UNITED BANCSHARES INC/OH
Form 10-K
March 30, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

Annual report pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934, as amended

For the fiscal year ended December 31, 2010

Commission File No.: 000-29283

UNITED BANCSHARES, INC.

(exact name of registrant as specified in its charter)

OHIO	**34-1516518**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer I.D. No.)

100 S. High Street, Columbus Grove, Ohio 45830

(Address of principal executive offices)

Registrant s telephone number, including area code: **(419) 659-2141**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, no par value NASDAQ Global Markets

(Title of class)

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ____ No _X_

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ___ No _X_

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. _X._

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated 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 Act).

Yes ____ No __X__

The aggregate market value of the voting stock held by non-affiliates of the registrant, was $32,290,172, based upon the last sales price as quoted on the Nasdaq National Market as of June 30, 2010.

The number of shares of Common Stock, no par value outstanding as of January 29, 2011: 3,445,278.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Annual Report to Shareholders for the fiscal year ended December 31, 2010 are incorporated by reference into Part II. Portions of the Proxy Statement dated March 30, 2011 for the 2011 Annual Meeting of Shareholders to be held on April 27, 2011 are incorporated by reference into Part III.

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PART I

Item 1.

Business

General

United Bancshares, Inc. (the Corporation), an Ohio corporation, is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve Board). The Corporation was incorporated and organized in 1985. The executive offices of the Corporation are located at 100 S. High Street, Columbus Grove, Ohio 45830. The Corporation is a one-bank holding company, through its wholly-owned subsidiary, The Union Bank Company, Columbus Grove, Ohio (Bank) as that term is defined by the Federal Reserve Board. As of December 31, 2010, the Corporation employed approximately 150 employees.

United Bancshares, Inc. has traded its common stock on the NASDAQ Global Market under the symbol UBOH since March 2001.

The Corporation is registered as a Securities Exchange Act of 1934 (the 1934 Act) reporting company.

Forward Looking Statements

Certain matters disclosed herein may be deemed to be forward-looking statements that involve risks and uncertainties, including regulatory policy changes, interest rate fluctuations, loan demand, loan delinquencies and losses, general economic conditions, and other risks. Forward-looking statements are often characterized by the use of qualifying words and their derivatives such as expects, anticipates, believes, estimates, plans, projects, and other v statements concerning opinions or judgments of the Corporation and its management about future events. Actual strategies and results in future time periods may differ materially from those currently expected. Such forward-looking statements represent management s judgment as of the current date. The Corporation disclaims, however, any intent or obligation to update such forward-looking statements.

This report contains forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and the Corporation. Forward-looking statements are identifiable by words or phrases such as outlook , plan or strategy ; that an event o trend may , should , will , is likely , or is probably to occur or continue , has begun or is scheduled or o Corporation or its management anticipates , believes , estimates , plans , forecasts , intends , predicts , proje a particular result, or is committed , confident , optimistic or has an opinion that an event will occur, or other word phrases such as ongoing , future , signs , efforts , tend , exploring , appearing , until , near term , going f variations of such words and similar expressions. Such statements are based upon current beliefs and expectations and involve substantial risks and uncertainties which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These statements include, among others, statements related to real estate valuation, future levels of non-performing loans, the rate of asset dispositions, dividends, future growth and funding sources, future liquidity levels, future profitability levels, the effects on earnings of changes in interest rates and the future level of other revenue sources. Management's determination of the provision and allowance for loan losses, the appropriate carrying value of intangible assets (including goodwill and mortgage servicing rights), deferred tax assets, other real estate owned, and the fair value of investment securities (including whether any impairment on any investment security is temporary or other-than-temporary and the amount of any impairment), involves judgments that are inherently forward-looking. All statements with references to future time periods are forward-looking. All of the information concerning interest rate sensitivity is forward-looking. Management's assumptions regarding pension and other post retirement plans involve judgments that are inherently forward-looking. Our ability to successfully implement new programs and initiatives, increase efficiencies, respond to declines in collateral values and credit quality, maintain our current level of deposits and other sources of funding, and improve profitability is not entirely within our control and is not assured. The future effect of changes in the real estate, financial and credit markets and the national and regional economy on the banking industry, generally, and the Corporation, specifically, are also inherently uncertain. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions (risk factors) that are difficult to predict with regard to timing, extent, likelihood and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed or forecasted in such forward-looking statements.

General Description of Bank Subsidiary

The Bank is engaged in the business of commercial banking. The Bank is an Ohio state-chartered bank, which serves the Ohio counties of Allen, Hancock, Putnam, Sandusky, Van Wert and Wood, with office locations in Bowling Green, Columbus Grove, Delphos, Findlay, Gibsonburg, Kalida, Leipsic, Lima, Ottawa, and Pemberville, Ohio.

The Bank offers a full range of commercial banking services, including checking accounts, savings and money market accounts; time certificates of deposit; automatic teller machines; commercial, consumer, agricultural, residential mortgage and home equity loans; safe deposit box rentals; and other personalized banking services.

Competition

The Corporation competes for deposits with other savings associations, commercial banks and credit unions and issuers of commercial paper and other securities, such as shares in money market mutual funds. Primary factors in competing for deposits include customer service, interest rates and convenience of office location. In making loans, the Corporation competes with other commercial banks, savings associations, consumer finance companies, credit unions, leasing companies, mortgage companies and other lenders. Competition is affected by, among other things, the general availability of lendable funds, general and local economic conditions, current interest rate levels and other factors that are not readily predictable. The number of financial institutions competing with the Corporation may increase as a result of changes in statutes and regulations eliminating various restrictions on interstate and inter-industry branching and acquisitions. Such increased competition may have an adverse effect upon the Corporation.

Effect of Environmental Regulation

Compliance with federal, state and local provisions regulating the discharge of material into the environment, or otherwise relating to the protection of the environment, have not had a material effect upon the capital expenditures, earnings or competitive position of the Corporation and its subsidiary. The Corporation believes that the nature of the operations of its subsidiary has little, if any, environmental impact. The Corporation, therefore, anticipates no material capital expenditures for environmental control facilities for its current fiscal year or for the foreseeable future. The Corporation s subsidiary may be required to make capital expenditures for environmental control facilities related to properties, which they may acquire through foreclosure proceedings in the future; however, the amount of such capital expenditures, if any, is not currently determinable.

Supervision and Regulation

Sarbanes-Oxley Act of 2002 - On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the SOA). The stated goals of the SOA are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties within publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The SOA is the most far-reaching U.S. securities legislation enacted in some time. The SOA generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission (the SEC) under the Securities Exchange Act of 1934.

