciation of the ITI software used at RDSI of \$360 thousand and \$335 thousand in expense related to the ramp up by RDSI to convert clients to the new Single Source™ software.

Net Interest Income: Net interest income for the third quarter of 2009 was \$5.34 million, an increase of \$888,000, or 20.0 percent, from the 2008 third quarter. As previously mentioned, average earning assets increased \$62.3 million, or 12.3 percent, over the prior year third quarter. The increase in earning assets is a result of loan growth over the past twelve months of \$48.5 million, or 12.1 percent, reaching \$448.4 million at September 30, 2009. This growth was due mainly to the \$43.7 million in loans acquired in the NBM transaction. Sixty-seven percent of State Bank's loan portfolio is commercial, and \$32.5 million of the Bank's growth was derived from this sector, with \$10.9 million derived from residential growth. Loan balances declined during the third quarter of 2009, decreasing \$1.72 million from the fourth quarter of 2008. The decrease in loans is largely attributable to residential loans, which decreased \$16.1 million during the first nine months of 2009. This was due to refinancing activities, as the Company refinanced portfolio loans and sold them into the secondary market. Commercial loans increased \$12.9 million from the previous year-end. Year-over-year, the net interest margin increased 31 basis points from 3.56 percent for the third quarter 2008 to 3.87 percent for the third quarter 2009. The 3.87 percent represents a 5 basis point increase from the linked quarter of 3.82 percent. The year-over-year increase is a result of being liability sensitive in a decreasing rate environment.

Provision for Loan Losses: The provision for loan losses was \$898,000 for the third quarter of 2009 compared to a \$146,000 provision for the third quarter of 2008. The Company experienced an increase in losses quarter-over-quarter, which is reflected in net charge-offs of \$837,000 compared to \$336,000 of net charge-offs in the 2008 third quarter. For the third quarter ended September 30, 2009, net charge-offs as a percentage of average loans was 0.73 percent annualized. At quarter-end, consolidated non-performing assets were \$11.4 million, or 1.69 percent of total assets, compared with \$6.27 million, or 1.07 percent of total assets for the prior-year third quarter.

| (\$ in Thousands) | Sept. 30, 2009 | December 31, 2008 | Sept. 30, 2008 |
|---|-------------------|----------------------|-------------------|
| Net charge-offs | \$ 837 | \$ 280 | \$ 336 |
| Non-performing loans | \$ 9,646 | \$ 5,178 | \$ 4,659 |
| OREO / OAO | \$ 1,748 | \$ 1,409 | \$ 1,611 |
| Non-performing assets | \$ 11,394 | \$ 6,587 | \$ 6,270 |
| Non-performing assets / Total assets | 1.69% | 1.00% | 1.07% |
| Allowance for loan losses / Total loans | 1.32% | 1.12% | 1.01% |
| Allowance for loan losses / Non-performing assets | 52.1% | 76.2% | 64.7% |

Non-interest Income: Non-interest income was \$7.08 million for the third quarter of 2009 compared with \$6.99 million for the prior-year third quarter, an increase of \$87,000, or 1.24 percent. The third quarter results were primarily driven by the increase in the gain on sale of loans of \$589 thousand, customer service fees of \$74 thousand and loan servicing fees of \$69 thousand. These increases were partially offset by trust fees which decreased \$136,000 and data service fees which decreased \$141 thousand.

On July 28, 2009 RDSI reached an agreement with Information Technology, Inc. and Fiserv Solutions, Inc. (collectively, "Fiserv") to wind down their licensing relationship. After December 31, 2010, Fiserv will no longer license its Premier suite of products to RDSI and RDSI will exclusively market New Core Banking Systems' Single Source™. RDSI customers which presently rely on the Premier platform will be provided the opportunity to continue their processing with RDSI and convert to Single Source™, or to move their processing to Fiserv and continue to use Premier. RDSI and Fiserv have agreed to cooperate in transitioning RDSI clients to their choice of core software prior to December 31, 2010.

In accordance with the above-referenced agreement, on July 30, 2009, Fiserv dismissed the civil action it filed against RDSI relating to the Premier license agreements. The civil action, which was filed by Fiserv on May 20, 2009 in the United States District Court for the District of Nebraska, was previously disclosed on the Form 8-K filed by the Company on May 29, 2009.

