

Growth and Profitability: Our Strategy

2008 Annual Report

RFC RURBAN FINANCIAL CORP.

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RFC RURBAN FINANCIAL CORP.

NASDAQ® Listed | RBNF

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www.RURBANFINANCIAL.net



Growth and Profitability: Our Strategy

In tough economic times, our customers count on us to lead the way with expertise, discipline and time-honored values. In short, they look to us for the one thing that propels our continued success: **Strategy**. This year, we completed a strategic expansion through a merger with NBM Bancorp, Inc. and its subsidiary, the National Bank of Montpelier. This extended the reach of The State Bank and Trust Company into a new county and increased locations to over 20 banking centers. In another strategic move, the Loan Production Office in Columbus, Ohio expanded to include a full-service Mortgage Group. These are just two of the accomplishments that contributed to the fact that Rurban Financial Corp. posted near-record earnings in 2008 – and increased our quarterly dividends to shareholders. As we look ahead, we are mindful of challenges facing our customers and investors. We will continue to put our strategies to work on their behalf for a brighter future.

Our Mission

We are a leading provider of financial services whose mission is to attract, retain and grow profitable customer relationships. We exist to serve our customers. Our success is dependent on a relentless effort toward:

Building Relationships by providing consistent first-class experiences;

Building Teams by maintaining a work environment that will attract and retain quality people;

Building Value by consistently enhancing shareholder value;

Building Communities by being a socially responsible citizen in our communities, and by sharing our resources through leadership, support and involvement.



Steven D. VanDemark, *Chairman*
Kenneth A. Joyce, *President and Chief Executive Officer*

To Our Shareholders

Our theme for the 2008 Annual Report is "Growth and Profitability: Our Strategy", and we are pleased to have successfully delivered both Growth and Profitability. Net income grew to $5.22 million in 2008 compared to $3.26 million in 2007, a 60% increase. On an absolute basis, Rurban earned 0.91% on Average Assets and 8.70% on Average Equity. While these returns were strong compared to the banking industry, we are not satisfied and we are targeting continued growth and profitability in 2009, subject to economic conditions.

Rurban Financial Corp. has two major business segments: Banking and Data/Item Processing. For 2008, the Banking segment, The State Bank and Trust Company, contributed 56% of Rurban's revenue and the Data/Item Processing segment, RDSI Banking Systems, contributed 44% of the revenue.

With two distinct business segments, we have different strategies and management teams. However, both have the three common strategic themes:

- Grow the Business
- Operate Efficiently
- Manage the Risk

BANKING STRATEGY

We are **growing the banking business** by targeting market areas with relatively high growth opportunities such as Lima, Toledo, and Columbus, Ohio and Fort Wayne, Indiana. Each of these local markets is led by a Market Executive who is highly skilled and well-integrated into the community. We charge these Market Executives with the responsibility to grow their commercial, mortgage, and retail markets. This local area responsibility drives a community banking business philosophy, with highly talented lenders. With this combination, we are able to bring value to our relationships with our clients, by focusing on their long-term success and viability. One of our key strategies is entering new markets, initially using a Loan Production Office, only when the right market executive is found. After the viability of a market is proven, we then progress to deposit-gathering facilities. We have successfully used this model in our Fort Wayne and Columbus markets.

Another critical **grow the business** strategy is the search for growth and market opportunities via acquisitions. Effective December 1, 2008, we added Williams County to our Ohio markets through the acquisition of National Bank of Montpelier. This 75 year old organization held $43.7 million of loans, $48.8 million in investment securities and very stable core deposits of $86.8 million. The former president of this bank, Al Fiser, became our Market Executive, responsible for market growth and asset quality. This acquisition will also be a funding source for our loan growth in other markets, as it was at 55% loans to deposits prior to the merger.

To **operate efficiently** is a strategy woven throughout the organization as we look at new opportunities and critically assess how we are doing business. Expenses for State Bank went up 1.3% for the year, including the expenses for the Montpelier acquisition. Technology and its benefits are a key part of gaining efficiencies as we promote electronic banking access. We went from 1.36 million electronic transactions in 2007, to 1.76 million transactions in 2008, an increase of 30%. These transactions are more cost effective and more consistent with our clients' desires to save both time and money.

Managing the risk is "fundamental" in any environment and especially in our market segment. Because we tend to be risk averse, we did not face the "big bank" issues of toxic assets and lack of understanding of the balance sheet. The financial industry is being challenged in this economic environment as their customers face declining sales, profits, and cash flows that are weakening all asset classes. Our asset quality remained stable as we ended 2008, with Non-Performing Assets at 1.00% of total assets, down slightly from 1.10% at year-end 2007. Our net charge-offs were up slightly from last year at 0.19% of average loans, but remain well below our peer level on this measurement. We expect 2009 to present a new set of challenges in maintaining asset quality.

Overall, **managing the risk** is implemented through a very rigorous Enterprise Risk Management process, which has afforded us the ability to identify in advance our potential risk areas, allowing us to mitigate the identified risks. The high-profile credit risk area is addressed by our prudent underwriting standards, which were established when we had credit issues several years ago, and which are continually being improved. Our underwriting has served us well as we apply consistent standards and continue to make loans to all creditworthy borrowers, as demonstrated by our 2008 loan growth of $16.6 million, excluding the Montpelier acquisition.

DATA/ITEM PROCESSING STRATEGY

We have the same three strategic themes for the Data/Item Processing business conducted by RDSI. Within the context of data processing, these strategic themes take on a different meaning than our banking strategies.

Growing the business has been successfully achieved at RDSI as revenue has grown at a 16.1% compounded annual growth rate over the last five years. This past year our revenue growth rate slowed to 4.6%, as RDSI was challenged by the results of the banking industry's problems. Data Processing is typically the third highest expense of a bank, behind interest expense and compensation. Banks were aggressively seeking pricing concessions and RDSI lost some client banks as we elected not to meet some unreasonable competitive bids. These concessions and lost clients were offset by the opposite side of that same coin, as we welcomed six new banks to our systems. We successfully addressed these revenue challenges in 2008 and we expect to continue to do so in 2009. We have renewed all the contracts coming due in 2009 with the exception of one bank. Offsetting these revenue challenges in 2009 are eight new client banks signed in 2008 that will convert during the course of 2009, and we have a strong pipeline going into 2009 of new client bank prospects.

We began a number of initiatives designed to **grow the business** for RDSI in 2008. We added a sales representative to the Southeast area of the United States as we increased our Florida banks from one to three. We also added a new state, Kansas, as we continued our growth in the Plains States. RDSI now operates in eleven states, servicing over 113 community banks with data or item processing services. We have continued our expansion of products as we focus on products and services that either add revenue to our client banks or provide them with operating efficiencies that add to their profitability.

Operating efficiently is a critical strategic theme for RDSI, as we improved our operations and use of staff to ensure continuing profit improvement despite the slowdown in revenue growth. The result was that we increased net income by 14%, which is consistent with our five year compounded annual growth rate of 13.5%. A large portion of this gain in operating efficiency was aided by the move to electronic check processing versus paper clearing. We now process 99% of all images on an electronic basis and we have passed the resultant operating savings to our client banks, while maintaining the RDSI margin on this business. This sharing of the benefits was a promise made to our client banks in 2004. An example of these efficiencies is that we had 5.5 fewer full-time equivalent employees in 2008 than we did in 2007.

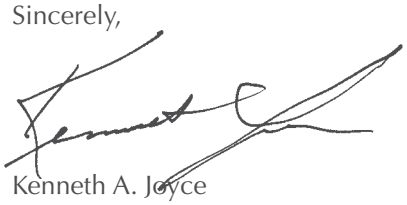
Managing the risk is a continuous task at RDSI as the technical environment and its challenges change and morph into new threats. The media frequently highlights data security breaches at many major organizations. RDSI has a comprehensive and deep risk management process that addresses the risks of a technology business, including the risks associated with breaches. We have extensive penetration and social engineering attacks simulated against our systems to test their effectiveness, and we have been successful in defending the integrity of the data entrusted to RDSI. We aggressively monitor the risks associated with this business and believe that we have successfully mitigated these risks, but we recognize that this is an ongoing, relentless process.

LOOKING FORWARD

We have been successful by dedicating our attention to developing and executing the right strategies for our business segments. We labor over defining the right strategies, appropriate objectives, and quantitative goals. We have followed a Balanced Scorecard approach, giving each employee a personal scorecard, which interlocks with our overall objectives. We continue to refine this process, reassessing our strategy and processes constantly. We see the successes resulting from this process, and we are dedicated to continuing it, improving it, and making our execution better each year. We look forward to 2009 with all of its challenges and we plan to make it a successful year.

Thank you for your support during this difficult year. We have continued our improvement, but it has not been ref ected in our stock price in 2008. The only impact appears to be that our stock price has not declined to the extent of other banks. We look forward to a turnaround of financial securities and a recognition of our successes as the overall market hopefully improves during 2009.

Sincerely,



Kenneth A. Joyce
President and CEO
Rurban Financial Corp.

Sincerely,



Steven D. VanDemark
Chairman
Rurban Financial Corp.

THE BANK THE STATE BANK AND TRUST COMPANY



The State Bank and Trust Company Value Proposition

The State Bank and Trust Company has been a leading provider of financial services in Northwest Ohio for over 105 years, and its purpose and mission are expressed in its Value Proposition:

"Your Financial Partner" delivering proactive and innovative solutions locally through employees with a passion for service.