The SOA includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. The SOA represents significant federal involvement in matters traditionally left to state regulatory systems, including the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

The SOA addresses, among other matters:

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audit committees for all reporting companies;

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certification of financial statements by the chief executive officer and the chief financial officer;

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the forfeiture of bonuses or other incentive-based compensation and profits from the sale of an issuer s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;

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a prohibition on certain insider trading during pension plan black out periods;

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disclosure of off-balance sheet transactions;

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a prohibition on personal loans to directors and officers;

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expedited filing requirements for Forms 4;

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disclosure of a code of ethics and filing a Form 8-K for a change or waiver of such code;

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real time filing of periodic reports;

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the formation of a public company accounting oversight board;

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auditor independence; and

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various increased criminal penalties for violations of securities laws.

Other Statutes and Regulations

The following is a summary of certain other statutes and regulations affecting the Corporation and its subsidiary. This summary is qualified in its entirety by reference to such statutes and regulations.

The Corporation is a bank holding company under the Bank Holding Company Act of 1956, as amended, which restricts the activities of the Corporation and the acquisition by the Corporation of voting shares or assets of any bank, savings association or other company. The Corporation is also subject to the reporting requirements of, and examination and regulation by, the Federal Reserve Board. Subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Federal Reserve Act on transactions with affiliates, including any loans or extensions of credit to the bank holding company or any of its subsidiaries, investments in the stock or other securities thereof and the taking of such stock or securities as collateral for loans or extensions of credit to any borrower; the issuance of guarantees, acceptances or letters of credit on behalf of the bank holding company and its subsidiary; purchases or sales of securities or other assets; and the payment of money or furnishing of services to the bank holding company and other subsidiaries. Bank holding companies are prohibited from acquiring direct or indirect control of more than 5% of any class of voting stock or substantially all of the assets of any bank holding company without the prior approval of the Federal Reserve Board. A bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with extensions of credit and/or the provision of other property or services to a customer by the bank holding company or its subsidiaries.

As an Ohio state-chartered bank, the Bank is supervised and regulated by the Ohio Division of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC). The deposits of the Bank are insured by the FDIC and the Bank is subject to the applicable provisions of the Federal Deposit Insurance Act. A subsidiary of a bank holding company can be liable to reimburse the FDIC if the FDIC incurs or anticipates a loss because of a default of another FDIC-insured subsidiary of the bank holding company or in connection with FDIC assistance provided to such subsidiary in danger of default. In addition, the holding company of any insured financial institution that submits a capital plan under the federal banking agencies regulations on prompt corrective action guarantees a portion of the institution s capital shortfall, as discussed below.

Various requirements and restrictions under the laws of the United States and the State of Ohio affect the operations of the Bank, including requirements to maintain reserves against deposits, restrictions on the nature and amount of loans which may be made and the interest that may be charged thereon, restrictions relating to investments and other activities, limitations on credit exposure to correspondent banks, limitations on activities based on capital and surplus, limitations on payment of dividends, and limitations on branching.

The Federal Reserve Board has adopted risk-based capital guidelines for bank holding companies. The risk-based capital guidelines include both a definition and a framework for calculating risk weighted assets by assigning assets and off-balance sheet items to broad risk categories. The minimum ratio of total capital to risk weighted assets (including certain off-balance sheet items, such as standby letters of credit) is 8%. At least 4% is to be comprised of common shareholders equity (including retained earnings but excluding treasury stock), noncumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interest in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets (Tier 1 capital). The remainder (Tier 2 capital) may consist, among other things, of mandatory convertible debt securities, a limited amount of subordinated debt, other preferred stock and a limited amount of allowance for loan losses. The Federal Reserve Board also imposes a minimum leverage ratio (Tier 1 capital to total assets) of 3% for bank holding companies and state member banks that meet certain specified conditions, including having the highest regulatory rating. The minimum leverage ratio is 1%-2% higher for other bank holding companies and state member banks based on their particular circumstances and risk profiles and for those banks experiencing or anticipating significant growth. State non-member bank subsidiaries, such as the Bank are subject to similar capital requirements adopted by the FDIC.

The Corporation and its subsidiary currently satisfy all capital requirements. Failure to meet applicable capital guidelines could subject a banking institution to a variety of enforcement remedies available to federal and state regulatory authorities, including the termination of deposit insurance by the FDIC. The junior subordinated deferrable interest debentures issued in 2003, as described in Note 11 to the consolidated financial statements contained in the Corporation s Annual Report, currently qualify as Tier I capital for regulatory purposes. However, it is possible that regulations could change so that such securities do not qualify.

The federal banking regulators have established regulations governing prompt corrective action to resolve capital deficient banks. Under these regulations, institutions, which become undercapitalized, become subject to mandatory regulatory scrutiny and limitations that increase as capital decreases. Such institutions are also required to file capital plans with their primary federal regulator, and their holding companies must guarantee the capital shortfall up to 5% of the assets of the capital deficient institution at the time it becomes undercapitalized.

The ability of a bank holding company to obtain funds for the payment of dividends and for other cash requirements is largely dependent on the amount of dividends that may be declared by its subsidiary bank and other subsidiaries. However, the Federal Reserve Board expects the Corporation to serve as a source of strength to its subsidiary bank, which may require it to retain capital for further investment in the subsidiary, rather than for dividends for shareholders of the Corporation. The Bank may not pay dividends to the Corporation if, after paying such dividends, it would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. The Bank must have the approval of its regulatory authorities if a dividend in any year would cause the total dividends for that year to exceed the sum of the current year s net income and the retained net income for the preceding two years, less required transfers to surplus. Payment of dividends by a bank subsidiary may be restricted at any time at the discretion of the regulatory authorities, if they deem such dividends to constitute an unsafe and/or unsound banking practice. These provisions could have the effect of limiting the Corporation s ability to pay dividends on its outstanding common shares.

Deposit Insurance Assessments and Recent Legislation

The Federal Deposit Insurance Reform Act of 2005 and the Federal Deposit Insurance Reform Conforming Amendments Act of 2005 (collectively, the Deposit Insurance Reform Acts) were both signed into law during February, 2006. The provisions of the Deposit Insurance Reform Acts included, among other things, merging the Bank Insurance Fund and the Savings Association Insurance Fund into a new fund called the Deposit Insurance Fund, which merger was effective March 31, 2006; increasing insurance coverage for retirement accounts from $100,000 to $250,000, effective April 1, 2006; adjusting deposit insurance levels of $100,000 for non-retirement accounts and $250,000 for retirement accounts every five years based on an inflation index, with the first adjustment to be effective on January 1, 2011; eliminating a 1.25% hard target Designated Reserve Ratio, as defined, and giving the FDIC discretion to set the Designated Reserve Ratio within a range of 1.15% to 1.50% for any given year; eliminating certain restrictions on premium rates the FDIC charges covered institutions and establishing a risk-based premium system; and providing for a one-time credit for institutions that paid premiums to the Bank Insurance Fund or the Savings Association Insurance Fund prior to December 31, 1996.

