RURBAN FINANCIAL CORP
Form 10-Q
May 16, 2011

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011
OR

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

For the transition period from _________________to___________________________

Commission file number 0-13507

RURBAN FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

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

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

(419) 783-8950

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report.)

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

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

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

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

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

Common Shares, without par value	4,861,779 shares
(class)	(Outstanding at May 13, 2011)

RURBAN FINANCIAL CORP.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The interim condensed consolidated financial statements of Rurban Financial Corp. ("Rurban" or the "Company") are unaudited; however, the information contained herein reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of financial condition and results of operations for the interim periods presented. All adjustments reflected in these financial statements are of a normal recurring nature in accordance with Rule 10-01 of Regulation S-X. Results of operations for the three months ended March 31, 2011 are not necessarily indicative of results for the complete year.

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

	March 2011 (Unaudited)	December 2010
ASSETS		
Cash and due from banks	$38,090,470	$30,417,813
Available-for-sale securities	131,052,629	132,762,058
Loans held for sale	5,423,901	9,055,268
Loans, net of unearned income	422,166,393	427,544,414
Allowance for loan losses	(6,593,279)	(6,715,397)
Premises and equipment, net	14,361,382	14,622,541
Purchased software	947,061	1,021,036
Federal Reserve and Federal Home Loan Bank Stock	3,748,250	3,748,250
Foreclosed assets held for sale, net	921,660	1,538,307
Accrued interest receivable	2,363,645	2,068,965
Goodwill	16,733,830	16,733,830
Core deposits and other intangibles	2,387,920	2,585,132
Cash value of life insurance	11,951,006	13,211,247
Mortgage Servicing Rights	3,316,228	3,190,389
Other assets	8,096,914	8,503,832
Total assets	$654,968,010	$660,287,685

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date

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

	March 2011 (Unaudited)	December 2010
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non interest bearing demand	$64,027,818	$62,745,906
Interest bearing NOW	107,940,091	105,708,472
Savings	48,983,184	47,662,315
Money Market	77,481,943	84,635,537
Time Deposits	214,528,353	214,925,512
Total deposits	512,961,389	515,677,742
Notes payable	3,218,211	3,290,471
Advances from Federal Home Loan Bank	16,679,942	22,807,351
Repurchase Agreements	49,499,424	45,785,254
Trust preferred securities	20,620,000	20,620,000
Accrued interest payable	2,195,926	1,971,587
Other liabilities	3,528,328	4,111,182
Total liabilities	608,703,220	614,263,587
Shareholders' Equity		
Common stock	12,568,583	12,568,583
Additional paid-in capital	15,258,113	15,235,206
Retained earnings	18,813,030	18,802,106
Accumulated other comprehensive income	1,394,375	1,187,514
Treasury stock	(1,769,311)	(1,769,311)
Total shareholders' equity	46,264,790	46,024,098
Total liabilities and shareholders' equity	$654,968,010	$660,287,685

See notes to condensed consolidated financial statements (unaudited)

Note: The balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date.

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

	Three Months Ended March 31	
	2011	2010
Interest income		
Loans		
Taxable	$5,852,367	$6,411,582
Tax-exempt	11,494	18,915
Securities		
Taxable	610,524	702,255
Tax-exempt	335,969	319,063
Other	83	31,448
Total interest income	6,810,437	7,483,263
Interest expense		
Deposits	1,049,393	1,374,291
Other borrowings	24,629	38,083
Retail Repurchase Agreements	425,519	426,967
Federal Home Loan Bank advances	133,016	352,817
Trust preferred securities	344,578	386,624
Total interest expense	1,977,135	2,578,782
Net interest income	4,833,302	4,904,481
Provision for loan losses	498,840	1,391,433
Net interest income after provision for loan losses	4,334,462	3,513,048
Non-interest income		
Data service fees	912,254	4,029,406
Trust fees	695,321	642,786
Customer service fees	580,942	587,401
Net gain on sales of loans	467,909	717,014
Net realized gain on sales of securities	-	451,474
Investment securities recoveries	-	73,774
Loan servicing fees	161,406	122,208
Loss on sale or disposal of assets	(100,209)	(28,652)
Other income	145,203	155,981
Total non-interest income	2,862,826	6,751,392

See notes to condensed consolidated financial statements (unaudited)

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

	Three Months Ended March 31	
	2011	2010
Non-interest expense		
Salaries and employee benefits	3,530,106	5,103,540
Net occupancy expense	584,057	586,223
FDIC Insurance expense	317,639	218,903
Equipment expense	711,051	2,165,101
Software impairment expense	-	568,535
Data processing fees	143,744	194,786
Professional fees	473,536	642,810
Marketing expense	55,976	77,601
Printing and office supplies	76,148	161,102
Telephone and communication	156,640	386,206
Postage and delivery expense	344,309	570,433
State, local and other taxes	143,568	121,039
Employee expense	95,884	279,925
Other expenses	427,033	683,860
Total non-interest expense	7,059,691	11,760,064
Income (loss) before income tax expense	137,597	(1,495,624)
Income tax expense (benefit)	126,672	(647,686)
Net income (loss)	$ 10,925	$ (847,938)
Earnings (loss) per common share:		
Basic	$ 0.00	$ (0.17)
Diluted	$ 0.00	$ (0.17)

See notes to condensed consolidated financial statements (unaudited)

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

	Three Months Ended	
	Mar. 31, 2011	Mar. 31, 2010
Balance at beginning of period	$46,024,098	$ 61,707,655
Net Income (Loss)	10,925	(847,938)
Unrealized gains on securities		
Unrealized holding gains arising during the year, net of tax	206,861	249,171
Less: reclassification adjustment for gains realized in net income, net of tax	-	297,972
Total comprehensive income (loss)	217,786	(896,739)
Share-based compensation	22,906	43,627
Balance at end of period	$46,264,790	$ 60,854,543

See notes to condensed consolidated financial statements (unaudited)

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

	March 31, 2011	March 31, 2010
Operating Activities		
Net Income/(loss)	$ 10,925	$ (847,938)
Items not requiring (providing) cash		
Depreciation and amortization	453,858	1,422,548
Provision for loan losses	498,840	1,391,433
Expense of share-based compensation plan	22,906	43,627
Amortization of premiums and discounts on securities	431,539	201,935
Amortization of intangible assets	197,212	200,134
Deferred income taxes	(106,563)	(20,568)
Proceeds from sale of loans held for sale	29,634,009	69,929,801
Originations of loans held for sale	(25,534,733)	(64,824,772)
Gain from sale of loans	(467,909)	(717,014)
Gain on available for sale securities	-	(451,474)
Software and fixed asset impairment	-	568,535
Loss on sale of foreclosed assets	100,274	22,841
(Gain) / Loss on sale of fixed assets	(65)	5,811
Income from bank owned life insurance	(93,521)	(104,047)
Changes in		
Interest receivable	(294,680)	(638,251)
Other assets	274,191	409,687
Interest payable and other liabilities	(358,515)	(1,745,332)
Net cash from operating activities	4,767,768	4,846,956
Investing Activities		
Purchase of available-for-sale securities	(4,039,486)	(23,365,873)
Proceeds from maturities of available-for-sale securities	5,630,800	11,773,761
Proceeds from sales of available-for-sale-securities	-	9,995,724
Proceeds from bank owned life insurance	1,353,762	-
Net change in loans	4,357,295	3,478,042
Purchase of premises and equipment and software	(118,724)	(753,269)
Proceeds from sales of premises and equipment	65	477,941
Proceeds from sale of foreclosed assets	923,029	2,727,528
Net cash from investing activities	$ 8,106,741	$ 4,333,854

See notes to condensed consolidated financial statements (unaudited)

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

	March 31, 2011	March 31, 2010
Financing Activities		
Net (decrease) increase in demand deposits, money market, interest checking and savings accounts	$ (2,319,194)	$ 12,614,595
Net decrease in certificates of deposit	(397,159)	(4,911,086)
Net increase in securities sold under agreements to repurchase	3,714,170	2,068,279
Net increase in federal funds purchased	-	(5,000,000)
Repayment of Federal Home Loan Bank advances	(6,127,409)	(2,607,300)
Proceeds from notes payable	-	2,000,000
Repayment of notes payable	(72,260)	(765,841)
Net cash (used in) / from financing activities	(5,201,852)	3,398,647
Increase in Cash and Cash Equivalents	7,672,657	12,579,457
Cash and Cash Equivalents, Beginning of Year	30,417,813	24,824,785
Cash and Cash Equivalents, End of Period	$ 38,090,470	$ 37,404,242
Supplemental Cash Flows Information		
Interest Paid	$ 1,752,796	$ 2,885,467
Transfer of loans to foreclosed assets	$ 399,768	$ 2,589,970
Sale and financing of foreclosed assets	$ -	$ 2,249,532

See notes to condensed consolidated financial statements (unaudited)

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

NOTE A—BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows of the Company. Those adjustments consist only of normal recurring adjustments. Results of operations for the three months ended March 31, 2011 are not necessarily indicative of results for the complete year.