Who We Are

We are a unique group of individuals with diverse backgrounds and common values bonded together with an insatiable desire to simplify and improve each client's financial life. We concentrate on doing the right thing for the client 100% of the time. We know that our clients are depending on us to direct and aid them in their financial affairs, and we take that responsibility seriously, and we deliver. That's why we say, **"Just Ask the Bank, We Know the Way".**



Mark A. Klein, *President and CEO*
David A. Anderson; Alan E. Fiser; David A. Homoelle; David L. Schnepp, *Regional Presidents*
Jonathan R. Gathman; Steven R. Grube, *Executive Vice Presidents*

GROWTH AND PROFITABILITY IN 2008

For 2008, we expanded our presence in Northwest Ohio, gained a market presence in Columbus, Ohio, improved overall profitability, and grew our balance sheet, all while improving efficiency. This progress was accomplished while facing adversity in the global financial markets and local economic headwinds.

The acquisition of National Bank of Montpelier ("NBM") in December provided us an adjacent, stable market, plus a solid base of low-cost, core funding. The integration of our proactive sales culture, coupled with our broader product offering, will allow us to organically grow this Williams County market.

In late 2007, we entered the greater Columbus market under the leadership of David A. Homoelle, Regional President, seeking low-risk commercial loans and at year-end 2008 we had generated over $13 million in these targeted loans. Next, we acquired several key mortgage staff members with proven backgrounds and we expect that nearly one-half of our total 2009 residential loan volume will come from the Columbus market.

Some of our other Growth and Profitability accomplishments for 2008 include:

- Banking profitability improved 55% from $2.9 million in 2007 to $4.5 million in 2008.
- Loan growth expanded from $389 million in 2007 to $450 million, or 15%, including NBM.
- Core transaction deposits improved from $183 million to $241 million, or 32%, aided by the NBM acquisition.
- Our aggressive and targeted referral program provided $2.0 million in deposits, $26.4 million in loans and $7.8 million in trust assets.
- Our liability-sensitive balance sheet and the decline in interest rates in 2008 improved our net interest income by approximately $2.4 million.
- Tight control of operating expenses resulted in only a 1.3% increase year-over-year enabling us to reduce our efficiency ratio to 72.5% from 77.2%, year-over-year.

Engaged regional leadership, motivated sales managers, and "certified" front-line customer service representatives will not be deterred from our vision to become a "High-Performance Community Bank".

2009 STRATEGY AND OBJECTIVES

We continue to use the Balanced Scorecard approach to manage and guide every initiative. In addition to the overall Bank's major initiatives and goals, each business unit and individual has objective-specific, major initiatives and goals designed to deliver the business plan results.

As we enter 2009, we are looking toward the following major initiatives to take us to the next level:

- We must develop and retain both seasoned and developing talent, which we are accomplishing with a detailed performance-based incentive plan, a well-defined Succession Plan, and a multi-year management training program.
- We will attempt to deepen our client relationships by cross-selling at least three additional services with each new deposit account and increasing our services per existing household from 2.70 to 3.24 in 2009.
- Each department has made quantified commitments to each other to achieve increased referral goals.

We are acutely aware of the broader challenges we face in our economy today. These challenges, in turn, require significant changes to survive and compete, and our team will work tirelessly to continue to build shareholder value.

The State Bank and Trust Company



Mark A. Klein
President and CEO

RELIANCE
FINANCIAL SERVICES



Reliance Financial Services Value Proposition

For over 50 years, we have been helping our clients fill their wants and needs in their financial lives while encouraging the use of a strategically implemented financial plan. This mission is represented in our Value Proposition:

Growing and preserving your wealth…with sound advice, quality products, and a local, expert staff.

Who We Are

Reliance Financial Services, the trust and wealth management division of The State Bank and Trust Company, has been providing trust services and investment advice since 1956. As the largest community bank trust company in Northwest Ohio, we are charged with growing and preserving our clients' wealth. Our focus on mission and vision is continuous and our goals are lived by our staff daily. Our services include virtually all aspects of investment management, trust administration, and retirement planning. We are distinguished by our knowledge, professionalism, and our passion to help our clients achieve their financial pursuits.





Craig A. Kuhlman, *President*
David A. Bell, *Executive Vice President*

GROWTH AND PROFITABILITY IN 2008

The financial service industry faced many challenges during 2008, and Reliance experienced that impact in both its investment and financial returns.

Despite the challenges we faced this past year, we concluded 2008 with positive profitability as measured by net-income and performed well in comparison to industry benchmarks. We also positioned our clients' portfolios to take advantage of the recent market declines with active rebalancing and increasing our equity allocations. Although this has led to underperformance in short-term returns, this strategy should increase our likelihood of outperforming in the long-term, which is consistent with the longer-term objectives of most of our clients.

With the recent changes in the banking landscape, we were able to add to our staff by locating and hiring skilled and talented professionals to cover our Lima and Fort Wayne markets. We believe that, strategically, this is the time to position our organization to grow those markets.

We managed to greatly improve upon our efficiency and moved closer toward peer level performance in our retail brokerage and platform side of our business and will persist in that effort throughout 2009.

In 2008, we also introduced a Separately Managed Account (SMA) product to take advantage of the desire to use individual securities as a strategy in achieving long-term investment objectives.

As we continued to work hand-in-hand this past year with our banking staff, we once again increased year-over-year the level of referred managed assets, which resulted in new relationships.

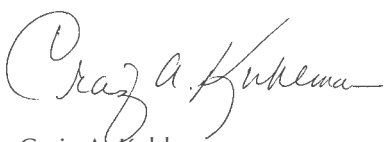
2009 STRATEGY AND OBJECTIVES

As we look toward 2009 we will persevere in our growth plans by continuing our search for the right talent doing the right things.

- With the State Bank's expansion into Columbus and Williams County, we will look forward to entering these new markets.
- We will be taking advantage of a sales initiative that identifies qualified retirement plan prospects in each of our markets.
- We will be introducing a new planning and sales approach that will enhance the process experienced by our clients and prospects.
- We will consider potential acquisitions of firms that may wish to partner, or sell, their businesses, allowing expansion of our business.

Finally, we will do all this without changing our long-standing tradition of providing excellent investment returns that meet the current and future needs of our clients who have remained so loyal to us throughout the years.

Reliance Financial Services



Craig A. Kuhlman
President

RDSI Banking Systems

DIVERSE COMPUTER MARKETERS, INC.



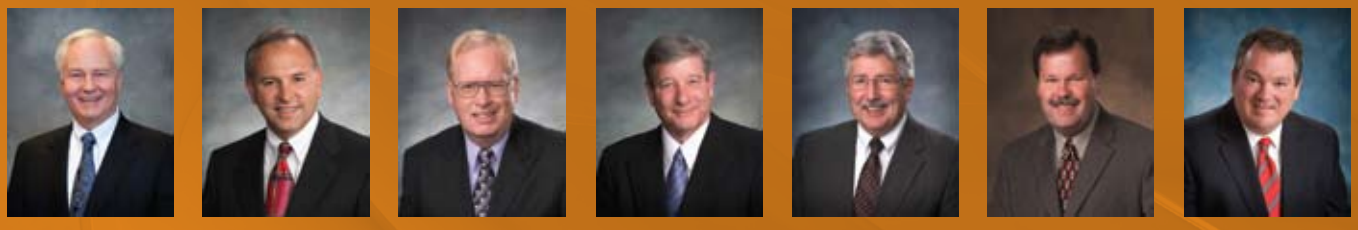
RDSI Banking Systems Value Proposition

For more than 40 years, RDSI Banking Systems has offered exceptional service and a commitment to be the best professional partner for our client banks. This mission is reflected in our Value Proposition:

A technology leader, secure provider and trusted advisor providing the best overall value and outstanding service to the financial community.

Who We Are

Centered in the Midwest, RDSI is one of the largest regional providers of data and item processing services for the banking industry. We remain focused on providing the most current, high-quality technology at competitive costs to our clients. We believe in becoming a working technology partner of our clients, and therefore, take our dedication and commitment to them personally.



Henry R. Thiemann, *President*
William C. Brandt; James M. Bremer; Jon A. Brenneman; Timothy Pearson; Gary A. Saxman; Jeffrey D. Sewell, *Executive Vice Presidents*

GROWTH AND PROFITABILITY IN 2008

During 2008, RDSI continued to execute its expansion strategy into the Western and Southeastern states, which somewhat mitigated the economic difficulties in the Midwest. RDSI concluded 2008 with a total of 113 clients utilizing data processing and/or item processing services. These clients are located in ten states and are serviced by our technical support and sales staffs located in Defiance, Ohio and Lansing, Michigan.

New records were again attained in 2008 for revenue and net income. Gross revenue increased by 4.6% to $21.6 million and net income increased by 14.0% to $2.8 million. Six new client banks were converted during the year, and we welcome them to the RDSI family.

In addition to new bank clients, 60 of our existing client banks purchased 206 additional products during the year to better serve their customers and to better utilize technology in the rapidly changing banking industry. Chosen from over 140 products on our menu of offerings, these additional technology applications permit our clients to better analyze their customer bases, to improve their products and services, and to improve their internal controls. During 2008, we launched nine new products, which included enhanced, secured e-mail and an improved collections program.

Internally, we continued to closely monitor operating expenses and expand staff education. We also held seven client conferences and a CEO conference, moderated several meetings for newer (DeNovo) banks, and conducted executive visits to many clients.

2009 STRATEGY AND OBJECTIVES

Looking ahead to 2009:

- We will continue our geographic expansion. We added a new client bank in our eleventh state and we expect to add clients in two more states during 2009.
- Revenue growth will be a challenge in 2009, but our calendar already has eight new bank data processing conversions scheduled, most of which also include item processing.
- Staff education will continue to expand, maintaining our staff's technical capabilities. We have an emphasis on discovering and adapting to evolving technology in our changing industry.
- In early 2009, RDSI will initiate the RDSI Image Exchange. This network is designed to provide a more efficient, less costly method for our client banks to clear and settle their check images. RDSI anticipates that this will generate significant savings for our client banks.