Current economic conditions have increased bank failures and expectations for further failures, in which case the FDIC insures payment of deposits up to insured limits from the Deposit Insurance Fund. In late 2008, the FDIC announced an increase in insurance premium rates of seven basis points for the first quarter of 2009. On February 27, 2009, the FDIC announced its adoption of an interim final rule imposing a one-time special assessment of up to 20 basis points and a final rule adjusting the risk-based calculation used to determine the premiums due from each financial institution. On March 5, 2009, the FDIC announced its plan to reduce the special assessment to 10 basis points. The special assessment and the changes in the premium calculation significantly increased the Corporation s FDIC insurance expense in 2009 and possibly thereafter. On September 29, 2009, the FDIC adopted a Notice of Proposed Rule making it mandatory that insured depository institutions prepay their quarterly risk-based assessments to the FDIC on December 30, 2009 for the fourth quarter of 2009 and for the years 2010 through 2012.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) was signed into law, which, in part, permanently raises the current standard maximum deposit insurance amount to $250,000. On November 9, 2010, the FDIC issued a Final Rule implementing section 343 of the Act that provides for unlimited insurance coverage of noninterest-bearing transaction accounts. Beginning December 31, 2010, through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. The unlimited insurance coverage is available to all depositors, including consumers, businesses, and government entities. Under the final rule, a noninterest-bearing transaction account is defined as a deposit account where interest is neither accrued nor paid; depositors are permitted to make an unlimited number of transfers and withdrawals; and the bank does not reserve the right to require advance notice of an intended withdrawal.

Monetary Policy and Economic Conditions

The commercial banking business is affected not only by general economic conditions, but also by the policies of various governmental regulatory authorities, including the Federal Reserve Board. The Federal Reserve Board regulates money and credit conditions and interest rates in order to influence general economic conditions primarily through open market operations in U.S. Government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank deposits. These policies and regulations significantly affect the overall growth and distribution of bank loans, investments and deposits, and the interest rates charged on loans as well as the interest rates paid on deposits and accounts.

The monetary policies of the Federal Reserve Board have had a significant effect on the operating results of commercial banks in the past and are expected to continue to have significant effects in the future. In view of the changing conditions in the economy and the money market and the activities of monetary and fiscal authorities, no definitive predictions can be made as to future changes in interest rates, credit availability or deposit level.

Statistical Financial Information Regarding the Corporation

The following schedules and table analyze certain elements of the consolidated balance sheets and statements of income of the Corporation and its subsidiary, as required under Securities Act Industry Guide 3 promulgated by the Securities and Exchange Commission, and should be read in conjunction with the narrative analysis presented in ITEM 7, MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION and the Consolidated Financial Statements of the Corporation, both of which are included in the 2010 Annual Report.

Available Information

The Corporation files various reports with the SEC, including Forms 10-Q, 10-K, 11-K and 8-K as required. The public may read and copy any filed materials with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (http://www.sec.gov) that contains reports, proxy and information statements, and other information that the Corporation electronically files with the SEC.

Various information on the Corporation may also be obtained from the Corporation s maintained website at http://www.theubank.com.

I.

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

A.

The following are the average balance sheets for the years ended December 31:

ASSETS	2010	2009	2008
	(dollars in thousands)		
Interest-earning assets			
Securities (1)			
Taxable	$101,132	$91,409	$87,800
Non-taxable	48,616	47,964	45,616
Interest bearing deposits	33,357	18,185	21,456
Federal funds sold	210	110	6,656
Loans (2)	398,378	417,913	400,823
Total interest-earning assets	581,693	575,581	562,351
Non-interest-earning assets			
Cash and due from banks	7,202	7,278	6,863
Premises and equipment, net	9,823	9,222	7,870
Accrued interest receivable and other assets	32,885	25,576	26,235
Allowance for loan losses	(6,322)	(4,714)	(2,570)
	$625,281	$612,943	$600,749
	=======	=======	=======
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest-bearing liabilities			
Deposits			
Savings and interest-bearing			
demand deposits	$172,224	$127,494	$114,643
Time deposits	273,418	293,407	287,297
Federal funds purchased	-	-	8
Junior subordinated deferrable			
interest debentures	10,300	10,300	10,300

Other borrowings	61,918	81,162	94,844
Total interest-bearing liabilities	517,860	512,363	507,092
Non-interest-bearing liabilities			
Demand deposits	47,447	41,841	39,157
Accrued interest payable and other liabilities	4,128	5,877	4,705
Shareholders' equity (3)	55,846	52,862	49,795
	$625,281	$612,943	$600,749
	=======	=======	=======

(1)

Securities include securities available-for-sale, which are carried at fair value, and Federal Home Loan Bank (FHLB) stock carried at cost. The average balance includes monthly average balances of market value adjustments and daily average balances for the amortized cost of securities.

(2)

Loan balances include principal balances of non-accrual loans and loans held for sale.

(3)

Shareholders equity includes average net unrealized appreciation (depreciation) on securities available-for-sale, net of tax.

(4)

Financial data for 2010 includes the impact of the March 2010 Findlay branch acquisition, as described in Note 3 to the consolidated financial statements included in Exhibit 13.

I.

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

B.

The following tables set forth, for the years indicated, the condensed average balances of interest-earning assets and interest-bearing liabilities, the interest earned or paid on such amounts, and the average interest rates earned or paid thereon.

	2010		
	Average Balance	Interest	Average Rate
INTEREST-EARNING ASSETS	(dollars in thousands)		
Securities (1)			
Taxable	$ 101,132	$ 3,930	3.89%
Non-taxable (2)	48,616	3,011	6.19%
Loans (3, 4)	398,378	24,320	6.10%
Other	33,567	78	0.23%
Total interest-earning assets	$ 581,693	$ 31,339	5.39%
INTEREST-BEARING LIABILITIES			
Deposits			
Savings and interest-bearing			
demand deposits	$ 172,224	$ 600	0.35%
Time deposits	273,418	5,638	2.06%
Junior subordinated deferrable			
interest debentures	10,300	354	3.44%
Other borrowings	61,918	2,367	3.82%
Total interest-bearing liabilities	$ 517,860	$ 8,959	1.73%
Net interest income, tax equivalent basis		$ 22,380	
		======	
Net interest income as a percent of			

average interest-earning assets	3.85%
	=====

(1)

Securities include securities available-for-sale, which are carried at fair value, and FHLB stock carried at cost. The average balance includes monthly average balances of market value adjustments and daily average balances for the amortized cost of securities.