The condensed consolidated balance sheet of the Company as of December 31, 2010 has been derived from the audited consolidated balance sheet of the Company as of that date.

For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

NOTE B—EARNINGS PER SHARE

Earnings per share (EPS) have been computed based on the weighted average number of shares outstanding during the periods presented. For the periods ended March 31, 2011 and 2010, share based awards totaling 325,951 and 481,213 common shares, respectively, were not considered in computing EPS as they were anti-dilutive. The number of shares used in the computation of basic and diluted earnings per share were:

	Three Months Ended March 31	
	2011	2010
Basic earnings per share	4,861,779	4,861,779
Diluted earnings per share	4,861,779	4,861,779

NOTE C – LOANS AND ALLOWANCE FOR LOAN LOSSES

Categories of loans at March 31, 2011 and December 31, 2010 include:

	March 31, 2011	December 31, 2010
Commercial	$ 70,619,272	$ 72,488,678
Commercial real estate	181,750,397	177,889,619
Agricultural	37,206,059	40,762,147
Residential real estate	82,435,692	84,775,026
Consumer	50,252,550	51,710,239
Leasing	181,521	194,384
Total loans	422,445,491	427,820,093
Less		
Net deferred loan fees, premiums and discounts	(279,098)	(275,679)
Loans, net of unearned income	422,166,393	427,544,414
Allowance for loan losses	$ (6,593,279)	$ (6,715,397)

The following table presents the Company's nonaccrual loans at March 31, 2011 and December 31, 2010. This table excludes performing troubled debt restructurings.

($'s in thousands)	March 31, 2011	December 31, 2010
Commercial	$2,950,220	$ 3,031,716
Commercial real estate	5,335,542	6,065,058
Agricultural	86,598	-
Residential real estate	3,466,181	2,564,913
Consumer	282,055	621,000
Leasing	-	-
Total	$12,120,596	$ 12,282,687

The following tables present the balance of the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of March 31, 2011 and December 31, 2010.

March 31, 2011 ($'s in thousands)	Business Loans	Commercial Real Estate	Agricultural	Residential First Mortgage	Consumer	Other	Unallocated	Total
ALLOWANCE FOR LOAN AND LEASE LOSSES								
Beginning balance	$1,723	$ 3,774	$ 16	$ 643	$401	$128	$ 30	$6,715
Charge Offs	(209)	(100)	-	(103)	(200)	(27)	-	(639)
Recoveries	5	3	1	-	7	2	-	18
Provision	247	(354)	1	386	243	5	(29)	499
Ending Balance	$1,766	$ 3,322	$ 18	$ 926	$451	$108	$ 1	$6,593
Ending balance: individually evaluated for impairment	$701	$ 1,085	$ -	$ 300	$ -			$2,087
Ending balance: collectively evaluated for impairment	$1,064	$ 2,237	$ 18	$ 626	$451	$108	$ 1	$4,506
Loans:								
Ending balance: individually evaluated for impairment	$2,864	$ 5,306	$ -	$ 2,337	$93			$10,600
Ending balance: collectively evaluated for impairment	$67,755	$ 176,445	$ 37,206	$ 80,099	$50,159	$182	$ -	$411,845

For the quarter ended March 31, 2010, the allowance for loan loss beginning balance was $7.03 million, the Company had provision of $1.39 million, recoveries of $0.13 million, and charge-offs of $2.48 million for an ending balance of $6.08 million.

December 31, 2010 ($'s in thousands)	Business Loans	Commercial Real Estate	Agricultural	Residential First Mortgage	Consumer	Other	Unallocated	Total
ALLOWANCE FOR LOAN AND LEASE LOSSES								
Beginning balance	$2,604	$ 3,210	$ 92	$ 715	$255	$154	$ -	$7,030
Charge Offs	(4,739)	(4,748)	-	(1,210)	(542)	(95)	-	(11,334)
Recoveries	182	171	11	53	-	14	-	431
Provision	3,676	5,141	(87)	1,085	688	55	30	10,588
Ending Balance	$1,723	$ 3,774	$ 16	$ 643	$401	$128	$ 30	$6,715

Ending balance:								
individually evaluated for impairment	$684	$ 1,157	$ -	$ -	$ -			$1,841
Ending balance:								
collectively evaluated for impairment	$1,039	$ 2,617	$ 16	$ 643	$401	$128	$ 30	$4,874
Loans:								
Ending balance:								
individually evaluated for impairment	$3,121	$ 3,774	$ -	$ -	$ -			$6,895
Ending balance:								
collectively evaluated for impairment	$69,368	$ 174,116	$ 40,762	$ 84,775	$51,710	$194	$ -	$420,925

Credit Risk Profile

The Company uses a nine tier risk rating system to grade its loans. The grade of a loan may change at any time during the life of the loan. The risk ratings are described as follows:

1. One (1) Superior - Risk is negligible. Loans are to well-seasoned borrowers, displaying sound financial condition, consistent superior earnings performance, strong capitalization, and access to a range of financing alternatives.

2. Two (2) Excellent - Risk is minimal. Borrower is well capitalized, operates in a stable industry, financial ratios exceed peers, and financial trends are positive.

3. Three (3) Good - Risk is modest. Borrower has good overall financial condition and adequate capitalization to withstand temporary setbacks. Financial trends are positive, and there is clear ability to service debt from the primary source.

4. Four (4) Average - Risk is acceptable. Borrowers in this category may be characterized by acceptable asset quality, but may face a degree of uncertainty due to new business, untried market, high degree of leverage, expansion, management change, or industry conditions.

5. Four Monitored (4m) = Monitored Pass Credits - Risk is increasing. Borrowers in this category may be characterized by an increasing amount of risk due to one or more of the following characteristics listed below. Additionally, these borrowers require a higher than normal amount of monitoring by the relationship manager and bank management. Borrowers who are placed in this category may also demonstrate the potential for an upgrade in the next 12 months given improvement in one or more of the factors listed below.

§ Declining trends in the earnings and cash flow of the company is evident by moderate to severe losses although debt service coverage remains within policy limits.

§ Lines of credit that have been evergreen (75% of maximum availability) for more than two consecutive years.

§ Absence of relevant financial information or stale financial information provided.

§ Restructure or modification to the loan agreement for the purpose of additional funds to support ongoing operations of the company.

§ The borrower demonstrates a material weakness or declining trend in collateral support for the given loans.

6. Five (5) Special Mention - Defined as having potential weaknesses that deserve management's close attention. If uncorrected these potential weaknesses may, at some future date, result in the deterioration of the repayment prospects for the credit or the institution's credit position. Special mention credits are not considered as part of the classified extensions of credit category and do not expose State Bank to sufficient risk to warrant classification. Extensions of credit that might be detailed in this category include those in which:

§ The lending officer may be unable to properly supervise the credit because of an inadequate loan or credit agreement.

§ Questions exist regarding the condition of and/or control over collateral.

§ Economic or market conditions may unfavorably affect the obligor in the future.