We are truly driven by focusing on superior customer service, geographic expansion and client growth, and of course, improving the technology solutions available to our clients. We intend to continue to ensure that our client banks 'win' in this challenging environment.

RDSI Banking Systems



Henry R. Thiemann
President

Directors, Advisory Boards and Officers



Front Row: Steven VanDemark, Thomas Buis, Thomas Sauer, Robert Fawcett and Kenneth Joyce
Back Row: Thomas Callan, J. Michael Walz, Rita Kissner, Richard Hardgrove and John Compo

RURBAN FINANCIAL CORP.

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General Manager
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Retired President
Spencer-Patterson Insurance

THOMAS M. CALLAN
Retired President
Defiance Stamping Company

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Chairman and President
Compo Corporation

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Insurance Consultant
Fawcett, Lammon, Recker and
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Retired Deputy Superintendent of
Banks, Ohio

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Chief Executive Officer
Rurban Financial Corp.

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Retired Mayor of Defiance

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City Beverage Company

J. MICHAEL WALZ, D.D.S.
President
Defiance Dental Group

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Human Resources Director

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Loan Review Officer

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Directors, Advisory Boards and Officers

THE STATE BANK AND TRUST COMPANY

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Chairman
General Manager
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Insurance Consultant
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Spencer-Patterson Insurance

THOMAS M. CALLAN
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Defiance Stamping Company

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Retired Deputy Superintendent of
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Chief Executive Officer
The State Bank and Trust Company

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President
City Beverage Company

J. MICHAEL WALZ, D.D.S.
President
Defiance Dental Group

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Azzarello's Realty

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Stolly Insurance Group

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C & Y Oil

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Stahl, Stoller, Meyer Insurance

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Williamson Insurance Agency

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Chief Executive Officer

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Compliance and Risk Manager

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Vice President
Marketing Manager

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BSA / CRA Officer

ERIN S. DERROW
Assistant Vice President
Staff Attorney

SARAH S. MEKUS
Officer
Corporate Secretary

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Lima Regional President

ALAN E. FISER
Williams County Regional President

DAVID A. HOMOELLE
Columbus Regional President

JOHN A. KENDZEL
Toledo Regional President

DAVID L. SCHNEPP
Fort Wayne Regional President

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Chief Financial Officer

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Vice President
Controller

CAROL M. ROBBINS
Vice President
Asset Liability Manager

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Senior Vice President
Agri-Services Manager

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Assistant Vice President
Commercial Services Officer

RITA M. SWITZER
Assistant Vice President
Loan Assistant Supervisor

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Collections and Resource Recovery Manager

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Assistant Vice President
Collections and Resource Recovery Officer

PAMELA A. HURST
Assistant Vice President
Collections and Resource Recovery Officer

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Senior Lender

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Commercial Services Officer

RYAN D. MILLER
Senior Vice President
Market Executive - Fulton County District

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Senior Vice President
Commercial Services Officer

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Commercial Services Officer

KIRK D. STONEROCK
Assistant Vice President
Commercial Services Officer

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Payment Systems Manager

MARGARET S. THOMPSON
Vice President
Deposit Operations Manager

MARC H. BEACH
Assistant Vice President
Facilities Manager

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Senior Vice President
Chief Deposit Officer

LESLEY L. PARRETT
Assistant Vice President
Deposit Services Officer

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Mortgage Operations Manager

MELINDA L. CLINE
Vice President
Loan Operations Manager

SUSAN A. ERHART
Assistant Vice President
Mortgage Process Underwriter

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Mortgage Underwriter

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Residential Mortage Loan Originator

ROBERT W. WARNER
Assistant Vice President
Residential Mortage Loan Originator

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Chief Retail Officer

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Sales Manager

DIANNE T. JONES
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District Sales Manager

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Security Officer / Branch
Operations Administrator

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Sales Manager

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Assistant Vice President
District Sales Manager

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Sales Manager – Fort Wayne

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Assistant Vice President
Customer Service Specialist

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Assistant Vice President
Sales Manager

DONALD O. TRUMBULL
Assistant Vice President
Sales Manager

RELIANCE FINANCIAL SERVICES

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Executive Vice President
Retirement Plan Services Manager

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Senior Vice President
Sales and Client Services Manager

TRACY A. BAUGHMAN
Vice President
Investment Services Manager

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Regional Trust Officer

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Senior Trust Administrator II

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Vice President
Senior Trust Administrator I

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Trust Operations Services Manager

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Assistant Vice President
Office Manager

BRIAN W. WENTLING
Assistant Vice President
Brokerage Services Manager

Directors, Advisory Boards and Officers

RDSI BANKING SYSTEMS

DIRECTORS

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Chairman
Chief Executive Officer
RDSI Banking Systems

DONALD E. DEWITT
Administration
Pickerington School District

JOHN W. SCHOCK
President and
Chief Executive Officer
FMS

HENRY R. THIEMANN
President
RDSI Banking Systems

STEVEN D. VANDEMARK
General Manager
The Defiance Publishing Company

J. MICHAEL WALZ, D.D.S.
President
Defiance Dental Group

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Chief Executive Officer

HENRY R. THIEMANN
President

GARY A. SAXMAN
Chief Operating Officer

TIMOTHY PEARSON
Executive Vice President
Product Development and Special Projects

VALDA L. COLBART
Corporate Secretary

ACCOUNTING AND FINANCE

JASON R. THORNELL
Vice President
Financial and Risk Manager

APPLICATION SUPPORT

LEON R. ERICKSON
Vice President
Application Services Manager

CRAIG BROWN
Assistant Vice President
Senior Application Specialist

DANIEL D. FERRIS
Assistant Vice President
Project Manager

CLIENT RELATIONS

JEFFREY D. SEWELL
Executive Vice President
Chief Client Relations Officer

DAVID E. HARRINGTON
Senior Vice President
Client Relations Manager

AMY S. EISENHOUR
Vice President
Client Relations Manager

DEAN M. STOECKLIN
Vice President
Client Relations Manager

STEVEN E. STRUBLE
Vice President
Customer Services Manager

INFORMATION SERVICES

JAMES M. BREMER
Executive Vice President
Information Systems Manager

JOSEPH A. BUERKLE
Senior Vice President
Systems Infrastructure Manager

STEVEN K. RILEY
Vice President
Computer Operations Manager

JEREMY CULLEN
Assistant Vice President
Information Technology

DANA S. SMITH
Assistant Vice President
Assistant Computer Operations Manager

NETWORK SERVICES

R. SCOTT LERCH
Vice President
Network Services Manager

PAYMENT SOLUTIONS

WILLIAM C. BRANDT
Executive Vice President
Payment Solutions Executive Manager

PETER J. SCHWAGER
Senior Vice President
Payment Solutions Manager

YVONNE M. CREAMER
Vice President
Item Processing Manager

RITA A. ERICKSON
Vice President
Item Processing Manager

CHRIS A. GOOD
Assistant Vice President
Technology Manager

JEAN M. NIENBERG
Assistant Vice President
Item Processing Operations Manager

RANDY L. STRICK
Assistant Vice President
Senior Application Specialist

JULIE D. WHITE
Assistant Vice President
Item Processing Operations Manager

SALES AND MARKETING

JON A. BRENNEMAN
Executive Vice President
Chief Marketing Officer

KURT A. KRATZER
Executive Vice President
Regional Sales Manager

DANIEL C. BURNIGHT
Vice President
Regional Sales Manager

KAREN L. OSKEY
Vice President
Marketing Manager

STEVEN E. PROUD
Vice President
Regional Sales Manager



Financial Highlights

Dollars in thousands except per share data.
Year ended December 31.

	2008	2007	2006	2005	2004
EARNINGS					
Interest income	$32,669	$33,010	$30,971	$21,422	$20,028
Interest expense	15,141	18,222	15,936	9,368	7,951
Net interest income	17,528	14,788	15,035	12,054	12,077
Provision (credit) for loan losses	690	521	178	583	(399)
Non-interest income	28,061	26,861	23,755	18,338	17,376
Non-interest expense	37,557	36,637	34,904	29,054	26,009
Provision (credit) for income taxes	2,125	1,234	948	81	1,109
Net income (loss)	5,217	3,257	2,760	673	2,734
PER SHARE DATA					
Basic earnings	$1.06	$0.65	$0.55	$0.15	$0.60
Diluted earnings	1.06	0.65	0.55	0.15	0.60
Cash dividends declared	0.34	0.26	0.21	0.20	N/A
AVERAGE BALANCES					
Average shareholders' equity	$59,964	$57,945	$54,501	$51,083	$49,279
Average total assets	575,491	556,572	554,095	433,366	417,801
RATIOS					
Return on average shareholders' equity	8.70%	5.62%	5.06%	1.32%	5.55%
Return on average total assets	0.91	0.59	0.50	0.16	0.65
Cash dividend payout ratio (cash dividends divided by net income)	32.14	40.01	38.25	133.33	N/A
Average shareholders' equity to average total assets	10.42	10.41	9.84	11.79	11.79
PERIOD END TOTALS					
Total assets	$657,619	$561,214	$556,007	$530,542	$415,349
Total investments and Fed Funds sold	112,606	94,661	111,562	139,353	108,720
Total loans and leases	450,112	389,269	370,102	327,048	264,481
Loans held for sale	3,824	1,650	390	224	113
Total deposits	484,221	406,031	414,555	384,838	279,624
Notes payable	1,000	922	2,589	939	3,080
Advances from FHLB	36,647	24,000	21,000	45,500	56,000
Trust Preferred Securities	20,620	20,620	20,620	20,620	10,310
Shareholders' equity	61,662	59,325	56,955	54,451	50,306
Shareholders' equity per share	$12.63	$11.92	$11.33	$10.83	$11.01

Management's Report on Internal Control Over Financial Reporting

The management of Rurban Financial Corp. (the "Corporation") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Corporation's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in conformity with U.S. generally accepted accounting principles. The Corporation's internal control over financial reporting includes those policies and procedures that:

a) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation and its consolidated subsidiaries;

b) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in conformity with U.S. generally accepted accounting principles, and that receipts and expenditures of the Corporation and its consolidated subsidiaries are being made only in accordance with authorizations of management and directors of the Corporation; and

c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of the Corporation and its consolidated subsidiaries that could have a material effect on the financial statements.