(2)

Computed on tax equivalent basis for non-taxable securities (34% statutory rate).

(3)

Loan balances include principal balance of non-accrual loans.

(4)

Interest income on loans includes fees of $867,535.

I.

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

	2009		
	Average		Average
	Balance	Interest	Rate
INTEREST-EARNING ASSETS	(dollars in thousands)		
Securities available-for-sale (1)			
Taxable	$ 91,409	$ 4,259	4.66%
Non-taxable (2)	47,964	3,026	6.31%
Loans (3, 4)	417,913	26,567	6.31%
Other	18,295	43	0.24%
Total interest-earning assets	$ 575,581	$ 33,895	5.89%
INTEREST-BEARING LIABILITIES			
Deposits			
Savings and interest-bearing			
demand deposits	$ 127,494	$ 465	0.36%
Time deposits	293,407	8,337	2.84%
Junior subordinated deferrable			
interest debentures	10,300	410	3.98%
Other borrowings	81,162	3,105	3.83%
Total interest-bearing liabilities	$ 512,363	$ 12,317	2.40%
Net interest income, tax equivalent basis		$ 21,578	
		======	
Net interest income as a percent of			
average interest-earning assets			3.75%
			=====

(1)

Securities include securities available-for-sale, which are carried at fair value, and FHLB stock carried at cost. The average balance includes monthly average balances of market value adjustments and daily average balances for the amortized cost of securities.

(2)

Computed on tax equivalent basis for non-taxable securities (34% statutory rate).

(3)

Loan balances include principal balance of non-accrual loans and loans held for sale.

(4)

Interest income on loans includes fees of $1,003,743.

I.

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

	2008		
	Average		Average
	Balance	Interest	Rate
INTEREST-EARNING ASSETS	(dollars in thousands)		
Securities (1)			
Taxable	$ 87,800	$ 4,209	4.79%
Non-taxable (2)	45,616	2,897	6.35%
Loans (3, 4)	400,823	28,671	7.15%
Other	28,112	416	1.48%
Total interest-earning assets	$ 562,351	$ 36,193	6.44%
INTEREST-BEARING LIABILITIES			
Deposits			
Savings and interest-bearing			
demand deposits	$ 114,643	$ 941	0.82%
Time deposits	287,297	10,174	3.54%
Federal funds purchased	8	-	0.00%
Junior subordinated deferrable			
interest debentures	10,300	627	6.09%
Other borrowings	94,844	4,053	4.27%
Total interest-bearing liabilities	$ 507,092	$ 15,795	3.11%
Net interest income, tax equivalent basis		$ 20,398	
		======	
Net interest income as a percent of			
average interest-earning assets			3.63%
			=====

(1)

Securities include securities available-for-sale, which are carried at fair value, and FHLB stock carried at cost. The average balance includes monthly average balances of market value adjustments and daily average balances for the amortized cost of securities.

(2)

Computed on tax equivalent basis for non-taxable securities (34% statutory rate).

(3)

Loan balances include principal balance of non-accrual loans and loans held for sale.

(4)

Interest income on loans includes fees of $1,091,254.

I.

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

C.

The following tables set forth the effect of volume and rate changes on interest income and expenses for the periods indicated. For purposes of these tables, changes in interest due to volume and rate were determined as follows:

Volume variance - change in volume multiplied by the previous year s rate.

Rate variance - change in rate multiplied by the previous year s volume.

Rate/volume variance - change in volume multiplied by the change in rate.

This variance was allocated to volume variances and rate variances in proportion to the relationship of the absolute dollar amount of the change in each.

Interest on non-taxable securities has been adjusted to a fully tax equivalent basis using a statutory tax rate of 34% in all years presented.

	2010/2009		
	Total	Variance Attributable To	
	Variance	Volume	Rate
INTEREST INCOME	(dollars in thousands)		
Securities -			
Taxable	$ (329)	$ 424	$ (753)
Non-taxable	(15)	41	(56)
Loans	(2,247)	(1,215)	(1,032)
Other	35	35	-
	(2,556)	(715)	(1,841)
INTEREST EXPENSE			
Deposits -			
Savings and interest-bearing			
demand deposits	135	157	(22)

Time deposits	(2,699)	(537)	(2,162)
Junior subordinated deferrable interest debentures	(56)	--	(56)
Other borrowings	(738)	(736)	(2)
	(3,358)	(1,116)	(2,242)
NET INTEREST INCOME	$ 802	$ 401	$ 401
	==========	=======	======

I.

DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (CONTINUED)

	2009/2008		
	Total	Variance Attributable To	
	Variance	Volume	Rate
INTEREST INCOME	(dollars in thousands)		
Securities -			
Taxable	$ 50	$ 170	$ (120)
Non-taxable	129	148	(19)
Loans	(2,104)	1,185	(3,289)
Other	(373)	(109)	(264)
	(2,298)	1,394	(3,692)
INTEREST EXPENSE			
Deposits -			
Savings and interest-bearing			
demand deposits	(476)	96	(572)
Time deposits	(1,837)	212	(2,049)
Federal funds purchased	(217)	--	(217)
Junior subordinated deferrable interest debentures	(948)	(549)	(399)
Other borrowings	(3,478)	(241)	(3,237)
NET INTEREST INCOME	$ 1,180	$ 1,635	$ (455)
	==========	=======	======

II.

INVESTMENT PORTFOLIO

A.

The carrying amounts of securities available-for-sale as of December 31 are summarized as follows:

	2010	2009	2008
	(dollars in thousands)		
U.S. Government agency securities	$ -	$ 3,983	$ -
Obligations of states and political subdivisions	47,298	47,829	46,522
Mortgage-backed securities	92,633	86,270	89,476
Other	509	504	500
	$140,440	$138,586	$136,498
	=======	=======	=======

The above excludes Federal Home Loan Bank stock amounting to $4,893,800 in 2010, 2009 and 2008.

B.