§ A declining trend in the obligor's operations or an imbalanced position in the balance sheet exists, but not to the point that repayment is jeopardized.

§ Other deviations from prudent lending practices are present.

§ The special mention category should not be used to identify an extension of credit that has as its sole weakness credit-data or documentation exceptions not material to the repayment of the credit. It should also not be used to list extensions of credit that contain risks usually associated with that particular type of lending.

§ Any extension of credit involves certain risks, regardless of the collateral or the borrower's capacity and willingness to repay the debt.

7. Six (6) Substandard - A "substandard" extension of credit is inadequately protected by the sound worth and paying capacity of the obligor or of the collateral pledged, if any. Extensions of credit so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that State Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard credits, does not have to exist in individual extensions of credit classified substandard.

8. Seven (7) Doubtful - Has all the weaknesses in one classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage of and strengthen the credit, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceedings, capital injection, perfecting liens on additional collateral, or refinancing plans.

§ An entire credit is not classified as doubtful when collection of a specific portion appears highly probable. An example of proper use of the doubtful category is the case of a company being liquidated, with the trustee-in-bankruptcy indicating a minimum disbursement of forty percent (40%) and a maximum of sixty-five percent (65%) to unsecured creditors including State Bank. In this situation, estimates are based on liquidation-value appraisals with actual values yet to be realized. By definition, the only portion of the credit that is doubtful is the twenty-five percent (25%) difference between forty percent (40%) and sixty-five percent (65%). A proper classification of such a credit would show forty percent (40%) substandard, twenty-five percent (25%) doubtful, and thirty-five percent (35%) loss.

9. Eight (8) Loss - Considered uncollectible and of such little value that continuance as a Bank asset is not warranted. This classification does not mean that the credit has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this basically worthless asset, even though partial recovery may be affected in the future. Loans failing to meet the minimum conditions of the Doubtful classifications are charged off.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of March 31, 2011 and December 31, 2010 (dollars in thousands).

March 31, 2011	Commercial	Commercial Real Estate	Agricultural	Residential	Consumer	Leases
1-2	$ 889	$ 446	$ 177	$ 1,692	$ 148	$ -
3	24,286	62,969	13,513	69,057	46,847	39
4	40,183	102,026	23,228	5,753	2,602	143
Total Pass	65,358	165,441	36,918	76,502	49,597	182
5	747	6,573	5	2,055	215	-
6	2,035	5,041	283	2,405	218	-
7	2,479	4,695	-	1,474	223	-
8	-	-	-	-	-	-
Total	$ 70,619	$ 181,750	$ 37,206	$ 82,436	$ 50,253	$ 182

December 31, 2010	Commercial	Commercial Real Estate	Agricultural	Residential	Consumer	Leases
1-2	$ 903	$ 735	$ 180	$ 3,861	$ 444	$ 127
3	25,101	63,789	15,883	68,979	47,650	-
4	40,159	97,307	24,204	5,535	2,589	67
Total Pass	66,163	161,831	40,268	78,375	50,683	194
5	1,021	7,141	6	2,465	217	-
6	2,739	3,176	489	2,605	450	-
7	2,566	5,742	-	1,330	360	-
8	-	-	-	-	-	-
Total	$ 72,489	$ 177,890	$ 40,762	$ 84,775	$ 51,710	$ 194

The following tables present the Company's loan portfolio aging analysis as of March 31, 2011 and December 31, 2010 (dollars in thousands).

March 31, 2011	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Total Loans > 90 Days and Accruing
Commercial	$ 15	$ -	$ 2,935	$ 2,950	$ 67,669	$ 70,619	$ -
Commercial Real Estate	105	-	6,138	6,244	175,507	181,750	-
Agricultural	-	-	87	87	37,119	37,206	-
Residential	537	-	1,196	1,733	80,703	82,436	-
Consumer	203	44	216	463	49,790	50,253	-
Leases	-	-	-	-	182	182	-
Loans	861	44	10,572	11,476	410,969	422,445	-
Loans held for Sale	-	-	-	-	5,424	5,424	-
Total	$ 861	$ 44	$ 10,572	$ 11,476	$ 416,392	$ 427,868	$ -

Total Loans >

December 31, 2010	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	90 Days and Accruing
Commercial	$ 242	$ 73	$ 2,744	$ 3,059	$ 69,430	$ 72,489	$ -
Commercial Real Estate	148	10	5,617	5,775	172,115	177,890	-
Agricultural	-	88	-	88	40,674	40,762	-
Residential	427	372	1,584	2,383	82,392	84,775	-
Consumer	255	25	547	827	50,883	51,710	-
Leases	-	-	-	-	194	194	-
Loans	1,072	568	10,492	12,132	415,688	427,820	-
Loans held for Sale	-	-	-	-	9,055	9,055	-
Total	$ 1,072	$ 568	$ 10,492	$ 12,132	$ 424,743	$ 436,875	$ -

The following tables present impaired loans for March 31, 2011 and December 31, 2010:

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

December 31, 2010 ($'s in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$436	$786	$-	$2,075	$4
Commercial Real Estate	2,744	4,040	-	4,195	52
Agricultural	-	-	-	-	10
Residential	616	741	-	1,045	2
Consumer	43	43	-	72	-
With a specific allowance recorded:					
Commercial	2,438	3,938	684	2,147	(48)
Commercial Real Estate	3,202	3,202	1,187	3,147	44
Agricultural	-	-	-	-	-
Residential	-	-	-	-	-
Consumer	-	-	-	-	-
Totals:					
Commercial	$2,874	$4,724	$684	$4,222	$(44)
Commercial Real Estate	$5,946	$7,242	$1,187	$7,342	$96
Agricultural	$-	$-	$-	$-	$10
Residential	$616	$741	$-	$1,045	$2
Consumer	$43	$43	$-	$72	$-

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable State Bank will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include non-performing commercial loans but also include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection.

The Company had troubled debt restructurings that were modified and impaired of $419 thousand of residential mortgages, $190 thousand of commercial real estate loans and $2.119 million of commercial domestic loans at March 31, 2011 and $399 thousand of residential mortgages, $190 thousand of commercial real estate loans and $1.907 million at December 31, 2010. At March 31, 2010, the Company had approximately $4.21 million in troubled debt restructurings that were modified and impaired.

In addition to these amounts, the Company had troubled debt restructurings that were performing in accordance with their modified terms of $426 thousand of residential mortgage, $576 thousand of commercial real estate loans, $66 thousand of consumer loans, and $5 thousand of agricultural loans at March 31, 2011 and $452 thousand of residential mortgage, $581 thousand of commercial real estate loans $68 thousand of consumer loans and $6 thousand of agricultural loans at December 31, 2010. At March 31, 2010, the Company had approximately $1.36 million in loans which were restructured and were currently paying under the new terms.

NOTE D - NEW ACCOUNTING PRONOUNCEMENTS

ASU No. 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring.

In April 2011, FASB issued ASU No. 2011-02 due to concerns about whether additional guidance or clarification is needed to help creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist:

1) The restructuring constitutes a concession.
2) The debtor is experiencing financial difficulties.

The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption.

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

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

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

The amendments in this update are effective for the first interim or annual period beginning on or after December 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption.

ASU No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures About Fair Value Measurements.

In January 2010, FASB issued ASU 2010-06 which requires new disclosures regarding significant transfers in and out of Level 1 and 2 fair value measurements and the reasons for the transfers. This ASU also requires that a reporting entity should present separately information about purchases, sales, issuances and settlements, on a gross basis rather than a net basis for activity in Level 3 fair value measurements using significant unobservable inputs. It also clarifies existing disclosures on the level of disaggregation, in that the reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities, and that a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 and 3. The new disclosures and clarifications of existing disclosures for ASC 820 became effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

ASU No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.

In July 2010, FASB issued ASU 2010-20 which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption.

ASC Topic 350, Intangibles – Goodwill and Other.