With the supervision and participation of our President and Chief Executive Officer, and our Chief Financial Officer, management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2008, based on the criteria set forth for effective internal control over financial reporting by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control Integrated Framework." Based on our assessment and those criteria, management concluded that, as of December 31, 2008, the Corporation's internal control over financial reporting is effective.

This Annual Report does not include an attestation report of the Corporation's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Corporation's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Corporation to provide only management's report in this Annual Report.

RURBAN FINANCIAL CORP.



Kenneth A. Joyce
President and Chief Executive Officer



Duane L. Sinn
Chief Financial Officer

February 17, 2009

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders
Rurban Financial Corp.
Defiance, Ohio

We have audited the accompanying consolidated balance sheets of Rurban Financial Corp. as of December 31, 2008 and 2007, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2008. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Rurban Financial Corp. as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 24 to the financial statements, effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements." Also, as discussed in Note 24 to the financial statements, effective January 1, 2008, the Company adopted Emerging Issues Task Force No. 06-4, "Accounting for Deferred Compensation and Post-retirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements."

BKD, LLP

Cincinnati, Ohio
February 17, 2009

Rurban Financial Corp.

Consolidated Balance Sheets
December 31

Assets

	2008	2007
Cash and due from banks	$ 18,059,532	$ 15,183,627
Federal funds sold	10,000,000	2,000,000
Cash and cash equivalents	28,059,532	17,183,627
Available-for-sale securities	102,606,475	92,661,386
Loans held for sale	3,824,499	1,649,758
Loans, net of unearned income	450,111,653	389,268,744
Allowance for loan losses	(5,020,197)	(3,990,455)
Premises and equipment, net	17,621,262	15,128,754
Federal Reserve and Federal Home Loan Bank Stock, at cost	4,244,100	4,021,200
Foreclosed assets held for sale, net	1,384,335	124,131
Interest receivable	2,964,663	3,008,968
Goodwill	21,414,790	13,940,618
Core deposits and other intangibles	5,835,936	5,135,228
Purchased software	5,867,395	4,282,563
Cash value of life insurance	12,625,015	12,160,581
Other assets	6,079,451	6,638,895
Total assets	$ 657,618,909	$ 561,213,998

Rurban Financial Corp.

Consolidated Balance Sheets
December 31

Liabilities and Stockholders' Equity

	2008	2007
Liabilities		
Deposits		
Non interest bearing demand	$ 52,242,626	$ 41,541,297
Interest bearing NOW	73,123,095	54,308,665
Savings	34,313,586	25,320,126
Money Market	82,025,074	61,380,252
Time Deposits	242,516,203	223,480,842
Total deposits	484,220,584	406,031,182
Short-term borrowings	43,425,978	43,006,438
Notes payable	1,000,000	922,457
Federal Home Loan Bank advances	36,646,854	24,000,000
Trust preferred securities	20,620,000	20,620,000
Interest payable	1,965,842	2,532,914
Deferred income taxes	2,987,770	1,310,602
Other liabilities	5,089,877	3,465,171
Total liabilities	595,956,905	501,888,764
Commitments and Contingent Liabilities		
Stockholders' Equity		
Common stock, $2.50 stated value; authorized		
10,000,000 shares; 5,027,433 shares issued	12,568,583	12,568,583
Additional paid-in capital	15,042,781	14,923,571
Retained earnings	35,785,317	32,361,106
Accumulated other comprehensive income (loss)	(121,657)	82,235
Treasury stock, at cost		
Common; 2008 - 145,981 shares, 2007 - 48,500 shares	(1,613,020)	(610,260)
Total stockholders' equity	61,662,004	59,325,235
Total liabilities and stockholders' equity	$ 657,618,909	$ 561,213,998

See Notes to Consolidated Financial Statements

Rurban Financial Corp.

Consolidated Statements of Income
Years Ended December 31

	2008	2007	2006
Interest Income			
Loans			
Taxable	$ 27,473,302	$ 27,782,068	$ 24,958,988
Tax-exempt	84,878	73,451	63,356
Securities			
Taxable	4,289,728	4,283,508	5,211,672
Tax-exempt	686,458	645,451	559,518
Other	134,079	225,151	176,884
Total interest income	32,668,445	33,009,629	30,970,418
Interest Expense			
Deposits	10,066,325	13,595,896	11,022,161
Notes payable	34,576	126,812	74,904
Repurchase Agreements	1,821,330	1,615,016	848,277
Federal funds purchased	18,432	39,047	97,226
Federal Home Loan Bank advances	1,508,115	1,037,026	2,106,385
Trust preferred securities	1,691,792	1,808,520	1,787,023
Total interest expense	15,140,570	18,222,317	15,935,976
Net Interest Income	17,527,875	14,787,312	15,034,442
Provision for Loan Losses	689,567	521,306	177,838
Net Interest Income After Provision for Loan Losses	16,838,308	14,266,006	14,856,604
Non-interest Income			
Data service fees	20,165,451	19,382,115	15,011,143
Trust fees	3,081,898	3,385,320	3,192,025
Customer service fees	2,416,093	2,243,745	2,161,153
Net gains on loan sales	740,985	574,000	1,310,536
Net realized gains (losses) on sales of available-for-sale securities	-	1,998	(494,885)
Net proceeds from VISA IPO	132,106	-	-
Investment securities recoveries	197,487	-	889,454
Loan servicing fees	235,095	227,017	358,321
Gain on sale of assets	247,517	29,477	94,198
Other	844,105	1,017,727	1,233,376
Total non-interest income	$ 28,060,737	$ 26,861,399	$ 23,755,321

Rurban Financial Corp.

Consolidated Statements of Income
Years Ended December 31

	2008	2007	2006
Non-interest Expense			
Salaries and employee benefits	$ 17,318,103	$ 17,007,314	$ 16,584,146
Net occupancy expense	2,015,946	1,994,299	1,840,864
Equipment expense	6,308,564	6,586,623	5,850,281
Data processing fees	427,251	469,808	562,265
Professional fees	1,859,447	2,226,577	2,395,863
Marketing expense	831,727	820,528	669,764
Printing and office supplies	554,267	661,760	619,100
Telephone and communications	1,686,834	1,781,277	1,705,261
Postage and delivery expense	2,165,098	1,545,340	735,210
Insurance expense	154,670	140,651	171,363
Employee expense	1,084,028	1,083,056	978,832
State, local and other taxes	985,503	584,031	674,280
FHLB prepayment penalties	-	-	214,886
Other	2,165,175	1,735,346	1,901,452
Total non-interest expense	37,556,613	36,636,610	34,903,567
Income Before Income Tax	7,342,432	4,490,795	3,708,358
Provision for Income Taxes	2,125,193	1,234,160	948,116
Net Income	$ 5,217,239	$ 3,256,635	$ 2,760,242
Basic Earnings Per Share	$ 1.06	$ 0.65	$ 0.55
Diluted Earnings Per Share	$ 1.06	$ 0.65	$ 0.55

See Notes to Consolidated Financial Statements

Rurban Financial Corp.

Consolidated Statements of Stockholders' Equity
Years Ended December 31

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2006	$ 12,568,583	$ 14,835,110	$ 28,702,817	$ (1,655,862)	$ -	$ 54,450,648
Comprehensive Income						
Net Income			2,760,242			2,760,242
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect				775,969		775,969
Total comprehensive income						3,536,211
Dividends on common stock, $0.21 per share			(1,055,761)			(1,055,761)
Expense of stock option plan		24,055				24,055
Balance, December 31, 2006	12,568,583	14,859,165	30,407,298	(879,893)	-	56,955,153
Comprehensive Income						
Net Income			3,256,635			3,256,635
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect				962,128		962,128
Total comprehensive income						4,218,763
Dividends on common stock, $0.26 per share			(1,302,827)			(1,302,827)
Expense of stock option plan		64,406				64,406
Shares repurchased under stock repurchase plan					(610,260)	(610,260)
Balance, December 31, 2007	12,568,583	14,923,571	32,361,106	82,235	(610,260)	59,325,235
Comprehensive Income						
Net Income			5,217,239			5,217,239
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect				(203,892)		(203,892)
Total comprehensive income						5,013,347
Dividends on common stock, $0.34 per share			(1,676,723)			(1,676,723)
Expense of stock option plan		119,210				119,210
Cumulative effect adjustment for split dollar BOLI			(116,305)			(116,305)
Shares repurchased under stock repurchase plan					(1,002,760)	(1,002,760)
Balance, December 31, 2008	$ 12,568,583	$ 15,042,781	$ 35,785,317	$ (121,657)	$ (1,613,020)	$ 61,662,004

Rurban Financial Corp.