The maturity distribution and weighted average yield of securities available-for-sale at December 31, 2010 are as follows (1):

	Maturing			
	Within One Year	After One year But Within Five Years	After Five Years But Within Ten Years	After Ten Years
	(dollars in thousands)			
Obligations of states and political Subdivisions	$ 848	$ 7,651	$ 7,012	$ 31,787
Mortgage-backed securities (2)	-	306	6,302	86,025
	$ 848	$ 7,957	$ 13,314	$117,812
	======	======	======	=======

	Weighted Average Yield			
Obligations of states and political subdivisions	4.92%	3.95%	4.49%	4.36%
Mortgage-backed securities (2)	-	4.78%	4.45%	4.30%
Total	4.92%	3.99%	4.47%	4.31%
	======	======	======	======

(1)

Table excludes Federal Home Loan Bank stock and $509,000 of securities having no maturity date.

(2)

Maturity based upon estimated weighted-average life.

The weighted average interest rates are based on coupon rates for securities purchased at par value and on effective interest rates considering amortization or accretion if the securities were purchased at a premium or discount.

C.

There were no securities which exceeded 10% of shareholders equity at December 31, 2010.

III.

LOAN PORTFOLIO

A.

Types of Loans Total loans, including loans held for sale, are comprised of the following classifications at December 31 for the years indicated:

	2010	2009	2008	2007	2006
	(dollars in thousands)				
Commercial and					
agricultural	$263,832	$286,485	$268,433	$222,566	$198,768
Real estate mortgage	111,562	107,515	130,289	110,770	105,018
Consumer loans to					
individuals	8,513	13,815	19,663	26,224	31,763
	$ 383,907	$ 407,815	$ 418,385	$ 359,560	$ 335,549
	=======	=======	=======	=======	=======

Real estate mortgage loans include real estate construction loans of $6.5 million in 2010, $4.8 million in 2009, $20.9 million in 2008, $18.0 million in 2007, and $11.9 million in 2006. There were no lease financing receivables in any year.

CONCENTRATIONS OF CREDIT RISK The Corporation s depository institution subsidiary grants commercial, real estate, installment, and credit card loans to customers primarily located in Northwestern and West Central Ohio. Commercial loans include loans collateralized by business assets and agricultural loans collateralized by crops and farm equipment. As of December 31, 2010, commercial and agricultural loans make up 68.72% of the loan portfolio; the loans are expected to be repaid from cash flow from operations of the businesses. As of December 31, 2010, real estate mortgage loans make up 29.06% of the loan portfolio and are collateralized by first mortgages on residential real estate. As of December 31, 2010, consumer loans to individuals make up 2.22% of the loan portfolio and are primarily collateralized by consumer assets.

B.

Maturities and Sensitivities of Loans to Changes in Interest Rates The following table shows the amounts of commercial and agricultural loans outstanding as of December 31, 2010 which, based on remaining scheduled repayments of principal, are due in the periods indicated. Also, the amounts have been classified according to sensitivity to changes in interest rates for commercial and agricultural loans due after one year. (Variable-rate loans are those loans with floating or adjustable interest rates.)

Maturing	Commercial and Agricultural
	(dollars in thousands)
Within one year	$ 53,253
After one year but within five years	38,975
After five years	171,604
	$ 263,832
	=======

III.

LOAN PORTFOLIO (CONTINUED)

	Interest Sensitivity		
	Fixed Rate	Variable Rate	Total
	(dollars in thousands)		
Due after one year but within five years	$ 28,517	$ 10,458	$ 38,975
Due after five years	7,498	164,106	171,604
	$ 36,015	$174,564	$210,579
	======	=======	=======

C.

Risk Elements Non-accrual, Past Due, Restructured and Impaired Loans The following table summarizes non-accrual, past due, restructured and impaired loans at December 31:

	2010	2009	2008	2007	2006
	(dollars in thousands)				
(a) Loans accounted for on a non-accrual basis	$16,497	$12,937	$3,074	$2,613	$2,601
(b) Loans contractually past due 90 days or more as to interest or principal payments and still accruing interest	126	2,456	2,387	824	556
(c) Loans not included in (a) or (b) which are "Troubled Debt Restructurings" as defined by accounting principles generally accepted in the United States of America	3,092	--	--	--	--
	$19,715	$15,393	$5,461	$3,437	$3,157
	======	======	=====	=====	=====

The following is reported for the year ended December 31:

	2010	2009	2008	2007
	(dollars in thousands)			
Gross interest income that would have been recorded on non- accrual loans outstanding if the loans had been current, in accordance with their original terms and had been outstanding throughout the period or since origination if held for part of the period	$ 987	$ 1,015	$ 259	$ 217
Interest income actually recorded on non-accrual loans and included in net income for the period	--	--	--	--
Interest income not recognized during the period	$ 987	$ 1,015	$ 259	$ 217
	======	======	======	======

III.

LOAN PORTFOLIO (CONTINUED)

1.

Discussion of the non-accrual policy

The accrual of interest income is discontinued when the collection of a loan or interest, in whole or in part, is doubtful. When the accrual of interest is discontinued, all interest income accrued but uncollected is reversed. While loans which are past due 90 days or more as to interest or principal payments are considered for non-accrual status, management may elect to continue the accrual of interest when the estimated net realizable value of collateral, in management s judgment, is sufficient to cover the principal balance and accrued interest. These policies apply to both commercial and real estate loans.

2.

Potential problem loans

As of December 31, 2010, in addition to the $19,715,000 of loans reported under Item III. C, there are approximately $26,389,000 of other outstanding loans where known information causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans pursuant to Item III. C at some future date. Consideration was given to loans classified for regulatory purposes as substandard or special mention that have not been disclosed in Item III. C above.

3.

Foreign outstandings

None.

4.

Loan concentrations

At December 31, 2010, loans outstanding relating to agricultural operations or collateralized by agricultural real estate aggregated $65,818,000. At December 31, 2010, there were seven borrowers with loans totaling $3,623,000 in agricultural commercial loans, which were accounted for on a non-accrual basis; and there were no accruing agricultural commercial loans which were contractually past due 90 days or more as to interest or principal payments.

D.

Other interest-bearing assets

As of December 31, 2010, there were no other interest-bearing assets that are required to be disclosed.

IV.

SUMMARY OF LOAN LOSS EXPERIENCE

A.