In September 2010, FASB issued an update to specify that the carrying amount of a reporting unit should be calculated as the difference between total assets and total liabilities assigned to the reporting unit. Further, the update requires Step 2 of the goodwill impairment test to be performed if the carrying amount of the reporting unit is zero or negative. Also, there are qualitative factors, such as significant adverse change in legal factors or in the business climate, adverse action by a regulator, unanticipated competition, loss of key personnel, expectation that the unit will be sold, that may indicate that it is more likely than not that a goodwill impairment exists.

NOTE E – SEGMENT INFORMATION

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

NOTE E — SEGMENT INFORMATION

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

Income statement information	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidate Totals
Net interest income (expense)	$5,227,440	$(79,283)	$(314,855)	$4,833,302		$4,833,302
Non-interest income - external customers	1,939,032	912,319	11,475	2,862,826		2,862,826
Non-interest income - other segments	50,420	381,377	37,500	469,297	(469,297)	-
Total revenue	7,216,892	1,214,413	(265,880)	8,165,425	(469,297)	7,696,128
Non-interest expense	5,660,993	1,507,161	360,834	7,528,988	(469,297)	7,059,691
Significant non-cash items:						
Depreciation and amortization	225,640	225,862	2,356	453,858	-	453,858
Provision for loan losses	498,840	-	-	498,840	-	498,840
Income tax expense (benefit)	226,235	(99,534)	(29)	126,672	-	126,672
Segment profit (loss)	$830,824	$(193,214)	$(626,685)	$10,925	$-	$10,925
Balance sheet information						
Total assets	$648,875,357	$6,085,170	$5,227,705	$660,188,232	$(5,220,222)	$654,968,01
Goodwill and intangibles	$18,673,819	$447,931	$-	$19,121,750	$-	$19,121,750
Premises and equipment expenditures	$118,724	$-	$-	$118,724	$-	$118,724

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NOTE E — SEGMENT INFORMATION

As of and for the three months ended March 31, 2010

Income statement information	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidat Totals
Net interest income (expense)	$5,340,699	$(61,403)	$(374,815)	$4,904,481		$4,904,481
Non-interest income - external customers	2,696,332	4,029,407	57,287	6,783,026		6,783,026
Non-interest income - other segments	25,072	369,810	273,454	668,336	(668,336)	-
Total revenue	8,062,103	4,337,814	(44,074)	12,355,843	(668,336)	11,687,50
Non-interest expense	6,060,473	5,669,252	730,309	12,460,034	(668,336)	11,791,69
Significant non-cash items:						
Depreciation and amortization	258,522	1,148,162	15,864	1,422,548	-	1,422,548
Fixed asset & software impairment	-	568,535	-	568,535		568,535
Provision for loan losses	1,391,433	-	-	1,391,433	-	1,391,433
Income tax expense (benefit)	71,829	(452,689)	(266,826)	(647,686)	-	(647,686
Segment profit (loss)	$538,368	$(878,749)	$(507,557)	$(847,938)	$-	$(847,938
Balance sheet information						
Total assets	$653,521,849	$22,796,993	$4,259,352	$680,578,194	$(6,774,597)	$673,803,5
Goodwill and intangibles	$19,312,167	$6,880,002	$-	$26,192,169	$-	$26,192,16
Premises and equipment expenditures	$132,861	$620,408	$-	$753,269	$-	$753,269

NOTE F – FAIR VALUE OF ASSETS AND LIABILITIES

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

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Available-for-Sale Securities

The fair value of available-for-sale securities are determined by various valuation methodologies. Level 1 securities include money market mutual funds. Level 1 inputs included quoted prices in an active market. Level 2 securities include U.S. government agencies, mortgage-backed securities, and obligations of political and state subdivisions. Level 2 inputs do not include quoted prices for individual securities in active markets; however, they do include inputs that are either directly or indirectly observable for the individual security being valued. Such observable inputs include interest rates and yield curves at commonly quoted intervals, volatilities, prepayment speeds, credit risks and default rates. Also included are inputs derived principally from or corroborated by observable market data by correlation or other means.

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 March 31, 2011 and December 31, 2010:

	Fair Value Measurements Using:			
Description	3/31/2011	(Level 1)	(Level 2)	(Level 3)
Available-for-Sale Securities:				
U.S. Treasury and Government Agencies	$ 45,877,020	-	$ 45,877,020	-
Mortgage-backed securities	52,295,979	-	52,295,979	-
State and political subdivisions	31,961,437	-	31,961,437	-
Money Market Mutual Fund	895,193	895,193	-	-
Equity securities	23,000	-	23,000	-

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Description	Fair Value Measurements Using: Fair Values at 12/31/2010	(Level 1)	(Level 2)	(Level 3)
Available-for-Sale Securities:				
U.S. Treasury and Government Agencies	$ 43,651,132	-	$ 43,651,132	-
Mortgage-backed securities	54,628,091	-	54,628,091	-
State and political subdivisions	32,297,779	-	32,297,779	-
Money Market Mutual Funds	2,162,055	2,162,055	-	-
Equity Securities	23,000	-	23,000	-

Level 1 – Quoted Prices in Active Markets for Identical Assets
Level 2 – Significant Other Observable Inputs
Level 3 – Significant Unobservable Inputs

Impaired Loans

Loans for which it is probable the Company will not collect all principal and interest due according to contractual terms are measured for impairment. If the impaired loan is collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining an independent appraisal of the collateral and applying a discount factor to the value based on the Company's loan review policy. All impaired loans held by the Company were collateral dependent at March 31, 2011 and December 31, 2010.

The following table presents the fair value measurements of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at March 31, 2011 and December 31, 2010:

Description	Fair Value Measurements Using: Fair Values at 03/31/11	(Level 1)	(Level 2)	(Level 3)
Impaired loans	$ 6,202,661	-	-	$ 6,202,661

Description	Fair Value Measurements Using: Fair Values at 12/31/2010	(Level 1)	(Level 2)	(Level 3)
Impaired loans	$ 6,709,231	-	-	$ 6,709,231
Mortgage Servicing Rights	$ 3,190,389	-	-	$ 3,190,389
Foreclosed Assets	$ 1,054,500	-	-	$ 1,054,500
Goodwill (RDSI)	$ 380,748	-	-	$ 380,748
Intangible (RDSI)	$ 107,000	-	-	$ 107,000

There were no changes in the inputs or methodologies used to determine fair value during the quarter ended March 31, 2011 as compared to the quarter ended December 31, 2010.

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

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

The carrying amount approximates the fair value.

Loans

The estimated fair value for loans receivable, including loans held for sale, net, is based on estimates of the rate State Bank would charge for similar loans at March 31, 2011 and December 31, 2010, applied for the time period until the loans are assumed to re-price or be paid.

Deposits & Other Borrowings

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates the fair value. The estimated fair value for fixed-maturity time deposits, as well as borrowings, is based on estimates of the rate State Bank could pay on similar instruments with similar terms and maturities at March 31, 2011 and December 31, 2010.

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The estimated fair value for other financial instruments and off-balance-sheet loan commitments approximate cost at March 31, 2011 and are not considered significant to this presentation.