Non-interest Expense: Non-interest expense was \$11.5 million for the third quarter of 2009, compared with \$9.28 million for the third quarter of 2008. The acquisition of NBM contributed approximately \$429,000 of this increase. \$155 thousand of legal expenses were incurred related to the potential RDSI spin-off and merger with New Core. Accelerated amortization of the ITI software accounted for \$360 thousand. Mortgage banking expenses increased \$545,000 quarter-over-quarter.

Nine Months Ended September 30, 2009 compared to Nine Months Ended September 30, 2008

Net Income: Rurban had net income of \$2.27 million or \$0.46 per diluted share for the nine months ended September 30, 2009, compared to \$3.89 million or \$0.79 per diluted share for the nine months ended September 30, 2008. This represents a \$1.62 million, or 41.7 percent, decrease in comparison of the nine-month periods. Significant changes from period to period include an increase in non-interest expenses of \$5.05 million and an increase in loan loss provision of \$1.64 million. Offsetting these items are an increase in net interest income of \$3.02 million and a \$1.12 million increase in non-interest income.

Net Interest Income: For the nine months ended September 30, 2009, net interest income was \$15.7 million, an increase of \$3.02 million or 23.8 percent, from the nine-month period ended September 30, 2008. This increase is primarily the result of the acquisition of four banking centers in Williams County in the NBM transaction, coupled with a 45 basis point increase in the year-over-year net interest margin. The ability to restructure the balance sheet from a negative gap to a positive gap over the past nine to twelve months has been instrumental to the increase in the net interest margin over that time frame.

Provision for Loan Losses: The provision for loan losses was \$2.19 million for the nine months ended September 30, 2009, compared to \$551 thousand for the nine months ended September 30, 2008. The loan loss provision is reflective of a \$5.12 million increase in non-performers on a year-over-year basis. Non-performers decreased \$125 thousand on a linked quarter basis. Net charge-offs for the year total \$1.28 million or 38 basis points on an annualized basis.

Non-interest Income: Non-interest income was \$22.4 million for the nine months ended September 30, 2009, compared with \$21.3 million for the nine months ended September 30, 2008. The first nine months of 2009 saw a \$2.15 million increase in gains on sale of loans and mortgage servicing rights associated with sold loans. Gains on the sale of securities contributed an additional \$478 thousand. Offsetting these items were trust fee income, which decreased \$582 thousand from the prior year due to the poor equity markets, data processing fees, which decreased \$426 thousand, due to the loss of one of RDSI's largest client banks, proceeds from the VISA IPO of \$132,000 and investment security recoveries of \$197,000, both of which were one-time items in 2008.

Non-interest Expense: For the nine months ended September 30, 2009, total non-interest expense was \$33.0 million compared with 28.0 million for the nine months ended September 30, 2008. This represents a \$5.05 million, or 18.0 percent, increase period over period. Of the overall increase, salary and benefits expense accounted for \$2.53 million, due primarily to the addition of the four Williams County branches in the NBM transaction and growth within mortgage banking production and other growth initiatives. Occupancy expenses were \$733 thousand more than the prior year nine month period, again due to the addition of the four Williams County branches. Legal fees of \$411 thousand associated with the contemplated RDSI spin-off and potential merger of RDSI with New Core and the one-time FDIC assessment of \$300 thousand were the main contributors to the year-over-year increase in professional fees of \$501 thousand.

Changes in Financial Condition

September 30, 2009 vs. December 31, 2008

At September 30, 2009, total assets were \$673.7 million, representing an increase of \$16.1 million, or 2.45 percent, from December 31, 2008. The increase is primarily attributable to an increase of \$8.96 million, or 8.73 percent in available-for-sale securities, and an increase in loans held for sale of \$7.55 million. Cash and cash equivalents increased \$3.00 million, or 10.7 percent. Loan balances decreased \$1.72 million, or 0.38 percent.

Year-over-year, average assets increased \$89.1 million, or 15.5 percent. Loan growth over the past twelve months was approximately \$48.5 million, or 12.1 percent, reaching \$448.4 million at September 30, 2009; this growth was primarily due to the acquisition of NBM. Commercial loan growth accounted for \$32.5 million of the Bank's growth, with \$10.9 million derived from residential growth.