The following schedule presents an analysis of the allowance for loan losses, average loan data and related ratios for the years ended December 31:

	2010	2009	2008	2007	2006
LOANS			(dollars in thousands)		
Loans outstanding at end	$ 383,907	$ 407,815	$ 418,385	$ 359,560	$ 335,549
of period (1)	=======	=======	=======	=======	=======
Average loans outstanding	$ 398,378	$ 417,913	$ 400,823	$ 345,532	$ 323,802
during period (1)	=======	=======	=======	=======	=======
ALLOWANCE FOR LOAN LOSSES					
Balance at beginning of period	$ 4,804	$ 3,198	$ 2,233	$ 2,275	$ 2,540
Loans charged off -					
Commercial and agricultural	(3,107)	(5,471)	(512)	(215)	(261)
Real estate mortgage	(494)	(431)	(85)	(162)	(104)
Consumer loans to individuals	(223)	(366)	(942)	(546)	(453)
	(3,824)	(6,268)	(1,539)	(923)	(818)
Recoveries of loans previously					
charged off -					
Commercial and agricultural	282	53	40	28	69
Real estate mortgage	95	17	7	10	34
Consumer loans to					
individuals	110	279	262	218	110
	487	349	309	256	213
Net loans charged off	(3,337)	(5,919)	(1,230)	(667)	(605)
Provision for loan losses	6,550	7,525	2,195	625	340
Balance at end of period	$8,017	$4,804	$3,198	$2,233	$2,275
	=====	=====	=====	=====	=====

Ratio of net charge-offs during					
the period to average loans	0.84%	1.42%	0.31%	0.19%	0.19%
outstanding during the period	=====	=====	=====	=====	=====

(1)

Including loans held for sale.

The amount of loan charge-offs and recoveries fluctuate from year to year due to various factors relating to the condition of the general economy and specific business segments. The 2010 loan charge-offs included nine commercial or agricultural credits aggregating $1,866,120, with the largest individual charge-off being $585,000. The 2009 loan charge-offs included one commercial credit amounting to $3,600,000 whose business operations ceased during the fourth quarter of 2009. The Bank incurred $231,000 of additional charge-offs in 2010 related to the credit. In addition, 2009 net-loan charge-offs included five other commercial and/or commercial real estate credits aggregating $1,548,000, with the largest individual credit charge-off being $775,000. Net loan charge-offs in 2008 included four commercial or commercial real estate credits in excess of $100,000 aggregating $690,000. There were no individual net loan charge-offs in 2007 that exceeded $100,000.

IV.

SUMMARY OF LOAN LOSS EXPERIENCE (CONTINUED)

The Corporation recognized a provision for loan losses of $6,550,000 in 2010. The significant increase in the provision for loan losses in 2010 and 2009, as compared to previous years, was attributable to the increase in net loan charge-offs, as well as an increase in problem and potential problem credits. Problem and potential problem loans aggregated $46.1 million at December 31, 2010 compared to $41.2 million at December 31, 2009. The Corporation will continue to monitor the credit quality of its loan portfolio, and especially the quality of those credits identified as problem or potential problem credits, to ensure the allowance for loan losses is maintained at an appropriate level.

The allowance for loan losses balance and the provision for loan losses are judgmentally determined by management based upon periodic reviews of the loan portfolio. In addition, management considered the level of charge-offs on loans as well as the fluctuations of charge-offs and recoveries on loans including the factors, which caused these changes. Estimating the risk of loans and the amount of loss is necessarily subjective. Accordingly, the allowance is maintained by management at a level considered adequate to cover losses that are currently anticipated based on past loss experience, general economic conditions, information about specific borrower situations including their financial position and collateral value and other factors and estimates which are subject to change over time.

IV.

SUMMARY OF LOAN LOSS EXPERIENCE (CONTINUED)

B.

The following schedule is a breakdown of the allowance for loan losses allocated by type of loan and related ratios.

Allocation of the Allowance for Loan Losses

(dollars in thousands)

	Allowance Amount	Percentage of Loans in Each Category to Total Loans	Allowance Amount	Percentage of Loans in Each Category to Total Loans
	December 31, 2010		December 31, 2009	
Commercial and agricultural	$ 7,134	68.7%	$ 3,714	70.2%
Real Estate mortgages	323	29.1%	379	26.4%
Consumer loans to individuals	125	2.2%	277	3.4%
Unallocated	435	N/A	434	N/A
	$ 8,017	100.0%	$ 4,804	100.0%
	======	======	======	======
	December 31, 2008		December 31, 2007	
Commercial and agricultural	$ 2,454	64.2%	$ 1,350	61.9%
Real Estate mortgages	271	31.1%	295	30.8%
Consumer loans to individuals	386	4.7%	377	7.3%
Unallocated	87	N/A	211	N/A

	$ 3,198	100.0%	$ 2,233	100.0%
	======	======	======	======

	December 31, 2006	
Commercial and agricultural	$ 1,426	59.2%
Real Estate mortgages	406	31.3%
Consumer loans to individuals	385	9.5%
Unallocated	58	N/A
	$ 2,275	100.0%
	======	======

The allowance for loan losses at December 31, 2010 included specific reserves for impaired loans amounting to $692,000 compared to $1,229,000 at December 31, 2009. The allowance amount for loan losses allocated to commercial and agricultural loans increased significantly in 2010. The increase is primarily attributable to higher loss rates due to recent charge-off experience as well as the increase in the level of criticized assets.

While the periodic analysis of the adequacy of the allowance for loan losses may require management to allocate portions of the allowance for specific problem loan situations, the entire allowance is available for any loan charge-offs that occur.

V.

DEPOSITS

Deposits have traditionally been the Bank s primary funding source for use in lending and other investment activities. In addition to deposits, the Bank derives funds from interest and principal repayments on loans and income from other earning assets. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows tend to fluctuate in response to economic conditions and interest rates. Deposits are attracted principally from within the Bank's designated market area by offering a variety of deposit instruments, including regular savings accounts, negotiable order of withdrawal ("NOW") accounts, money market deposit accounts, term certificate accounts, and individual retirement accounts ("IRAs"). Interest rates paid, maturity terms, service fees, and withdrawal penalties for the various types of accounts are established periodically by the Bank s management based on the Bank's liquidity requirements, growth goals, and market trends. From time to time, the Bank may also acquire brokered deposits. The amount of deposits from outside the Bank s market area is not significant.

A.&B.

The average amount of deposits and average rates paid are summarized as follows for the years ended December 31:

	(dollars in thousands)			
	2010 Average Amount	2010 Average Rate	2009 Average Amount	2009 Average Rate
Savings and interest-bearing demand deposits	$ 172,224	0.35%	$ 127,494	0.36%
Time deposits	273,418	2.06%	293,407	2.84%
Demand deposits (non-interest bearing)	47,447	--	41,841	--
	$ 493,089		$ 462,742	
	=======		=======	

	2008 Average Amount	2008 Average Rate
Savings and interest-bearing demand deposits	$ 114,643	0.82%
Time deposits	287,297	3.54%
Demand deposits (non-interest bearing)	39,157	--
	$ 441,097	
	=======	

C.&E.

There were no foreign deposits in any periods presented.