	March 31, 2011	
	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	$ 38,090,470	$ 38,090,000
Available-for-sale securities	131,052,629	131,053,000
Loans held for sale	5,423,901	5,423,901
Loans, net of allowance for loan losses	415,573,114	418,207,000
Federal Reserve and FHLB Bank stock	3,748,250	3,748,000
Accrued interest receivable	2,363,645	2,364,000
Financial liabilities		
Deposits	$ 512,961,389	$ 515,780,000
Short-term borrowings	49,499,424	50,879,000
Notes payable	3,218,211	3,237,000
FHLB advances	16,679,942	17,051,000
Trust preferred securities	20,620,000	21,144,000

Accrued interest payable	2,195,926	2,196,000

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	December 31, 2010	
	Carrying Amount	Fair Value
Financial assets		
Cash and cash equivalents	$ 30,417,813	$ 30,418,000
Available-for-sale securities	$ 132,762,058	$ 132,762,000
Loans held for sale	$ 9,055,268	$ 9,055,268
Loans, net of allowance for loan losses	$ 420,829,017	$ 424,144,000
Federal Reserve and FHLB Bank stock	$ 3,748,250	$ 3,748,000
Interest receivable	$ 2,068,965	$ 2,069,000
Financial liabilities		
Deposits	$ 515,677,742	$ 519,123,000
Short-term borrowings	$ 45,785,254	$ 47,515,000
Notes payable	$ 3,290,471	$ 3,276,000
Federal Home Loan Bank advances	$ 22,807,351	$ 23,243,000
Trust preferred securities	$ 20,620,000	$ 20,862,000
Interest payable	$ 1,971,587	$ 1,972,000

NOTE G - SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-Sale Securities:				
March 31, 2011:				
U.S. Treasury and Government agencies	$45,887,517	$245,460	$(255,957)	$45,877,020
Mortgage-backed securities	51,478,216	1,265,205	(447,442)	52,295,979
State and political subdivisions	30,656,014	1,351,800	(46,377)	31,961,437
Money Market Mutual Fund	895,193	-	-	895,193
Equity securities	23,000	-	-	23,000
	$128,939,940	$2,862,465	$(749,776)	$131,052,629

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
December 31, 2010:				
U.S. Treasury and Government agencies	$43,572,741	$298,653	$(220,262)	$43,651,132
Mortgage-backed securities	53,652,288	1,395,036	(419,232)	54,628,092
State and political subdivisions	31,552,709	895,794	(150,724)	32,297,779
Money Market Mutual Fund	2,162,055	-	-	2,162,055
Equity securities	23,000	-	-	23,000
	$130,962,793	$2,589,483	$(790,218)	$132,762,058

The amortized cost and fair value of securities available for sale at March 31, 2011, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale Amortized Cost	Available for Sale Fair Value
Within one year	$5,039,857	$5,063,043
Due after one year through five years	8,431,771	8,633,223
Due after five years through ten years	25,868,508	26,371,240
Due after ten years	37,203,395	37,770,951
	76,543,531	77,838,457
Mortgage-backed securities, equity securities and money market mutual funds	52,396,409	53,214,172
Totals	$128,939,940	$131,052,629

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $57,880,009 at March 31, 2011 and $30,412,621 at December 31, 2010. The securities delivered for repurchase agreements were $56,001,375 at March 31, 2011 and $58,621,708 at December 31, 2010.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments was $40,550,899 at March 31, 2011 and $40,399,444 at December 31, 2010, which was approximately 31 and 30 percent, respectively, of the Company's available-for-sale investment portfolio at such dates. Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

Securities with unrealized losses at March 31, 2011 and December 31, 2010 are as follows:

March 31, 2011	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury and Government agencies	$ 14,692,495	$ (255,957)	$ -	$ -	$ 14,692,495	$ (255,957)
Mortgage-backed securities	22,890,668	(440,875)	1,140,991	(6,567)	24,031,659	(447,442)
State and political subdivisions	1,002,109	(10,868)	824,636	(35,508)	1,826,745	(46,377)
	$ 38,585,272	$ (707,700)	$ 1,965,627	$ (42,075)	$ 40,550,899	$ (749,776)

December 31, 2010	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury and Government agencies	$11,483,130	$(220,262)	$-	$-	$11,483,130	$(220,262)
Mortgage-backed securities	20,281,713	(319,935)	1,164,431	(99,297)	21,446,144	(419,232)
State and political subdivisions	7,120,710	(126,113)	349,460	(24,611)	7,470,170	(150,724)
	$38,885,553	$(666,310)	$1,513,891	$(123,908)	$40,399,444	$(790,218)

The total unrealized losses on the mortgage-backed securities portfolio, all of which are residential mortgage-backed securities, is derived mainly from three private label senior tranche CMO securities. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concern warrants such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent of the Company to not sell the investment and whether it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost. Management has determined there is no other-than-temporary-impairment on these CMO securities.

The total unrealized loss on the municipal security portfolio is due to the holding of several municipal securities, all with individually insignificant losses.

NOTE H: DEBT COVENANT

Pursuant to a loan covenant agreement between First Tennessee Bank, National Association ("FTB"), the Company, and the Company's subsidiary bank, The State Bank and Trust Company, certain performance ratios must be maintained. They include a minimum Tier 1 Capital ratio of 6 percent, a year-to-date ROA of 50 basis points and non-performing asset ratio (calculated as non-performing loans plus OREO divided by total loans plus OREO) of less than 2.25 percent.

As of March 31, 2011, the Company was in violation of debt covenants related to its line of credit with FTB because the non-performing loan ratio was 2.98 percent and the year-to-date ROA was 49 basis points. In addition, RDSI's entering into of a Consent Order with the Federal Reserve on March 9, 2011 also constituted a debt covenant violation. The covenant violations could result in the note being called by FTB. This note, which has an outstanding balance of $1.7 million, will mature on June 30, 2011.

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

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q, including Management's Discussion and Analysis of Financial Condition and Results of Operations, contains certain forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance. Examples of forward-looking statements include: (a) projections of income or expense, earnings per share, the payments or non-payments of dividends, capital structure and other financial items; (b) statements of plans and objectives of the Company or our management or Board of Directors, including those relating to products or services; (c) statements of future economic performance; and (d) statements of assumptions underlying such statements. Words such as "anticipates," "believes," "plans," "intends," "expect "projects," "estimates," "should," "may," "would be," "will allow," "will likely result," "will continue," "will remain," or o expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying those statements. Forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation, changes in interest rates, changes in the competitive environment, and changes in banking regulations or other regulatory or legislative requirements affecting bank holding companies. Additional detailed information concerning a number of important factors which could cause actual results to differ materially from the forward-looking statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations is available in the Company's filings with the Securities and Exchange Commission, including the disclosure under the heading "Item 1A. Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and in "Item 1A. Risk Factors" of Part II of this Quarterly Report on Form 10-Q. Undue reliance should not be placed on the forward-looking statements, which speak only as of the date hereof. Except as may be required by law, the Company undertakes no obligation to update any forward-looking statement to reflect unanticipated events or circumstances after the date on which the statement is made.

Overview of Rurban

Rurban Financial Corp. ("Rurban" or the "Company") is a bank holding company registered with the Federal Reserve Board. Rurban's wholly-owned subsidiary, The State Bank and Trust Company ("State Bank"), is engaged in commercial banking. Rurban's technology subsidiary, Rurbanc Data Services, Inc. ("RDSI"), provides computerized data and item processing services to community banks and businesses.

Rurban Statutory Trust I ("RST") was established in August 2000. In September 2000, RST completed a pooled private offering of 10,000 Trust Preferred Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to Rurban in exchange for junior subordinated debentures of Rurban with terms substantially similar to the Trust Preferred Securities. The sole assets of RST are the junior subordinated debentures, and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by Rurban of the obligations of RST.

Rurban Statutory Trust II ("RST II") was established in August 2005. In September 2005, RST II completed a pooled private offering of 10,000 Trust Preferred Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to Rurban in exchange for junior subordinated debentures of Rurban with terms substantially similar to the Trust Preferred Securities. The sole assets of RST II are the junior subordinated debentures, and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by Rurban of the obligations of RST II.

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

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

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

Recent Regulatory Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") was enacted into law on July 21, 2010. The Dodd-Frank Act is expected to significantly change the regulation of financial institutions and the financial services industry. Because the Dodd-Frank Act requires various federal agencies to adopt a broad range of regulations with significant discretion, many of the details of the new law and the effects they will have on the Company will not be known for months and even years.

The following changes that will be implemented pursuant to the Dodd-Frank Act may have an effect on the Company's business:

- the Dodd-Frank Act creates a Consumer Financial Protection Bureau with broad powers to adopt and enforce consumer protection regulations;

- new capital regulations for bank holding companies will be adopted, which may impose stricter requirements, and any new trust preferred securities will no longer constitute Tier I capital;

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

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

- the assessment base for determining deposit insurance premiums will be expanded to include liabilities other than just deposits; and

- new corporate governance requirements applicable generally to all public companies in all industries will require new compensation practices and disclosure requirements, including requiring companies to "claw back" incentive compensation under certain circumstances, to provide shareholders the opportunity to cast a non-binding vote on executive compensation and to consider the independence of compensation advisers.