At September 30, 2009, liabilities totaled \$609.1 million, an increase of \$13.1 million since December 31, 2008. Of this increase, significant changes include an increase of \$8.07 million in total deposits, as savings, interest checking and money market deposits increased \$26.2 million, while time deposits decreased \$18.1 million. Advances from the Federal Home Loan Bank accounted for \$3.22 million of the increase, repurchase agreements increased \$2.71 million and notes payable increased \$1.36 million. Offsetting the increases was a decrease of \$1.66 million in other liabilities and \$584 thousand in interest payable.

From December 31, 2008 to September 30, 2009, total shareholders' equity increased \$3.01 million, or 4.88 percent, to \$64.7 million. Of this increase, retained earnings increased \$952 thousand, which is the result of \$2.27 million in net income less \$1.31 million in cash dividends to shareholders. Additional paid-in-capital increased \$90 thousand as the result of share-based compensation expense incurred during the year. Accumulated other comprehensive income increased \$2.12 million as the result of an increase in market value of the available-for-sale securities portfolio. The stock repurchase plan reduced capital by \$156 thousand during the first nine months of 2009.

Capital Resources

At September 30, 2009, actual capital levels (in millions) and minimum required levels were as follows:

| | Actual | | Minimum Required For Capital Adequacy Purposes | | Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations | |
|---|---------|-------|--|-------|---|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total capital (to risk weighted assets) | | | | | | |
| Consolidated | \$ 61.9 | 13.1% | \$ 37.9 | 8.0% | \$ - | N/A |
| State Bank | 52.0 | 11.3 | 36.7 | 8.0 | 45.9 | 10.0 |

Both the Company and State Bank were categorized as well capitalized at September 30, 2009.

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 \$154.0 million at September 30, 2009 compared to \$134.5 million at December 31, 2008.

The Company's commercial real estate, multi-family and residential first mortgage portfolio of \$266.8 million at September 30, 2009 and \$269.5 million at December 31, 2008, 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 September 30, 2009, all eligible commercial real estate and first 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 nine months ended September 30, 2009 and 2008 follows.

The Company experienced negative cash flows from operating activities for the nine months ended September 30, 2009 and positive cash flows for the nine months ended September 30, 2008. Net cash used in operating activities was \$3.40 million for the nine months ended September 30, 2009. Net cash provided in operating activities was \$9.01 million for the nine months ended September 30, 2008.

Net cash flow from investing activities was a use of cash of \$7.49 million and \$21.0 million for the nine months ended September 30, 2009 and 2008, respectively. The changes in net cash from investing activities at September 30, 2009 included available-for-sale securities purchases totaling \$50.0 million and purchases of equipment and software of \$2.17 million. These cash payments were offset by \$28.4 million in proceeds from maturities of securities and \$15.8 million in proceeds from the sales of securities. The changes in net cash from investing activities at September 30, 2008 included the purchase of securities of \$46.2 million, net changes in loans of 13.0 million and the purchases of equipment and software of \$6.84 million. This was partially offset by the proceeds from maturities or calls of securities of \$42.8 million and proceeds from the sale of premises and equipment of \$2.04 million.

Net cash flow from financing activities was \$13.9 million and \$20.3 million for the nine month periods ended September 30, 2009 and 2008, respectively. The 2009 financing activities included a \$26.2 million increase in demand deposits, money market, interest checking and savings accounts, which were offset by an \$18.1 million decrease in certificates of deposit. Proceeds from advances from the FHLB totaled \$7.50 million, repurchase agreements increased \$2.71 million and proceeds from notes payable totaled \$4.2 million. Offsetting this increase were repayments of Federal Home Loan Bank advances of \$4.28 million, repayment of notes payable of \$2.84 million and cash dividends paid to shareholders of \$1.31 million. The net cash provided by financing activities at September 30, 2008 was primarily due to proceeds from advances from the FHLB which totaled \$24.0 million; federal funds purchased totaling \$5.00 million and a \$1.55 million increase in repurchase agreements. Deposits increased \$423 thousand, with demand deposits, money market, interest checking and savings accounts increasing \$18.6 million and certificate of deposit balances decreasing \$18.2 million. Partially offsetting these increases were repayment of FHLB advances of \$7.77 million and cash dividends paid to shareholders of \$1.24 million.