Consolidated Statements of Cash Flows
Years Ended December 31

	2008	2007	2006
Operating Activities			
Net Income	$ 5,217,239	$ 3,256,635	$ 2,760,242
Items not requiring (providing) cash			
Depreciation and amortization	3,684,358	3,969,922	3,544,965
Provision for loan losses	689,567	521,306	177,838
Expense of stock option plan	119,210	64,406	24,055
Amortization of premiums and discounts on securities	133,614	48,799	206,096
Amortization of intangible assets	710,324	723,754	535,351
Deferred income taxes	1,482,203	(795,035)	(460,305)
FHLB Stock Dividends	(127,200)	(47,250)	(385,950)
Proceeds from sale of loans held for sale	38,708,669	18,032,822	11,328,770
Originations of loans held for sale	(40,142,425)	(18,718,482)	(11,326,566)
Gain from sale of loans	(740,985)	(574,000)	(1,249,148)
Gain on sale of foreclosed assets	(4,517)	-	(113,729)
(Gain) loss on sales of fixed assets	(243,000)	(29,396)	19,530
Net realized gains on available-for-sale securities	-	-	494,885
Changes in			
Interest receivable	935,431	120,806	(119,419)
Other assets	641,023	(254,227)	296,344
Interest payable and other liabilities	(1,400,738)	(408,466)	(1,081,796)
Net cash provided by operating activities	9,662,773	5,911,594	4,651,163
Investing Activities			
Net change in interest-bearing accounts	-	150,000	-
Purchases of available-for-sale securities	(46,231,266)	(29,501,721)	(15,375,196)
Proceeds from maturities of available-for-sale securities	48,098,994	37,247,138	19,506,403
Proceeds from sales of available-for-sale securities	36,519,016	3,464,242	33,263,994
Proceeds from sale of credit card portfolio and non-performing loans	-	-	5,760,603
Net change in loans	(19,140,093)	(19,653,367)	(49,367,497)
Purchase of premises, equipment and software	(8,045,766)	(3,701,669)	(9,042,264)
Proceeds from sales of premises, equipment and software	2,327,708	401,241	2,880,497
Purchase of bank owned life insurance	-	(1,000,000)	-
Proceeds from sale of foreclosed assets	604,873	-	2,811,928
Cash paid to shareholders of Exchange Bank Acquisition	-	-	(6,526,646)
Cash paid to shareholders of Diverse Computer Marketers, Inc. Acquisition	-	(266,560)	(4,872,961)
Net cash paid to acquire The National Bank of Montpelier	(14,779,983)	-	-
Proceeds from sale of Federal Reserve stock	-	19,500	-
Net cash used in investing activities	(646,517)	(12,841,196)	(20,961,139)

See Notes to Consolidated Financial Statements

	2008	2007	2006
Financing Activities			
Net increase in demand deposits, money market, interest checking and savings accounts	$ 18,765,273	$ 5,717,453	$ 553,021
Net increase (decrease) in certificates of deposit	(27,370,079)	(14,241,716)	29,164,512
Net increase in securities sold under agreements to repurchase	419,540	10,735,538	26,190,480
Net decrease in federal funds purchased	-	-	(4,600,000)
Proceeds from Federal Home Loan Bank advances	24,000,000	14,000,000	47,900,000
Repayment of Federal Home Loan Bank advances	(11,353,145)	(11,000,000)	(72,400,000)
Proceeds from notes payable	1,000,000	-	2,700,000
Repayment of notes payable	(922,457)	(1,666,750)	(2,311,326)
Purchase of treasury stock	(1,002,760)	(610,260)	-
Dividends paid	(1,676,723)	(1,302,827)	(1,055,759)
Net cash provided by financing activities	1,859,649	1,631,438	26,140,928
Increase (Decrease) in Cash and Cash Equivalents	10,875,905	(5,298,164)	9,830,952
Cash and Cash Equivalents, Beginning of Year	17,183,627	22,481,791	12,650,839
Cash and Cash Equivalents, End of Year	$ 28,059,532	$ 17,183,627	$ 22,481,791
Supplemental Cash Flows Information			
Interest paid	$ 15,707,642	$ 17,913,818	$ 15,084,607
Income taxes paid - net of refunds	$ (1,212,000)	$ (2,430,000)	$ (948,000)
Transfer of loans to foreclosed assets	$ 2,292,731	$ 320,600	$ 556,677
Net assets acquired in business combination	$ 113,441,000	$ -	$ -
Net liabilities assumed in business combination	$ 88,211,000	$ -	$ -

Rurban Financial Corp.

Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Rurban Financial Corp. ("Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, The State Bank and Trust Company ("State Bank"), RFCBC, Inc. ("RFCBC"), RDSI Banking Systems ("RDSI"), Rurban Statutory Trust I ("RST I"), and Rurban Statutory Trust II ("RST II"). State Bank owns all of the outstanding stock of Rurban Mortgage Company ("RMC"). State Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Northwest Ohio and Northeast Indiana. State Bank is subject to competition from other financial institutions. State Bank is regulated by certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. RFCBC operates as a loan subsidiary that continues to administer one classified loan. RDSI provides data and item processing services to community banks in Arkansas, Florida, Illinois, Indiana, Kansas, Michigan, Missouri, Nebraska, Nevada, Ohio and Wisconsin. RFS offers a diversified array of trust and financial services to customers nationwide. RST I and RST II are trusts which were organized in 2000 and 2005, respectively, to manage the Company's trust preferred securities.

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents.

Securities

Available-for-sale securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income.

Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

The Company evaluates its securities portfolio for impairment throughout the year. An impairment is recorded against individual equity securities if their cost significantly exceeds their fair value for a substantial amount of time. An impairment is also recorded for investments in debt securities, unless the decrease in fair value is attributable to interest rates and management has the intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

Mortgage Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoffs, are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Generally, loans are placed on non-accrual status not later than 90 days past due, unless the loan is well-secured and in the process of collection.

Allowance for Loan Losses

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

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

A loan is considered impaired when, based on current information and events, it is probable that State Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration each of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial, agricultural, and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, State Bank does not separately identify individual consumer and residential loans for impairment measurements.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method for buildings and the declining balance method for equipment over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases.

Federal Reserve and Federal Home Loan Bank Stock

Federal Reserve and Federal Home Loan Bank stock are required investments for institutions that are members of the Federal Reserve and Federal Home Loan Bank systems. The required investment in the common stock is based on a predetermined formula.

Foreclosed Assets Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or the fair value less cost to sell. Revenue and expenses from operations related to foreclosed assets and changes in the valuation allowance are included in net income or expense from foreclosed assets.

Goodwill

Goodwill is tested for impairment annually. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value, if any, are not recognized in the financial statements.

Intangible Assets

Intangible assets are being amortized on a straight-line basis over weighted-average periods ranging from one to fifteen years. Such assets are periodically evaluated as to the recoverability of their carrying value. Purchased software is being amortized using the straight-line method over periods ranging from one to three years.

Mortgage Servicing Rights

Mortgage servicing rights on originated loans that have been sold are initially recorded at fair value. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. Impairment of mortgage servicing rights is assessed based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on predominant risk characteristics of the underlying loans. The predominant characteristic currently used for stratification is type of loan. The amount of impairment recognized is the amount by which the capitalized mortgage servicing rights for a stratum exceed their fair value.

Share-Based Employee Compensation Plan

At December 31, 2008 and 2007, the Company had a share-based employee compensation plan, which is described more fully in Note 19. The Company accounts for this plan under the recognition and measurement principles of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment.*

Income Taxes

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax basis of assets and liabilities. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized. The Company files consolidated income tax returns for its subsidiaries.

Treasury Shares

Treasury stock is stated at cost. Cost is determined by first-in, first-out method. On April 12, 2007, Rurban initiated a stock repurchase program, authorizing the repurchase of up to 250,000 shares, or approximately five percent, of the Company's outstanding shares. As of year-end, the Company had repurchased a total of 145,981 shares at an average cost of $11.05 per share.

Earnings Per Share

Earnings per share have been computed based upon the weighted-average common shares outstanding during each year.

Current Economic Conditions

The current economic environment presents financial institutions with unprecedented circumstances and challenges, which in some cases have resulted in large declines in the fair values of investments and other assets, constraints on liquidity and significant credit quality problems, including severe volatility in the valuation of real estate and other collateral supporting loans. The financial statements have been prepared using values and information currently available to the Company.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the allowance for loan losses, and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity.

Reclassifications

Certain reclassifications have been made to the 2006 and 2007 financial statements to conform to the 2008 financial statement presentation. These reclassifications had no affect on net income.

Note 2: Restriction on Cash and Due From Banks

State Bank is required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2008, was $1,810,000.

Note 3: Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-Sale Securities:				
December 31, 2008:				
U.S. Treasury and Government agencies	$ 15,146,301	$ 65,978	$ (28,396)	$ 15,183,883
Mortgage-backed securities	64,329,865	1,014,453	(797,893)	64,546,425
State and political subdivisions	23,241,636	22,010	(462,215)	22,801,431
Equity securities	23,000	-	-	23,000
Other securities	50,000	1,736	-	51,736
	$ 102,790,802	$ 1,104,177	$ (1,288,504)	$ 102,606,475
December 31, 2007:				
U.S. Treasury and Government agencies	$ 40,133,111	$ 76,292	$ (20,040)	$ 40,189,363
Mortgage-backed securities	36,339,539	370,134	(330,074)	36,379,599
State and political subdivisions	15,991,138	91,752	(64,211)	16,018,679
Equity securities	23,000	-	-	23,000
Other securities	50,000	745	-	50,745
	$ 92,536,788	$ 538,923	$ (414,325)	$ 92,661,386

The amortized cost and fair value of securities available for sale at December 31, 2008, 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	Fair Value
Within one year	$ 1,749,631	$ 1,749,631
Due after one year through five years	5,816,222	5,865,316
Due after five years through ten years	14,593,591	14,538,964
Due after ten years	16,278,493	15,883,139
	38,437,937	38,037,050
Mortgage-backed securities & Equity Securities	64,352,865	64,569,425
Totals	$ $102,790,802	$ $102,606,475

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $45,770,494 at December 31, 2008, and $44,634,646 at December 31, 2007. The securities delivered for repurchase agreements were $51,419,727 at December 31, 2008, and $49,177,253 for 2007.