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V.

DEPOSITS (CONTINUED)

D.

Maturities of time certificates of deposit and other time deposits of $100,000 or more outstanding at December 31, 2010 are summarized as follows:

Three months or less	$ 12,120
Over three months and through six months	12,182
Over six months and through twelve months	16,792
Over twelve months	39,697
	$ 80,791
	=======

VI.

RETURN ON EQUITY AND ASSETS

The ratio of net income to average shareholders equity and average total assets and certain other ratios are as follows:

	2010	2009	2008
	(dollars in thousands)		
Average total assets	$ 625,281	$ 612,943	$ 600,749
	=======	=======	=======
Average shareholders' equity (1)	$ 55,846	$ 52,862	$ 49,795
	=======	=======	=======
Net income	$ 2,808	$ 2,883	$ 4,419
	=======	=======	=======

Cash dividends declared	$ 1,550	$ 2,066	$ 2,065
	=======	=======	=======
Return on average total assets	0.45%	0.47%	0.74%
	======	======	======
Return on average shareholders' equity	5.03%	5.45%	8.87%
	======	======	======
Dividend payout ratio (2)	55.20%	71.66%	46.73%
	======	======	======
Average shareholders' equity to average total assets	8.93%	8.62%	8.29%
	======	======	======

(1)

Average shareholders equity includes average unrealized gains or losses on securities available-for-sale.

(2)

Dividends declared divided by net income.

VII.

SHORT-TERM BORROWINGS

The Bank has established lines of credit with its major correspondent banks to purchase federal funds to meet liquidity needs. At December 31, 2010, the Bank did not have any federal funds purchased, out of the $6.7 million available under such lines. The Bank also uses repurchase agreements as a source of funds. These agreements essentially represent borrowings by the Bank from customers with maturities of three months or less. Certain securities are pledged as collateral for these agreements. At December 31, 2010, the Bank had $11,200,000 of repurchase agreements.

The following table sets forth the maximum month-end balance for the Bank s outstanding short-term borrowings (federal funds purchased and repurchase agreements), along with the average aggregate balances and weighted average interest for 2010, 2009, and 2008.

	2010	2009	2008
		(dollars in thousands)	
Balance at year-end	$11,178	$11,756	$ 5,588
Maximum balance at month-end during the period	11,178	11,756	11,043
Average balance	6,693	5,659	5,373
Weighted average interest rate	0.56%	0.67%	0.68%

Item 1A.

RISK FACTORS

An investment in the Corporation s common stock is subject to risks inherent to the Corporation s business. The material risks and uncertainties that management believes affect the Corporation are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Corporation. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Corporation s business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, the Corporation s financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Corporation s common stock could decline significantly, and you could lose all or part of your investment.

Risks Related to the Corporation s Business

The Corporation is Subject to Interest Rate Risk

The Corporation s earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Corporation s control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Corporation receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Corporation s ability to originate loans and obtain deposits, (ii) the fair value of the Corporation s financial assets and liabilities, and (iii) the average duration of the Corporation s mortgage-backed securities portfolio. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Corporation s net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Corporation s results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Corporation s financial condition and results of operations.

The Corporation is Subject to Lending Risk

There are inherent risks associated with the Corporation s lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Corporation operates as well as those across the State of Ohio, the United States and abroad. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Corporation is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Corporation to regulatory enforcement action that could result in the assessment of significant civil monetary penalties against the Corporation.

The Corporation s level of non-performing loans has increased over the past couple of years, which could result in a net loss of earnings from these loans, an increase in the provision for possible loans losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Corporation s financial condition and results of operations.

The Corporation is subject to liquidity risk in its operations, which could adversely affect the ability to fund various obligations.

Liquidity risk is the possibility of being unable to meet obligations as they come due, pay deposits when withdrawn, capitalize on growth opportunities as they arise, or pay dividends because of an inability to liquidate assets or obtain adequate funding on a timely basis, at a reasonable cost and within acceptable risk tolerances. Liquidity is derived primarily from retail deposit growth and retention, principal and interest payments on loans and investment securities, net cash provided from operation and access to other funding sources. Liquidity is essential to our business. We must maintain sufficient funds to respond to the needs of depositors and borrowers. An inability to raise funds through deposits, borrowings, the sale or pledging as collateral of loans and other assets could have a material adverse effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities could be impaired by factors that affect us specifically or the financial services industry in general. Factors that could detrimentally impact our access to liquidity sources include a decrease in the level of our business activity due to a market downturn or regulatory action that limits or eliminates our access to alternate funding sources. Our ability to borrow could also be impaired by factors that are nonspecific to us, such as severe disruption of the financial markets or negative expectations about the prospects for the financial services industry as a whole, as evidenced by recent turmoil in the domestic and worldwide credit markets.

Changes in accounting standards could impact the Corporation s reported earnings.

Current accounting and tax rules, standards, policies and interpretations influence the methods by which financial institutions conduct business and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies and interpretations are constantly evolving and may change significantly over time. Events that may not have a direct impact on the Corporation, such as bankruptcy of major U.S. companies, have resulted in legislators, regulators, and authoritative bodies, such as the Financial Accounting Standards Board, the Securities Exchange Commission, the Public Company Accounting Oversight Board and various taxing authorities, responding by adopting and/or proposing substantive revision to laws, regulations, rules, standards, policies and interpretations. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. The Corporation s financial condition and results of operations may be adversely affected by a change in accounting standards.

The Corporation s Allowance for Loan Losses May Be Insufficient

The Corporation maintains an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents management s best estimate of probable losses within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management s continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Corporation to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Corporation s control, may require a potentially significant increase in the allowance for loan losses. In addition, bank regulatory agencies periodically review the Corporation s allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for loan losses, the Corporation will need additional provisions to increase the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on the Corporation s financial condition and results of operations.

Prepayments of loans may negatively impact our business.

Generally, customers of the Bank may prepay the principal amount of their outstanding loans at any time. The speed at which such prepayments occur, as well as the size of such prepayments, are within such customers discretion. If customers prepay the principal amount of their loans, and the Bank is unable to lend those funds to other borrowers or invest the funds at the same or higher interest rates, the Bank s interest income will be reduced. A significant reduction in interest income could have a negative impact on the Corporation s results of operations and financial condition.

The Corporation may face increasing pressure from historical purchasers of our residential mortgage loans to repurchase those loans or reimburse purchasers for losses related to those loans.