Off-Balance-Sheet Borrowing Arrangements:

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

Approximately \$140.0 million of the Company's \$266.8 million commercial real estate, multi-family and residential first mortgage loans qualify to collateralize FHLB borrowings and have been pledged to meet FHLB collateralization requirements as of September 30, 2009. Based on the current collateralization requirements of the FHLB, approximately \$1.4 million of additional borrowing capacity existed at September 30, 2009. The Company also had \$21.9 million in unpledged securities that may be used to pledge for additional borrowings.

At September 30, 2009, the Company had unused federal funds lines totaling \$20.5 million. At December 31, 2008, the Company had \$25.5 million in federal funds lines. Federal funds borrowed at September 30, 2009 and December 31, 2008 totaled \$0 and \$0, respectively. The Company also has a \$15.0 million line of credit with a regional bank. Advances on this line totaled \$0 and \$0 at September 30, 2009 and December 31, 2008 respectively.

The Company's contractual obligations as of September 30, 2009 consisted of long-term debt obligations, other debt obligations, operating lease obligations and other long-term liabilities. Long-term debt obligations were comprised of FHLB advances of \$39.9 million. Other debt obligations were comprised of Trust Preferred Securities of \$20.6 million. The Company's operating lease obligations consist of a lease on the State Bank operations building of \$99,600 per year, a lease on the RDSI-North building of \$162,000 per year, a lease on the Northtowne branch of State Bank of \$60,000 per year and a lease on the RDSI/DCM Lansing facility of \$61,000 per year. Other long-term liabilities were comprised of time deposits of \$224.4 million.

ASSET LIABILITY MANAGEMENT

Asset liability management involves developing and monitoring strategies to maintain sufficient liquidity, maximize net interest income and minimize the impact that significant fluctuations in market interest rates would have on 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 results and profitability and stockholder 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 terms of new loans or investments; 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

The following table provides information about the Company's financial instruments used for purposes other than trading that are sensitive to changes in interest rates as of September 30, 2009. It does not present when these items may actually reprice. For loans receivable, securities, and liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturities as well as the historical impact of interest rate fluctuations on the prepayment of loans and mortgage backed securities. For core deposits (demand deposits, interest-bearing checking, savings, and money market deposits) that have no contractual maturity, the table presents principal cash flows and, as applicable, related weighted-average interest rates based upon the Company's historical experience, management's judgment and statistical analysis, as applicable, concerning their most likely withdrawal behaviors. The current historical interest rates for core deposits have been assumed to apply for future periods in this table as the actual interest rates that will need to be paid to maintain these deposits are not currently known. Weighted average variable rates are based upon contractual rates existing at the reporting date.

Principal/Notional Amount Maturing or Assumed to Withdraw In: (Dollars in Thousands)

| Comparison of 2009 to 2008: | First Year | Years 2 – 5 | Thereafter | Total |
|--|---------------|----------------|-------------|------------|
| Total rate-sensitive assets: | | | | |
| At Sept. 30, 2009 | \$ 178,179 | \$ 256,613 | \$ 140,282 | \$ 575,074 |
| At December 31, 2008 | 182,795 | 227,333 | 160,659 | 570,787 |
| Increase (decrease) | \$ (4,616) | \$ 29,280 | \$ (20,377) | \$ 4,278 |
| Total rate-sensitive liabilities: | | | | |
| At Sept. 30, 2009 | \$ 207,586 | \$ 370,829 | \$ 22,863 | \$ 601,278 |
| At December 31, 2008 | 220,481 | 338,260 | 27,173 | 585,914 |
| Increase (decrease) | \$ (12,895) | \$ 32,569 | \$ (4,310) | \$ 15,364 |

The above table reflects expected maturities, not expected repricing. The contractual maturities adjusted for anticipated prepayments and anticipated renewals at current interest rates, as shown in the preceding table, are only part of the Company's interest rate risk profile. Other important factors include the ratio of rate-sensitive assets to rate-sensitive liabilities (which takes into consideration loan repricing frequency, but not when deposits may be repriced) and the general level and direction of market interest rates. For core deposits, the repricing frequency is assumed to be longer than when such deposits actually reprice. For some rate sensitive liabilities, their repricing frequency is the same as their contractual maturity. For variable rate loans receivable, repricing frequency can be daily or monthly. For adjustable rate loans receivable, repricing can be as frequent as annually for loans whose contractual maturities range from one to thirty years. Recent Federal Reserve Board actions, economic conditions and increasingly aggressive local market competition in lending rates have pushed loan rates lower, necessitating the Company's ability to generate and reprice core deposits downward, which has enabled the Company to reduce overall funding costs.