Many provisions of the Dodd-Frank Act have not yet been implemented and will require interpretation and rule making by federal regulators. While the ultimate effect of the Dodd-Frank Act on the Company cannot yet be determined, the law is likely to increase compliance costs and fees paid to regulators, along with possible restrictions on the operations of the Company.

Recent Developments regarding RDSI

On March 9, 2011, Rurban Financial Corp. (“Rurban”) and its wholly-owned nonbank data services subsidiary, Rurbanc Data Services, Inc., dba RDSI Banking Systems (“RDSI”), entered into a Consent Order (the “Consent Order”) with the Board of Governors of the Federal Reserve System (the “FRB”) that directs RDSI to take certain actions to strengthen its financial condition and operations. Rurban’s banking subsidiary, The State Bank and Trust Company, is not a party to the Consent Order.

The Consent Order specifies, among other conditions, that RDSI must strengthen board oversight of critical areas of operations, maintain appropriate capital levels, strengthen working capital management, and modify its strategic plan to improve earnings. While the Consent Order remains in effect, RDSI is prohibited from declaring or paying any dividends to Rurban without the prior approval of the FRB, and Rurban is prohibited from making any capital investments in or loans to RDSI without the prior approval of the FRB.

Critical Accounting Policies

Note 1 to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2010 describes the significant accounting policies used in the development and presentation of the Company’s financial statements. The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The Company’s financial position and results of operations can be affected by these estimates and assumptions and are integral to the understanding of reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company’s financial condition and results, and they require management to make estimates that are difficult, subjective, or complex.

Allowance for Loan Losses - The allowance for loan losses provides coverage for probable losses inherent in the Company’s loan portfolio. Management evaluates the adequacy of the allowance for loan losses each quarter based on changes, if any, in underwriting activities, loan portfolio composition (including product mix and geographic, industry or customer-specific concentrations), trends in loan performance, regulatory guidance and economic factors. This evaluation is inherently subjective, as it requires the use of significant management estimates. Many factors can affect management’s estimates of specific and expected losses, including volatility of default probabilities, rating migrations, loss severity and economic and political conditions. The allowance is increased through provisions charged to operating earnings and reduced by net charge-offs.

The Company determines the amount of the allowance based on relative risk characteristics of the loan portfolio. The allowance recorded for commercial loans is based on reviews of individual credit relationships and an analysis of the migration of commercial loans and actual loss experience. The allowance recorded for homogeneous consumer loans is based on an analysis of loan mix, risk characteristics of the portfolio, fraud loss and bankruptcy experiences, and historical losses, adjusted for current trends, for each homogeneous category or group of loans. The allowance for credit losses relating to impaired loans is based on the loan’s observable market price, the collateral for certain collateral-dependent loans, or the discounted cash flows using the loan’s effective interest rate.

Regardless of the extent of the Company's analysis of customer performance, portfolio trends or risk management processes, certain inherent but undetected losses are probable within the loan portfolio. This is due to several factors, including inherent delays in obtaining information regarding a customer's financial condition or changes in their unique business conditions, the subjective nature of individual loan evaluations, collateral assessments and the interpretation of economic trends. Volatility of economic or customer-specific conditions affecting the identification and estimation of losses for larger non-homogeneous credits and the sensitivity of assumptions utilized to establish allowances for homogenous groups of loans are also factors. The Company estimates a range of inherent losses related to the existence of these exposures. The estimates are based upon the Company's evaluation of imprecise risk associated with the commercial and consumer allowance levels and the estimated impact of the current economic environment. To the extent that actual results differ from management's estimates, additional loan loss provisions may be required that could adversely impact earnings for future periods.

Goodwill and Other Intangibles - The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangibles, at fair value as required. Goodwill is subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using straight-line or accelerated methods, and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial goodwill and other intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired asset will perform in the future. Events and factors that may significantly affect the estimates include, among others, customer attrition, changes in revenue growth trends, specific industry conditions and changes in competition. A decrease in earnings resulting from these or other factors could lead to an impairment of goodwill that could adversely impact earnings for future periods.

Impact of Accounting Changes

None

Three Months Ended March 31, 2011 compared to Three Months Ended March 31, 2010

Net Income: Net income for the first quarter of 2011 was $11 thousand or $0.00 per diluted share, compared to a net loss of $848 thousand, or $(0.17) per diluted share, for the first quarter of 2010. For the quarter, the Banking Group (consisting primarily of The State Bank and Trust Company), had net income of $831 thousand which is up 55 percent from the net income of $538 thousand from the year ago first quarter. RDSI reported a net loss of $193 thousand compared to a net loss of $879 thousand from the year ago first quarter.

Asset Quality Review ($ in Thousands)	March 31, 2011		December 31, 2010		March 31, 2010	
Net charge-offs	$621		$ 1,535		$2,346	
Non-performing loans	$12,121		$ 12,283		$14,399	
OREO / OAO	$924		$ 1,538		$1,616	
Non-performing assets	$13,044		$ 13,822		$16,016	
Non-performing assets / Total assets	1.99	%	2.07	%	2.38	%
Allowance for loan losses / Total loans	1.56	%	1.57	%	1.37	%
Allowance for loan losses / Non-performing loans	55.1	%	54.7	%	42.2	%

Provision for Loan Losses: The first quarter provision for loan losses was $0.5 million compared to $1.8 million and $1.4 million, respectively, for the linked and year-ago quarters. The lower provision reflects the improving quality of State Bank's loan portfolio and slower migration of problem credits to non-performing status, as well as a recovering economy. As of March 31, 2011, the allowance for loan losses stood at $6.6 million, or 1.56 percent of total loans (excluding loans held-for-sale), compared to 1.37 percent for the year-ago first quarter. The Company's non-performing assets ("NPAs") at March 31, 2011 were $13.0 million, down $3.0 million, or 18.6 percent, since March 31, 2010. During the recent first quarter, NPAs declined $0.78 million, or 5.6 percent, most notably from a $0.61 million reduction of foreclosed property, leaving only $0.92 million of OREO on the Company's books at March 31, 2011. At the 2011 first quarter-end, non-performing assets were 1.99 percent of assets compared to 2.38 percent at March 31, 2010.

Consolidated Revenue: Total revenue, consisting of net interest income and noninterest income, was $7.7 million for the first quarter of 2011, a decline of $4.0 million, or 34.0 percent, from the $11.7 million generated during the 2010 first quarter. The majority of the $4.0 million decline in revenue year-over-year can be attributed to a $3.1 million drop in data service fees resulting from the loss of RDSI's data processing business.

Net interest income was $4.8 million, a decline of $71 thousand, or 1.4 percent, from the $4.9 million reported in the year earlier quarter; a 2.2 percent decline in average earning assets was partially offset by a three basis point improvement in the net interest margin, to 3.61 percent.

Noninterest income was $2.9 million for the 2011 first quarter compared to $6.8 million for the prior year period. Excluding $0.53 million of nonrecurring investment gains and recoveries from the 2010 quarter, noninterest income from operations declined by $3.4 million, or 54.0 percent, from the year-ago quarter, primarily from the $3.1 million decline in data service fees. Excluding data service fees, which are contributed by Rurban's data services subsidiary, the remaining noninterest income is generated by the Banking Group. For the first quarter of 2011, noninterest income from banking operations was $1.95 million, a decline of $0.25 million, or 11.2 percent, from the 2010 first quarter's recurring noninterest banking income of $2.2 million.

Fee income from wealth management, customer service, and mortgage banking activity accounts for over ninety percent of noninterest income from banking operations. Year over year, the modest growth in wealth management fee income has more than offset the modest decline in customer service fees. Wealth management fees generated by Reliance Financial Services, a division of State Bank, were $0.70 million for the first quarter of 2011, up $52 thousand, or 8.2 percent, from the year-ago quarter; assets under management grew 4.8 percent over the past twelve months to $329 million. Customer service fees of $0.58 million for the current quarter were virtually unchanged from the prior-year first quarter.