Gross gains of $0, $1,998, and $7,928 and gross losses of $0, $0, and $502,813 resulting from sales of available-for-sale securities were realized for 2008, 2007 and 2006, respectively. The tax expense for net security gains (losses) for 2008, 2007, and 2006 were $0, $679, and $(168,000), respectively.

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 at December 31, 2008 and 2007, were $26,135,897 and $20,200,650, which is approximately 25% and 22% of the Company's available-for-sale investment portfolio, respectively.

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.

In 2002, the Company took an after-tax loss of $1.1 million on an investment in WorldCom bonds. In 2006, $889,454 of this loss was recovered, which resulted in a $587,000 after-tax gain. In 2008, an additional amount of $197,487 was recovered, which resulted in a $130,000 after-tax gain.

Securities with unrealized losses at December 31, 2008, are as follows:

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-Sale Securities:						
U.S. Treasury and Government agencies	$ 974,720	$ (28,396)	$ -	$ -	$ 974,720	$ (28,396)
Mortgage-backed securities	9,619,369	(571,239)	1,590,836	(226,654)	11,210,205	(797,893)
State and political subdivisions	12,756,053	(441,439)	1,194,919	(20,776)	13,950,972	(462,215)
	$ 23,350,142	$ (1,041,074)	$ 2,785,755	$ (247,430)	$ 26,135,897	$ (1,288,504)

Securities with unrealized losses at December 31, 2007, are as follows:

	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	$ -	$ -	$ 3,979,960	$ (20,040)	$ 3,979,960	$ (20,040)
Mortgage-backed securities	1,508,150	(7,235)	9,203,980	(322,839)	10,712,130	(330,074)
State and political subdivisions	1,728,883	(10,378)	3,779,677	(53,833)	5,508,560	(64,211)
	$ 3,237,033	$ (17,613)	$ 16,963,617	$ (396,712)	$ 20,200,650	$ (414,325)

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31 include:

	2008	2007
Commercial	$ 83,645,408	$ 83,048,522
Commercial real estate	161,566,005	126,784,483
Agricultural	43,641,132	43,369,266
Residential real estate	107,905,198	84,620,992
Consumer	53,338,523	51,357,419
Leasing	266,348	330,000
Total loans	450,362,614	389,510,682
Less		
Net deferred loan fees, premiums and discounts	(250,961)	(241,938)
Loans, net of unearned income	450,111,653	389,268,744
Allowance for loan losses	$ (5,020,197)	$ (3,990,455)

Activity in the allowance for loan losses was as follows:

	2008	2007	2006
Balance, beginning of year	$ 3,990,455	$ 3,717,377	$ 4,699,827
Balance, National Bank of Montpelier	1,104,591	-	-
Provision charged to expense	689,567	521,306	177,838
Recoveries	157,790	183,987	656,963
Losses charged off	(922,206)	(432,215)	(1,817,251)
Balance, end of year	$ 5,020,197	$ 3,990,455	$ 3,717,377

Individual loans determined to be impaired were as follows:

	At December 31, 2008	2007	2006
Year-end impaired loans with no allowance for loan losses allocated	$ 1,706,246	$ 1,786,931	$ 607,469
Year-end loans with allowance for loan losses allocated	$ 865,710	$ 1,897,903	$ 1,514,169
Total impaired loans	$ 2,571,956	$ 3,684,834	$ 2,121,638
Amount of allowance allocated	$ 322,190	$ 332,805	$ 224,630
Average of impaired loans during the year	$ 2,158,106	$ 2,805,689	$ 4,177,213
Interest income recognized during impairment	$ 11,970	$ 63,425	$ 46,917
Cash-basis interest income recognized	$ 14,807	$ 74,940	$ 50,779

At December 31, 2008, 2007, and 2006 accruing loans delinquent 90 days or more totaled $0. Non-accruing loans at December 31, 2008, 2007, and 2006 were $5,178,000, $5,990,000, and $3,828,000, respectively.

Note 5: Premises and Equipment

Major classifications of premises and equipment stated at cost, were as follows at December 31:

	2008	2007
Land	$ 2,071,883	$ 1,720,883
Buildings and improvements	14,781,372	12,327,515
Equipment	10,205,378	11,878,202
Construction in progress	1,064,890	447,295
	28,123,523	26,373,895
Less accumulated depreciation	(10,502,261)	(11,245,141)
Net premises and equipment	$ 17,621,262	$ 15,128,754

Note 6: Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2008, 2007 and 2006 were:

	2008	2007	2006
Balance as of January 1	$ 13,940,618	$ 13,674,058	$ 8,917,373
Goodwill acquired during the year - Data Processing	-	266,559	4,795,149
Goodwill acquired during the year - Banking	7,474,172	-	-
Adjustment on final allocation of purchase price - Banking	-	-	(38,464)
Balance as of December 31	$ 21,414,790	$ 13,940,618	$ 13,674,058

Note 7: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2008 and 2007 were:

	2008		2007	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposits intangible	$ 5,450,647	$ (1,794,702)	$ 4,039,615	$ (1,340,276)
Customer relationship intangible	200,627	(96,458)	200,627	(87,493)
Banking intangibles	5,651,274	(1,891,160)	4,240,242	(1,427,769)
Customer relationship intangible	2,389,000	(371,623)	2,389,000	(212,356)
Trademark intangible	180,000	(140,000)	180,000	(80,000)
Non-compete intangible	83,000	(64,555)	83,000	(36,889)
Data processing intangibles	2,652,000	(576,178)	2,652,000	(329,245)
Purchased software - banking	469,515	(199,364)	645,778	(447,930)
Purchased software - data processing	11,172,252	(5,662,679)	9,928,769	(6,010,019)
Purchased software - other	351,660	(263,989)	350,010	(184,045)
Purchased software	11,993,427	(6,126,032)	10,924,557	(6,641,994)
Total	$ 20,296,701	$ (8,593,370)	$ 17,816,799	$ (8,399,008)

Amortization expense for core deposits and other intangible assets for the years ended December 31, 2008, 2007 and 2006, were $710,323, $723,754 and $535,351, respectively. Amortization expense for purchased software for the years ended December 31, 2008, 2007 and 2006 were $1,160,247, $1,339,276 and $1,329,580, respectively. Estimated amortization expense for each of the following five years is:

	2009	2010	2011	2012	2013
Core deposit intangible	$ 632,423	$ 626,595	$ 621,634	$ 617,490	$ 614,029
Customer relationship intangible	8,306	8,801	7,958	7,931	7,136
Banking intangibles	640,729	635,396	629,592	625,421	621,165
Customer relationship intangible	159,267	159,267	159,267	159,267	159,267
Trademark intangible	40,000	-	-	-	-
Non-compete intangible	18,444	-	-	-	-
Data Procesing intangibles	217,711	159,267	159,267	159,267	159,267
Purchased software - Banking	119,285	94,336	43,365	9,874	3,291
Purchased software - Data Processing	1,195,761	1,093,234	989,614	866,869	480,685
Purchased software - Other	46,323	34,308	7,040	-	-
Purchased Software	1,361,369	1,221,878	1,040,019	876,743	483,976
Total	$ 2,219,809	$ 2,016,541	$ 1,828,878	$ 1,661,431	$ 1,264,408

Note 8: Mortgage Servicing Rights

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others approximated $70,962,000 and $41,849,000 at December 31, 2008 and 2007, respectively. Contractually specified servicing fees, late fees and ancillary fees of approximately $155,000 and $100,000 are included in loan servicing fees in the income statement at December 31, 2008 and 2007, respectively.

The following table summarizes mortgage servicing rights capitalized and related amortization, along with activity in the related valuation allowance:

	2008	2007	2006
Carrying amount, beginning of year	$ 397,996	$ 209,053	$ 150,653
Mortgage servicing rights capitalized during the year	327,423	201,995	71,741
Servicing rights acquired in acquisition	50,000	-	-
Mortgage servicing rights amortization during the year	(68,341)	(13,052)	(13,341)
Valuation Allowance	(100,000)	-	-
Carrying amount, end of year	$ 607,078	$ 397,996	$ 209,053
Valuation allowance:			
Beginning of year	$ -	$ -	$ -
Additions	100,000	-	-
End of year	$ 100,000	$ -	$ -
Fair Value, beginning of period	$ 397,996	$ 209,053	$ 150,653
Fair Value, end of period	$ 607,078	$ 397,996	$ 209,053

Note 9: Interest-Bearing Time Deposits

Interest-bearing time deposits in denominations of $100,000 or more were $59,766,000 on December 31, 2008, and $57,351,000 on December 31, 2007. Certificates of Deposit obtained from brokers totaled approximately $1,305,000 and $3,975,000 at December 31, 2008 and 2007, respectively.

At December 31, 2008, the scheduled maturities of time deposits were as follows:

2009	$ 158,844,618
2010	56,374,522
2011	12,716,037
2012	8,965,097
2013	3,190,520
Thereafter	2,425,408
	$ 242,516,203

Of the $1,305,000 in brokered deposits held at December 31, 2008, $0 mature within the next year.

Note 10: Short-Term Borrowings

	2008	2007
Securities sold under repurchase agreements - retail	$ 8,425,978	$ 8,006,438
Securities sold under repurchase agreements - broker	35,000,000	35,000,000
Total short-term borrowings	$ 43,425,978	$ 43,006,438

At December 31, 2008, State Bank had $25.5 million in federal funds lines, of which none were drawn upon. At December 31, 2007, State Bank had $20.9 million in federal funds lines, of which none was drawn on.