The Company manages its interest rate risk by the employment of strategies to assure that desired levels of both interest-earning assets and interest-bearing liabilities mature or reprice with similar time frames. Such strategies include: 1) loans receivable which are renewed (and repriced) annually, 2) variable rate loans, 3) certificates of deposit with terms from one month to six years, 4) securities available-for-sale which mature at various times primarily, from one through ten years, 5) federal funds borrowings with terms of one day to 30 days, and 6) FHLB borrowings with terms of one day to ten years.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended September 30, 2009, 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

There are no material pending legal proceedings against the Company or any of its subsidiaries other than ordinary, routine litigation incidental to their respective businesses. In the opinion of management, this litigation should not, individually or in the aggregate, have a material adverse effect on the Company's results of operations or financial condition.

As previously disclosed in the Form 8-K filed by the Company on August 3, 2009, the civil action filed against RDSI by Information Technology, Inc. and Fiserv Solutions, Inc. (collectively, "Fiserv") on May 20, 2009 in the United States District Court for the District of Nebraska, was dismissed by Fiserv on July 30, 2009.

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, 2008. The following information updates certain of our risk factors and should be read in conjunction with the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Increases in FDIC insurance premiums may negatively affect our profitability.

The FDIC insures deposits at FDIC insured financial institutions, including State Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. Current economic conditions have increased bank failures and expectations for further failures, in which case the FDIC insures payment of deposits up to insured limits from the Deposit Insurance Fund. In late 2008, the FDIC announced an increase in insurance premium rates of seven basis points, beginning with the first quarter of 2009. Additional changes, beginning April 1, 2009, were to require riskier institutions to pay a larger share of premiums by factoring in rate adjustments based on secured liabilities and unsecured debt levels.

On May 22, 2009, the FDIC adopted a final rule that imposed a special assessment for the second quarter of 2009 of five basis points on each insured depository institution's assets minus its Tier 1 capital as of June 30, 2009, which was to be collected on September 30, 2009. The Corporation expensed \$300,000 during the second quarter for this special assessment. In its May 22, 2009 final rule, the FDIC also announced that an additional assessment of approximately the same amount later in 2009 is probable.

On September 29, 2009, the FDIC adopted a Notice of Proposed Rulemaking that would require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012, in lieu of a second FDIC special assessment. On November 12, 2009, the FDIC adopted a final rule implementing the proposed prepaid assessments. The prepaid assessments for these periods will be collected on December 30, 2009, along with the regular quarterly risk-based deposit insurance assessment for the third quarter of 2009. For the fourth quarter of 2009 and for all of 2010, the prepaid assessment rate will be based on each institution's total base assessment rate for the third quarter of 2009, modified to assume that the assessment rate in effect for the institution on September 30, 2009, has been in effect for the entire third quarter of 2009. The prepaid assessment rate for 2011 and 2012 will be equal to that institution's modified third quarter 2009 total base assessment rate plus 3 basis points. Each institution's prepaid assessment base will be calculated using its third quarter 2009 assessment base, adjusted quarterly for a five percent annual growth rate in the assessment base through the end of 2012. The Company estimates that the three year prepayment will be approximately \$2.8 million for State Bank, which will be expensed over the three-year life of the asset.

In general, we are unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional failures of FDIC-insured institutions, we may be required to pay even higher FDIC premiums. The announced increases and any future increases in FDIC insurance premiums may materially adversely affect our results of operations and our ability to continue to pay dividends on our common shares.

Adverse economic conditions in our markets could adversely affect our financial condition and results of operations, as our borrowers' ability to repay loans and the value of the collateral securing our loans decline.

As a consequence of the current U.S. recession, businesses across a wide range of industries face serious difficulties due to the lack of consumer spending and the lack of liquidity in the global credit markets. Unemployment has also increased significantly. A sustained weakness or weakening in business and economic conditions generally or specifically in the markets in which we do business could adversely affect our businesses by, among other things, decreasing the demand for loans and other products and services that we offer, causing impairment of certain intangible assets, such as goodwill, and increasing the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us.