The recent surge in mortgage refinancing has provided Rurban with a sizable opportunity for diversification and growth of fee income. Following a record 2010 fourth quarter, origination activity moderated sharply in the first quarter of 2011; first quarter is traditionally the slowest quarter for real estate activity. State Bank originated $28.0 million of mortgage loans in the first quarter of 2011. These first quarter 2011 originations and subsequent sales resulted in $0.43 million of gains, which compares to gains of $0.65 million for the first quarter of 2010. The 35.0 percent decline in gains from mortgage sales in 2011 reflect the combined impact of a 12.1 percent decline in mortgages sold and a 48 basis point, or 25.5 percent, decline in the first quarter 2011 spread to 1.40 percent, compared to the year-earlier quarter. In addition to the gains from mortgage sales, the Company sold other loans that generated gains of $.04 million and $.07 million in the first quarter of 2011 and the fourth quarter of 2010 respectively.

Consolidated Noninterest Expense: Noninterest expense for the first quarter of 2011 was $7.1 million compared to $11.8 million in the prior-year first quarter. Excluding nonrecurring expenses of $1.3 million in the 2010 quarter relating to software and equipment impairments and write-offs, operating expenses decreased by $3.4 million year-over-year. The 84 FTE employee decline represents a workforce reduction of 27 percent during the course of the year, from 311 employees to 227 at March 31, 2011. Compensation expense declined $1.57 million, or 30.8 percent from the year-earlier level, accounting for approximately half of the total savings. The majority of expense reductions were derived from the downsizing of RDSI, including 79 of the 84 FTE workforce reduction. Savings at the Banking Group, by comparison, were concentrated in the area of credit improvement, primarily from reduced loan and OREO expense. As a percent of average assets, noninterest expense from recurring operations was 4.3 percent for the first quarter of 2011, a nearly 300 basis point improvement compared to the year-ago quarter.

Income Taxes: Income taxes for the first quarter of 2011 were $127 thousand compared to a benefit of $648 thousand for the first quarter of 2010. Due to the termination of several life insurance policies for prior executives, the Company generated a significant tax liability in the first quarter of 2011. While this liability will be offset against the Company’s tax losses going forward, the accounting treatment requires a tax expense in the current year. Absent this taxable item, the Company’s net income would have increased by over $200 thousand for the first quarter of 2011.

Changes in Financial Condition

Total assets at March 31, 2011 were $655.0 million, down $18.8 million, or 2.8 percent, since the 2010 March quarter-end, and a decline of $5.3 million since 2010 year-end. Surplus liquidity from loan pay-downs was invested in higher-yielding marketable securities and used to reduce higher-cost time deposits and borrowings as they matured. Rurban ended the first quarter 2011 with securities higher by $24.2 million, and loans lower by $29.0 million compared to the first quarter of 2010.

Total loans, net of unearned income, were $427.6 million as of March 31, 2011, down $29.0 million from the year ago first quarter, a decline of 6.3 percent, primarily from a lower level of 1-4 family mortgages. Over the course of the past twelve months, the composition of State Bank’s loan portfolio has been stable and well-diversified; real estate-related loans consistently have accounted for approximately 64 percent of outstandings. The diversity of State Bank’s loan portfolio also serves to mitigate the impact of real-estate risk commonly found in community banks; CRE loans account for 36.3 percent of outstandings while construction and development loans (“C&D”) represent only 4.1 percent of total loans.

Capital Resources

At March 31, 2011, actual capital levels (in millions) and minimum required levels were as follows:

	Actual			Minimum Required For Capital Adequacy Purposes			Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
Total capital (to risk weighted assets)									
Consolidated	$49.1	11.4	%	$34.6	8.0	%	$-	N/A	
State Bank	$51.3	12.0	%	$34.3	8.0	%	$42.8	10.0	%

Both the Company and State Bank were categorized as well capitalized at March 31, 2011.

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 $174.6 million at March 31, 2011 compared to $172.3 million at December 31, 2010.

The Company's commercial real estate, multi-family and residential first mortgage portfolio of $264.2 million at March 31, 2011 and $262.7 million at December 31, 2010, which can and has been used to collateralize borrowings, is an additional source of liquidity. Management believes the Company's current liquidity level, without these borrowings, is sufficient to meet its liquidity needs. At March 31, 2011, all eligible commercial real estate and first mortgage loans were pledged under an FHLB blanket lien.

On August 5, 2010, the Company notified the trustees of the Capital Securities of the Company's election to defer (a) the next four quarterly interest payments on the RST II Capital Securities, beginning on September 15, 2010 and extending through September 15, 2011, and (b) the next two semi-annual interest payments on the RST I Capital Securities, beginning on September 7, 2010 and extending through September 7, 2011. During any interest deferral period, the trust preferred indentures prohibit the Company from paying common stock dividends or repurchasing shares of common stock.

As noted in Note H, the Company is in violation of several debt covenants related to its borrowing facility with First Tennessee Bank. This facility is due to mature on June 30, 2011 and due to the covenant violations, First Tennessee Bank may demand full payment of the outstanding balance of $1.7 million. The Company intends to seek alternative financing arrangements if necessary.

The cash flow statements for the periods presented provide an indication of the Company's sources and uses of cash, as well as an indication of the ability of the Company to maintain an adequate level of liquidity. A discussion of the cash flow statements for the three months ended March 31, 2011 and 2010 follows.

The Company experienced positive cash flows from operating activities for the three months ended March 31, 2011 and for the three months ended March 31, 2010. Net cash from operating activities was $4.8 million for the three months ended March 31, 2011 and $4.9 million for the three months ended March 31, 2010. Highlights for the current quarter include $29.6 million in proceeds from the sale of loans, which is down $40.3 million from the prior year. Originations of loans held for sale was a use of cash of $25.5 million, which is also down from the prior year, by over $39 million.

The Company experienced positive cash flows from investing activities for the three months ended March 31, 2011 and for the three months ended March 31, 2010. Net cash flow from investing activities was $8.1 million for the three months ended March 31, 2011 and $4.3 million for the three months ended March 31, 2010. Highlights for the current quarter include $4.0 million in purchases of available-for-sale securities, which is down $19.4 million from the prior year. These cash payments were offset by $5.6 million in proceeds from maturities and sales of securities, which is also down $16.2 million from the prior year. During the quarter, the Company terminated several Life Insurance Policies on retired executives and realized a cash inflow of $1.3 million. The Company experienced a $4.4 million positive change in loans, which is roughly flat to the $3.5 million from the prior year. Sales of foreclosed assets provided cash of $923 thousand for the three months ended March 31, 2011 and $2.7 million for the three months ended March 31, 2010.

The Company experienced negative cash flows from financing activities for the three months ended March 31, 2011 and positive cash flows from financing activities for the three months ended March 31, 2010. Net cash flow from financing activities was a negative $5.2 million for the three months ended March 31, 2011 and a positive $3.4 million for the three months ended March 31, 2010. Highlights for the current quarter include a $2.3 million decrease in non time deposits for the three months ended March 31, 2011, which compares unfavorably with a $12.6 million increase in non time deposits for the three months ended March 31, 2010. The Company used $6.1 million to repay FHLB advances during the three months ended March 31, 2011, which is higher that the $2.6 million used to repay FHLB advances during the three months ended March 31, 2010.

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Off-Balance-Sheet Borrowing Arrangements:

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

The Company's commercial real estate, residential first and multi-family mortgage portfolios of $264.2 million have been pledged to meet FHLB collateralization requirements as of March 31, 2011. Based on the current collateralization requirements of the FHLB, the Company had approximately $13.1 million of additional borrowing capacity at March 31, 2011. The Company also had $14.2 million in unpledged securities that may be used to pledge for additional borrowings.

At March 31, 2011, the Company had unused federal funds lines totaling $11.5 million, with a zero balance outstanding. The Company also has a $5.0 million line of credit with a regional bank, with advances totaling $1.7 million at March 31, 2011.