We generally sell the fixed rate long-term residential mortgage loans we originate on the secondary market and retain adjustable rate mortgage loans for our portfolios. In response to the financial crisis, we believe that purchasers of residential mortgage loans, such as government sponsored entities, are increasing their efforts to seek to require sellers of residential mortgage loans to either repurchase loans previously sold or reimburse purchasers for losses related to loans previously sold when losses are incurred on a loan previously sold due to actual or alleged failure to strictly conform to the purchaser's purchase criteria. As a result, we may face increasing pressure from historical purchasers of our residential mortgage loans to repurchase those loans or reimburse purchasers for losses related to those loans and we may face increasing expenses to defend against such claims. If we are required in the future to repurchase loans previously sold, reimburse purchasers for losses related to loans previously sold, or if we incur increasing expenses to defend against such claims, our financial condition and results of operations would be negatively affected, and would lower our capital ratios as a result of increasing assets and lowering income through expenses and any loss incurred.

The recently enacted Dodd-Frank Act may adversely impact the Corporation s results of operations, financial condition or liquidity.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), was signed into law by President Obama. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States, establishes the new federal Bureau of Consumer Financial Protection (the BCFP), and will require the BCFP and other federal agencies to implement many new and significant rules and regulations. At this time, it is difficult to predict the extent to which the Dodd-Frank Act or the resulting rules and regulations will impact our business. Compliance with these new laws and regulations will likely result in additional costs, which could be significant and could adversely impact our results of operations, financial condition or liquidity.

If the Corporation is required to write-down goodwill and other intangible assets, its financial condition and results of operations would be negatively affected.

A substantial portion of the value of the merger consideration paid in connection with recent branch acquisitions was allocated to goodwill and other intangible assets on the Corporation s consolidated balance sheet. The amount of the purchase price that is allocated to goodwill and other intangible assets is determined by the excess of the purchase price over the net identifiable assets acquired. The Corporation is required to conduct an annual review to determine whether goodwill and other identifiable intangible assets are impaired.

Goodwill is tested for impairment annually in the fourth quarter. An impairment test also could be triggered between annual testing dates if an event occurs or circumstances change that would more likely than not reduce the fair value below the carrying amount. Examples of those events or circumstances would include a significant adverse change in business climate; a significant unanticipated loss of customers or assets under management; an unanticipated loss of key personnel; a sustained period of poor investment performance; a significant loss of deposits or loans; a significant reduction in profitability; or a significant change in loan credit quality.

The Corporation cannot assure that it will not be required to take an impairment charge in the future. Any material impairment charge would have a negative effect on the Corporation s financial results and shareholders equity.

The Corporation s Profitability Depends Significantly on Economic Conditions in the State of Ohio

The Corporation s success depends primarily on the general economic conditions of the State of Ohio and the specific local markets in which the Corporation operates. Unlike larger national or other regional banks that are more geographically diversified, the Corporation provides banking and financial services to customers primarily in the Ohio counties of Allen, Hancock, Putnam, Sandusky, Van Wert, and Wood. The local economic conditions in these areas have a significant impact on the demand for the Corporation s products and services as well as the ability of the Corporation s customers to repay loans, the value of the collateral securing loans and the stability of the Corporation s deposit funding sources. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets or other factors could impact those local economic conditions and, in turn, have a material adverse effect on the Corporation s financial condition and results of operations.

The Corporation Operates in a Highly Competitive Industry and Market Area

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors, many of whom are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets the Corporation operates. The Corporation also faces competition from many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Corporation s competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Corporation can.

The Corporation s ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets.

- The ability to expand the Corporation s market position.

- The scope, relevance and pricing of products and services offered to meet customer needs and demands.

- The rate at which the Corporation introduces new products and services relative to its competitors.

- Customer satisfaction with the Corporation s level of service.

- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Corporation s competitive position, which could adversely affect the Corporation s growth and profitability, which, in turn, could have a material adverse effect on the Corporation s financial condition and results of operations.

The Corporation is subject to Extensive Government Regulation and Supervision

The Corporation, primarily through its wholly owned subsidiary, The Bank, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Bank s lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer through the Bank and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputational damage, which could have a material adverse effect on the Corporation s business, financial condition and results of operations. While the Corporation has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

The Corporation is subject to Environmental Liability Risk Associated with Lending Activities

A significant portion of the Corporation s loan portfolio is secured by real property. During the ordinary course of business, the Corporation may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Corporation may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Corporation to incur substantial expenses and may materially reduce the affected property s value or limit the Corporation s ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Corporation s exposure to environmental liability. Although the Corporation may perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Corporation s financial condition and results of operations.

The Corporation s Controls and Procedures May Fail or Be Circumvented

Management regularly reviews and updates the Corporation s internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Corporation s controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation s business, results of operations and financial condition.

The Corporation Relies On Dividends from Its Subsidiaries for Most of Its Revenue

Small Cap Value

4,856,735

*

PIMCO Total Return

Intermediate Term Bond

4,452,230

*

Wells Fargo Advantage Dow Jones Target 2025

Asset Allocation

4,025,649

*

American EuroPacific Growth

International Large Core

3,510,493

*

Wells Fargo Advantage Dow Jones Target 2015

Asset Allocation

3,432,192

*

Invesco Van Kampen Small Cap Growth

Small Cap Growth

2,617,618

*

Wells Fargo Advantage Dow Jones Target 2035

Asset Allocation

2,406,497

*

Wells Fargo Advantage Dow Jones Target 2045

Asset Allocation

1,887,999

*

Northern Mid-Cap Index

Mid Cap Core

1,583,469

*

Wells Fargo Advantage Dow Jones Target Today

Asset Allocation

1,194,575

*

American Growth America

Large Cap Growth

1,171,117

*

Oppenheimer Developing Markets

Emerging Markets Equity

1,097,864

*

Eaton Vance Large-Cap Value

Large Cap Value

941,470

*

Northern International Equity Index

International Large Core

585,490

*

Holding Account

Holding Account

1,188

*
Notes Receivable from Participants (a)

Participant Loans

1,433,816

$
177,695,091

(a)
The loans bear fixed interest rates which range from 4.25 percent to 9.50 percent with maturities through July 15, 2025.
Note:
Investments are participant directed, thus cost information is not required.

* Denotes party-in-interest transaction.

See report of independent registered public accounting firm.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Pension and Saving Plan Committee for the Rayonier Investment and Savings Plan for Salaried Employees has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Rayonier Investment and Savings Plan for Salaried Employees
(Name of Plan)
/s/ W. EDWIN FRAZIER, III
W. Edwin Frazier, III
Plan Administrator
Date: June 27, 2012

EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION	LOCATION
23	Consent of Independent Registered Public Accounting Firm	Filed herewith

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