State Bank has retail repurchase agreements to facilitate cash management transactions with commercial customers. These obligations are secured by agency and mortgage-backed securities and such collateral is held by the Federal Home Loan Bank. At December 31, 2008, retail repurchase agreements totaled $8,425,978. The maximum amount of outstanding agreements at any month-end during 2008 and 2007 totaled $12,531,000 and $8,941,000, respectively, and the monthly average of such agreements totaled $9,113,000 and $7,268,000, respectively. The agreements at December 31, 2008 and 2007 mature within one month.

State Bank also has repurchase agreements with brokerage firms who are in possession of the underlying securities. The securities are returned to State Bank on the repurchase date. The maximum amount of outstanding agreements at any month-end during 2008 and 2007 totaled $35,000,000 and $35,000,000, respectively, and the monthly average of such agreements totaled $35,000,000 and $28,452,000, respectively. These repurchase agreements mature between 2011 and 2012 and at December 31, 2008, totaled $35,000,000 with a weighted average interest rate at year-end of 4.75%.

Note 11: Notes Payable

Notes payable at December 31, include:

	2008	2007
Note payable in the amount of $2,500,000, secured by all inventory, equipment and receivables of RDSI, monthly payments of $41,042 together with interest at a variable rate equal to the 5 Year Treasury Index plus 2.85%, maturing August 23, 2011 (paid off in May 2008)	$ -	$ 922,457
Revolving Demand Note payable in the amount of $3,000,000, secured by all inventory, equipment and receivables of RDSI, monthly payments of interest at prime plus .5%	$ 1,000,000	$ -
	$ 1,000,000	$ 922,457

Rurban Financial Corp., the banking holding company, has a $15 million Line of Credit (LOC) with a Regional Bank at a rate of 4.71%. At December 31, 2008 the balance was $0.

Note 12: Federal Home Loan Bank Advances

The Federal Home Loan Bank advances were secured by mortgage loans and commercial real estate loans totaling $139,620,012 at December 31, 2008. Advances, at interest rates from 3.08 to 6.25 percent, are subject to restrictions or penalties in the event of prepayment.

Aggregate annual maturities of Federal Home Loan Bank advances at December 31, 2008, are:

	Debt
2009	$9,082,228
2010	13,465,844
2011	12,459,908
2012	1,278,328
2013	360,546
Total	$36,646,854

Note 13: Trust Preferred Securities

On September 15, 2005, RST II, a wholly-owned subsidiary of the Company, closed a pooled private offering of 10,000 Capital Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures with terms similar to the Capital Securities. The sole assets of RST II are the junior subordinated debentures of the Company and payments thereunder. The junior subordinated debentures and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST II under the Capital Securities. Distributions on the Capital Securities are payable quarterly at an interest rate that changes quarterly and is based on the 3-month LIBOR and are included in interest expense in the consolidated financial statements. These securities are considered Tier 1 capital (with certain limitations applicable) under current regulatory guidelines. As of December 31, 2008 and 2007, the outstanding principal balance of the Capital Securities was $10,000,000.

On September 7, 2000, RST I, a wholly-owned subsidiary of the Company, closed a pooled private offering of 10,000 Capital Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures with terms similar to the Capital Securities. The sole assets of RST I are the junior subordinated debentures of the Company and payments thereunder. The junior subordinated debentures and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST I under the Capital Securities. Distributions on the Capital Securities are payable semi-annually at the annual rate of 10.6% and are included in interest expense in the consolidated financial statements. These securities are considered Tier 1 capital (with certain limitations applicable) under current regulatory guidelines. As of December 31, 2008 and 2007, the outstanding principal balance of the Capital Securities was $10,000,000.

The junior subordinated debentures are subject to mandatory redemption, in whole or in part, upon repayment of the Capital Securities at maturity or their earlier redemption at the liquidation amount. Subject to the Company having received prior approval of the Federal Reserve, if then required, the Capital Securities are redeemable prior to the maturity date of September 7, 2030, at the option of the Company; on or after September 7, 2020 at par; or on or after September 7, 2010 at a premium; or upon occurrence of specific events defined within the trust indenture.

Note 14: Income Taxes

The provision for income taxes includes these components:

	For The Year Ended December 31,		
	2008	2007	2006
Taxes currently payable	$ 642,990	$ 2,029,195	$ 1,408,421
Deferred provision (benefit)	1,482,203	(795,035)	(460,305)
Income tax expense	$ 2,125,193	$ 1,234,160	$ 948,116

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	For The Year Ended December 31,		
	2008	2007	2006
Computed at the statutory rate (.34%)	$ 2,496,427	$ 1,526,870	$ 1,260,842
Decrease resulting from			
Tax exempt interest	(232,872)	(211,646)	(184,640)
Other	(138,362)	(81,064)	(128,086)
Actual tax expense	$ 2,125,193	$ 1,234,160	$ 948,116

The Company or one of its subsidiaries files income tax returns in the U.S. federal and Ohio jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2006.

The Company adopted the provisions of the Financial Accounting Standards Board (FASB) Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation of FIN 48, the Company did not become aware of any liability for uncertain tax positions that it believes should be recognized in the financial statements.

The tax effects of temporary differences related to deferred taxes shown on the balance sheets are:

	At December 31,	
	2008	2007
Deferred tax assets		
Allowance for loan losses	$ 1,601,308	$ 1,244,891
Accrued compensation and benefits	348,131	318,748
Net deferred loan fees	94,532	100,670
Unrealized losses on available-for-sale securities	62,672	-
Mark to market adjustments	-	42,363
Purchase accounting adjustments	223,620	164,796
NOL carry over	592,072	751,000
Other	82,275	48,997
	3,004,610	2,671,465
Deferred tax liabilities		
Depreciation	(2,222,534)	(973,163)
Mortgage servicing rights	(274,407)	(135,319)
Unrealized gains on available-for-sale securities	-	(42,363)
Mark to market adjustments	(62,672)	-
Purchase accounting adjustments	(2,655,547)	(2,226,793)
Prepaids	(311,658)	(182,115)
FHLB stock dividends	(465,562)	(422,314)
	(5,992,380)	(3,982,067)
Net deferred tax liability	$ (2,987,770)	$ (1,310,602)

The NOL carry over begins to expire in 2024.

Note 15: Other Comprehensive Income (Loss)

Other comprehensive income (loss) components and related taxes are as follows:

	2008	2007	2006
Unrealized gains (losses) on securities available for sale	$ (308,925)	$ 1,459,768	$ 680,825
Reclassification for realized amount included in income	0	(1,998)	494,885
Other comprehensive income (loss), before tax effect	(308,925)	1,457,770	1,175,710
Tax expense (benefit)	(105,033)	495,642	399,741
Other comprehensive income (loss)	$ (203,892)	$ 962,128	$ 775,969

Note 16: Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and State Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2008, that the Company and State Bank exceeds all capital adequacy requirements to which they are subject.

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

The Company and State Bank's actual capital amounts (in millions) and ratios are also presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2008						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 59.5	13.0%	$ 36.5	8.0%	$ -	N/A
State Bank	50.0	11.3%	35.4	8.0%	44.3	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	54.5	11.9%	18.3	4.0%	-	N/A
State Bank	45.0	10.2%	17.7	4.0%	26.6	6.0%
Tier 1 Capital (to Average Assets)						
Consolidated	54.5	9.5%	23.1	4.0%	-	N/A
State Bank	45.0	7.7%	23.5	4.0%	29.3	5.0%
As of December 31, 2007						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 64.2	15.9%	$ 32.2	8.0%	$ -	N/A
State Bank	49.5	12.7%	31.3	8.0%	39.1	10.0%
Tier 1 Capital (to Risk-Weighted Assets)						
Consolidated	59.9	14.9%	16.1	4.0%	-	N/A
State Bank	45.5	11.6%	15.6	4.0%	23.5	6.0%
Tier 1 Capital (to Average Assets)						
Consolidated	59.9	11.0%	21.9	4.0%	-	N/A
State Bank	45.5	8.4%	21.8	4.0%	27.3	5.0%

Dividends paid by Rurban are mainly provided for by dividends from its subsidiaries. However, certain restrictions exist regarding the ability of State Bank to transfer funds to Rurban in the form of cash dividends, loans or advances. Regulatory approval is required in order to pay dividends in excess of State Bank's earnings retained for the current year plus retained net profits since January 1, 2006. As of December 31, 2008 all dividend distributions from State Bank to Rurban require prior regulatory approval.

Note 17: Related Party Transactions

Certain directors, executive officers and principal shareholders of the Company, including associates of such persons, are loan customers. A summary of the related party loan activity, for loans aggregating $60,000 or more to any one related party, follows for the years ended December 31, 2008 and 2007:

	2008	2007
Balance, January 1	$ 6,001,000	$ 3,454,000
New Loans	3,243,000	3,751,000
Repayments	(3,815,000)	(3,009,000)
Other changes	36,000	1,805,000
Balance, December 31	$ 5,465,000	$ 6,001,000

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Deposits from related parties held at December 31, 2008 and 2007 totaled $1,136,000 and $977,000, respectively.

Note 18: Employee Benefits

The Company has retirement savings 401(k) plans covering substantially all employees. Employees contributing up to 6% of their compensation receive a Company match of 50% of the employee's contribution. Employee contributions are vested immediately and the Company's matching contributions are fully vested after three years of employment. Employer contributions charged to expense for 2008, 2007 and 2006 were $288,825, $272,750, and $307,000, respectively.

Also, the Company has deferred compensation agreements with certain active and retired officers. The agreements provide monthly payments for up to 15 years that equal 15% to 25% of average compensation prior to retirement or death. The charge to expense for the current agreements were $239,440, $166,000, and $199,000 for 2008, 2007, and 2006, respectively. Such charges reflect the straight-line accrual over the period until full eligibility of the present value of benefits due each participant on the full eligibility date, using a 6% discount factor.