The Company's contractual obligations as of March 31, 2011 were comprised of long-term debt obligations, other debt obligations, operating lease obligations and other long-term liabilities. Long-term debt obligations are comprised of FHLB Advances of $16.7 million. Other debt obligations are comprised of Trust Preferred securities of $20.6 million and Notes Payable of $3.2 million. The operating lease obligation is a lease on the RDSI-South building of $87,500 per year, the RDSI-North building of $162 thousand per year and the DCM-Lansing facility of $104,600 per year. Total time deposits at March 31, 2011 were $214.5 million, of which $95.0 million matures beyond one year.

ASSET LIABILITY MANAGEMENT

Asset liability management involves developing, executing and monitoring strategies to maintain appropriate liquidity, maximize net interest income and minimize the impact that significant fluctuations in market interest rates would have on current and future earnings. The business of the Company and the composition of its balance sheet consist of investments in interest-earning assets (primarily loans, mortgage-backed securities, and securities available for sale) which are primarily funded by interest-bearing liabilities (deposits and borrowings). With the exception of specific loans which are originated and held for sale, all of the financial instruments of the Company are for other than trading purposes. All of the Company's transactions are denominated in U.S. dollars with no specific foreign exchange exposure. In addition, the Company has limited exposure to commodity prices related to agricultural loans. The impact of changes in foreign exchange rates and commodity prices on interest rates are assumed to be insignificant. The Company's financial instruments have varying levels of sensitivity to changes in market interest rates resulting in market risk. Interest rate risk is the Company's primary market risk exposure; to a lesser extent, liquidity risk also impacts market risk exposure.

Interest rate risk is the exposure of a banking institution's financial condition to adverse movements in interest rates. Accepting this risk can be an important source of profitability and shareholder value; however, excessive levels of interest rate risk could pose a significant threat to the Company's earnings and capital base. Accordingly, effective risk management that maintains interest rate risks at prudent levels is essential to the Company's safety and soundness.

Evaluating a financial institution's exposure to changes in interest rates includes assessing both the adequacy of the management process used to control interest rate risk and the organization's quantitative level of exposure. When assessing the interest rate risk management process, the Company seeks to ensure that appropriate policies, procedures, management information systems and internal controls are in place to maintain interest rate risks at prudent levels of consistency and continuity. Evaluating the quantitative level of interest rate risk exposure requires the Company to assess the existing and potential future effects of changes in interest rates on its consolidated financial condition, including capital adequacy, earnings, liquidity and asset quality (when appropriate).

The Federal Reserve Board together with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Company adopted a Joint Agency Policy Statement on interest rate risk effective June 26, 1996. The policy statement provides guidance to examiners and bankers on sound practices for managing interest rate risk, which will form the basis for ongoing evaluation of the adequacy of interest rate risk management at supervised institutions. The policy statement also outlines fundamental elements of sound management that have been identified in prior Federal Reserve guidance and discusses the importance of these elements in the context of managing interest rate risk. Specifically, the guidance emphasizes the need for active board of director and senior management oversight and a comprehensive risk management process that effectively identifies, measures and controls interest rate risk.

Financial institutions derive their income primarily from the excess of interest collected over interest paid. The rates of interest an institution earns on its assets and owes on its liabilities generally are established contractually for a period of time. Since market interest rates change over time, an institution is exposed to lower profit margins (or losses) if it cannot adapt to interest rate changes. For example, assume that an institution's assets carry intermediate or long-term fixed rates and that those assets are funded with short-term liabilities. If market interest rates rise by the time the short-term liabilities must be refinanced, the increase in the institution's interest expense on its liabilities may not be sufficiently offset if assets continue to earn at the long-term fixed rates. Accordingly, an institution's profits could decrease on existing assets because the institution will either have lower net interest income or possibly, net interest expense. Similar risks exist when assets are subject to contractual interest rate ceilings, or rate-sensitive assets are funded by longer-term, fixed-rate liabilities in a declining rate environment.

There are several ways an institution can manage interest rate risk including: 1) matching repricing periods for new assets and liabilities, for example, by shortening or lengthening terms of new loans, investments, or liabilities; 2) selling existing assets or repaying certain liabilities; and 3) hedging existing assets, liabilities, or anticipated transactions. An institution might also invest in more complex financial instruments intended to hedge or otherwise change interest rate risk. Interest rate swaps, futures contracts, options on futures contracts, and other such derivative financial instruments can be used for this purpose. Because these instruments are sensitive to interest rate changes, they require management's expertise to be effective. The Company has not purchased derivative financial instruments in the past but may purchase such instruments in the future if market conditions are favorable.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Management believes there has been no material change in the Company's market risk from the information contained in the Company's Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2010.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

- information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and other reports which the Company files or submits under the Exchange Act would be accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure;

- information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and other reports which the Company files or submits under the Exchange Act would be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and

- the Company's disclosure controls and procedures were effective as of the end of the quarterly period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

During the Company's fiscal quarter ended March 31, 2011, the Company took certain remedial steps to address the material weakness in the Company's internal control over financial reporting, as disclosed in "Item 9A. Controls and Procedures" of Part II of the Company's Annual Report on Form 10-K for fiscal year ended December 31, 2010.

Other than these remedial steps, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

On January 18, 2011, the Company's subsidiary, RDSI, filed a lawsuit against New Core Holdings, Inc. ("New Core") in the Court of Common Pleas, Defiance County, Ohio (Case No. 11-CV-41125). RDSI's complaint alleges, among other things, that New Core breached its loan agreement, promissory notes, merger agreement and certain other agreements entered into between RDSI and New Core in connection with the previously planned merger of RDSI with New Core. RDSI's complaint seeks, among other things, recovery of an amount in excess of $3,260,000, plus costs and expenses, including attorneys' fees, an order directing the release of certain software collateral, and a declaration that RDSI has no obligation to advance any additional loans or pay any additional funds to New Core. New Core subsequently removed this lawsuit to the United States District Court for the Northern District of Ohio (Case No. 3:11cv366). As of the date of this Quarterly Report on Form 10-Q, New Core had not yet filed any answer or other response to RDSI's complaint. At this time, the Company is unable to predict the likelihood of RDSI's success on its claims, or the amount of any damages that may be awarded to RDSI or New Core in this lawsuit.

In the ordinary course of our business, the Company and its subsidiaries are also parties to various legal actions which we believe are incidental to the operation of our business. Although the ultimate outcome and amount of liability, if any, with respect to these legal actions cannot presently be ascertained with certainty, in the opinion of management, based upon information currently available to us, any resulting liability is not likely to have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

There are certain risks and uncertainties in our business that could cause our actual results to differ materially from those anticipated. A detailed discussion of our risk factors is included in "Item 1A. Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The following information updates certain of our risk factors and should be read in conjunction with the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

RDSI may continue to experience net operating losses as a result of the loss of customers.

RDSI currently provides data processing services exclusively to State Bank, as RDSI has discontinued offering data processing services to other client banks. However, RDSI continues to offer item processing and network services, and expects to maintain those primary businesses going forward. The current customer base at RDSI is significantly lower than the prior year and RDSI anticipates normal levels of attrition going forward. Should RDSI be unable to replace lost clients and expand its existing client base, revenue will decline and additional operating losses within that business segment are likely to occur. In addition, the issuance of a Consent Order at RDSI increases the chances that existing, and potential new, clients may choose to not utilize RDSI for processing services.

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

Repurchases of Common Shares

The Company did not have any repurchases of common shares during the three months ended March 31, 2011.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. [Reserved]

Item 5. Other Information

Not applicable

Item 6. Exhibits

Exhibits

31.1 – Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)
31.2 – Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)
32.1 – Section 1350 Certification (Principal Executive Officer)
32.2 – Section 1350 Certification (Principal Financial Officer)

SIGNATURES

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

RURBAN FINANCIAL CORP.

Date: May 13, 2011

By

Mark A. Klein
President & Chief Executive Officer

By

Anthony V. Cosentino
Executive Vice President & Chief Financial Officer