Because we have a significant amount of real estate loans, additional decreases in real estate values could adversely affect the value of property used as collateral and our ability to sell the collateral upon foreclosure. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings and cash flows. The substantial majority of the loans made by State Bank are to individuals and businesses in Ohio. Consequently, a significant continued decline in the economy in Ohio could have a materially adverse effect on our financial condition and results of operations.

RDSI may lose existing customers to Fiserv or other competitors.

On July 28, 2009, RDSI reached an agreement with Fiserv to wind down their licensing relationship. Pursuant to this agreement, after December 31, 2010, Fiserv will no longer license its Premier suite of products to RDSI and RDSI will exclusively market New Core's Single Source™ software system. RDSI customers which presently rely on the Premier platform will be provided the opportunity to continue their processing with RDSI and convert to Single Source™, or to move their processing to Fiserv and continue to use Premier. As of November 6, 2009, RDSI had 73 customers using Fiserv's Premier software. RDSI has increased its marketing efforts to offer New Core's Single Source™ software to its current data processing customers who are now being serviced using Premier software. However, RDSI anticipates the loss of some banking clients who elect to move their processing to Fiserv and continue to use the Premier platform, as well as some customers who elect to move their processing to other competitors. Because individual bank decisions may be made as late as March 31, 2010, RDSI is currently unable to determine the number of banks that will ultimately choose to leave RDSI. As of November 6, 2009, 15 client banks (of which three are owned by the same bank holding company) had notified RDSI of their intention to convert to Fiserv software. There have been 12 clients who have notified RDSI of their intent to stay with RDSI and convert to Single Source™. The loss of a significant number of existing bank clients could have a material adverse effect on the results of operations and financial condition of RDSI, which could also have a material adverse effect on the results of operations and financial condition of the Company prior to the contemplated spin-off of RDSI.

Failure to complete the contemplated spin-off of RDSI and the merger of RDSI and New Core could adversely impact the market price of our common shares as well our business and operating results.

If the contemplated spin-off of RDSI and the merger of RDSI and New Core are not completed for any reason, the price of the Company's common shares may decline to the extent that the market price reflects positive market assumptions that the spin-off and the merger will be completed and the anticipated benefits of these transactions will be realized. The Company and RDSI have and will continue to incur substantial costs related to the spin-off and the merger, including fees for financial advisors, attorneys and auditors, printing costs and costs associated with the agreements related to the transactions. In addition, the Company and RDSI may be subject to other risks if the spin-off and the merger are not completed, such as potential disruption to the businesses of the Company and RDSI and the distraction of their respective workforce and management teams.

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

- a. Not applicable
- b. Not applicable

c. The following table provides information regarding repurchases of the Company's common shares during the three months ended September 30, 2009:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May as Part of Publicly Announced Plans Under the Plans or Programs (2) |
|--|--|---------------------------------|---|---|
| July 1 through July 31, 2009 | 2,381 | \$ 7.41 | 1,300 | 85,246 |
| August 1 through August 31, 2009 | 200 | \$ 8.00 | 200 | 85,046 |
| September 1 through September 30, 2009 | 700 | \$ 7.83 | 700 | 84,346 |

(1) All of the repurchased shares, other than the shares repurchased as part of the publicly announced plan, were purchased in the open market by Reliance Financial Services, an indirect subsidiary of the Company, in its capacity as the administrator of the Company's Employee Stock Ownership and Savings Plan.

- (2) On July 15, 2009, the Company announced that its Board of Directors had authorized an extension to the stock repurchase program for an additional fifteen months. The original stock repurchase program was announced in April, 2007 for fifteen months authorizing the purchase of 250,000 common shares.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits

Exhibits

- 2.1 –Agreement and Plan of Merger, dated as of April 25, 2009, by and among Rurbanc Data Services, Inc., NC Merger Corp. and New Core Holdings, Inc. (Incorporated herein by reference to Exhibit 2.1 to Rurban Financial Corp.’s Current Report on Form 8-K filed April 29, 2009)
- 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)

SIGNATURES

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

RURBAN FINANCIAL CORP.

Date: November 16, 2009

By /s/ Kenneth A. Joyce
Kenneth A. Joyce
President & Chief Executive Officer

By /s/ Duane L. Sinn
Duane L. Sinn
Executive Vice President &
Chief Financial Officer