Life insurance plans are provided for certain executive officers on a split-dollar basis. The Company is the owner of the split-dollar policies. The officers are entitled to a sum equal to two times either the employee's annual salary at death, if actively employed, or final annual salary, if retired, less $50,000, not to exceed the employee's portion of the death benefit. The Company is entitled to the portion of the death proceeds which equates to the cash surrender value less any loans on the policy and unpaid interest or cash withdrawals previously incurred by the Company. The employees have the right to designate a beneficiary(s) to receive their share of the proceeds payable upon death. The cash surrender value of these life insurance policies and life insurance policies related to the Company's supplemental retirement plan totaled approximately $2,067,090 at December 31, 2008, and $2,011,589 at December 31, 2007.

Additional life insurance is provided to certain officers through a bank-owned life insurance policy ("BOLI"). By way of a separate split-dollar agreement, the policy interests are divided between the bank and the insured's beneficiary. The bank owns the policy cash value and a portion of the policy net death benefit, over and above the cash value assigned to the insured's beneficiary. During 2007, the bank elected to add $1 million in additional BOLI on two key executive officers. The cash surrender value of all life insurance policies totaled approximately $10,557,925 at December 31, 2008, and $10,148,992 at December 31, 2007.

The Company has a noncontributory employee stock ownership plan ("ESOP") covering substantially all employees of the Company and its subsidiaries. Voluntary contributions are made by the Company to the plan. Each eligible employee is vested based upon years of service, including prior years of service. The Company's contributions to the account of each employee become fully vested after three years of service.

Compensation expense is recorded equal to the fair market value of the stock when contributions, which are determined annually by the Board of Directors of the Company, are made to the ESOP. Allocated shares in the ESOP for each of the three years ended December 31, 2008, 2007 and 2006, were 468,968, 462,850, and 497,955, respectively.

Dividends on allocated shares are recorded as dividends and charged to retained earnings. Compensation expense is recorded equal to the fair market value of the stock when contributions, which are determined annually by the Board of Directors of the Company, are made to the ESOP.

ESOP expense for the years ended December 31, 2008, 2007 and 2006 was $608,699, $565,644, and $531,000, respectively.

Note 19: Share Based Compensation Plan

On March 12, 2007, the Company's single share-based compensation plan, the 1997 Stock Option Plan (the "1997 Plan") expired in accordance with its terms. In April 2008, the shareholders approved the Rurban Financial Corp. 2008 Stock Incentive Plan (the "2008 Plan").

The 2008 Plan permits the grant or award of incentive stock options, nonqualified stock options, stock appreciation rights ("SARs"); and restricted stock for up to 250,000 Common Shares of the Company.

The 2008 Plan is intended to advance the interests of the Company and its shareholders by offering employees, directors and advisory board members of the Company and its subsidiaries an opportunity to acquire or increase their ownership interest in the Company through grants of equity-based awards. The 2008 Plan will permit equity-based Awards to be used to attract, motivate, reward and retain highly competent individuals upon whose judgment, initiative, leadership and efforts are key to the success of the Company by encouraging those individuals to become shareholders of the Company.

Option awards are generally granted with an exercise price equal to the market price of the Company’s stock at the date of grant; those option awards generally vest based on 5 years of continuous service and have 10-year contractual terms.

An Award of Restricted Stock consists of Common Shares that are issued subject to restrictions on transferability and risk of forfeiture if vesting requirements are not met. The terms and conditions of each Award of Restricted Stock can vary, including the number of shares of Restricted Stock subject to the Award, the vesting requirements of the Restricted Stock and the other terms and conditions applicable to the Restricted Stock. Subject to the provision of the 2008 Plan and the award agreement, a restricted stock award of 10,000 shares at $10.00 per share was awarded on July 24, 2008 and the restrictions will lapse and become fully vested on December 31, 2010.

The compensation cost that has been charged against income for both the 1997 and 2008 Plans were $119,210, $64,406 and $24,055 for 2008, 2007 and 2006, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements were $40,531, $21,898 and $8,179 for 2008, 2007 and 2006, respectively.

The fair value of each option award is estimated on the date of grant using a binomial option valuation model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for the period within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. There were no option awards granted in 2008.

	2007	2006
Expected volatility	27.0%	18.5%
Weighted-average volatility	27.01%	18.5%
Expected dividends	2.0%	1.7%
Expected term (in years)	10	10
Risk-free rate	4.72%	2.3%

A summary of option activity under the Plan as of December 31, 2008 and changes during the year then ended, is presented below:

	2008			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, beginning of year	341,979	$ 12.86		
Granted	-	-		
Exercised	-	-		
Forfeited	5,939	13.36		
Expired	20,277	16.78		
Outstanding, end of year	315,763	$ 12.60	6.05	$ -
Exercisable, end of year	218,873	$ 13.08	5.18	$ -

The weighted-average grant-date fair value of options granted during the years 2007 and 2006 were $3.02 and $2.34, respectively. There were no options granted in 2008. There were no options exercised during the years ended December 31, 2008, 2007, and 2006.

As of December 31, 2008, there was $308,053 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the 1997 Plan and 2008 Plan. That cost is expected to be recognized over a weighted-average period of 1.58 years

Note 20: Earnings Per Share

Earnings per share (EPS) is computed as follows:

	Year Ended December 31, 2008		
	Income	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Net income available to common shareholders	$ 5,217,239	4,925,694	$ 1.06
Effect of dilutive securities			
Stock options & restricted stock	-	-	
Diluted earnings per share			
Income available to common shareholders and assumed conversions	$ 5,217,239	4,925,694	$ 1.06

Options to purchase 315,763 common shares at $10.87 to $15.20 per share were outstanding at December 31, 2008, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares. There were also 10,000 shares of restricted stock that were not included in the computation of diluted EPS.

	Year Ended December 31, 2007		
	Income	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Net income available to common shareholders	$ 3,256,635	5,010,987	$ 0.65
Effect of dilutive securities			
Stock options	-	4,324	
Diluted earnings per share			
Income available to common shareholders and assumed conversions	$ 3,256,635	5,015,311	$ 0.65

Options to purchase 176,278 common shares at $13.30 to $16.78 per share were outstanding at December 31, 2007, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares.

	Year Ended December 31, 2006		
	Income	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Net income available to common shareholders	$ 2,760,242	5,027,433	$ 0.55
Effect of dilutive securities			
Stock options	-	1,442	
Diluted earnings per share			
Income available to common shareholders and assumed conversions	$ 2,760,242	5,028,875	$ 0.55

Options to purchase 285,838 common shares at $11.72 to $16.78 per share were outstanding at December 31, 2006, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares.

Note 21: Leases

The Company's subsidiaries, The State Bank and Trust Company and RDSI Banking Systems have several non-cancellable operating leases for business use that expire over the next ten years. These leases generally contain renewal options for periods of five years and require the lessee to pay all executory costs such as taxes, maintenance and insurance. Aggregate rental expense for these leases were $480,019, $535,361 and $307,393 for the years ended December 31, 2008, 2007 and 2006, respectively.

Future minimum lease payments under operating leases are:

2009	$	447,183
2010		331,200
2011		321,083
2012		210,200
2013		213,000
Thereafter		620,412
Total minimum lease payments	$	2,143,078

Note 22: Disclosures about Fair Value of Financial Instruments

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 has been applied prospectively as of the beginning of the period.

FAS 157 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. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Available-for-Sale Securities

The fair value of available-for-sale securities are determined by various valuation methodologies. Level 2 securities include U.S. government agencies, mortgage-backed securities and obligations of political and state subdivisions.

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

Fair Value Measurements Using:				
Description	Fair Values at 12/31/2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available-for-Sale Securities	$ 102,606,475	-	$ 102,606,475	-

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 in accordance with the provisions of Financial Accounting Standard No. 114, "*Accounting by Creditors for Impairment of a Loan.*" Allowable methods for estimating fair value include using the fair value of the collateral for collateral dependent loans, or where a loan is determined not to be collateral dependent, using the discounted cash flow method. If the impaired loan is collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining an independent appraisal of the collateral and applying a discount factor to the value based on the Company's loan review policy.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

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

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

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 December 31, 2008 and 2007, 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 December 31, 2008 and 2007.

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 December 31, 2008 and 2007 and are not considered significant to this presentation.

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 28,059,532	$ 28,060,000	$ 17,183,627	$ 17,184,000
Available-for-sale securities	$ 102,606,475	$ 102,606,000	$ 92,661,386	$ 92,661,000
Loans, net of allowance for loan losses	$ 448,915,955	$ 455,629,000	$ 386,928,047	$ 388,253,000
Federal Reserve and FHLB Bank stock	$ 4,244,100	$ 4,244,000	$ 4,021,200	$ 4,021,000
Accrued interest receivable	$ 2,964,663	$ 2,965,000	$ 3,008,968	$ 3,009,000
Financial liabilities				
Deposits	$ 484,220,584	$ 486,787,000	$ 406,031,182	$ 406,240,000
Securities sold under agreements to repurchase	$ 43,425,978	$ 45,976,000	$ 43,006,438	$ 43,110,000
Notes payable	$ 1,000,000	$ 1,000,000	$ 922,457	$ 922,000
FHLB advances	$ 36,646,854	$ 38,196,000	$ 24,000,000	$ 24,823,000
Trust preferred securities	$ 20,620,000	$ 19,996,000	$ 20,620,000	$ 20,503,000
Accrued interest payable	$ 1,965,842	$ 1,966,000	$ 2,532,914	$ 2,533,000

Note 23: Commitments and Credit Risk

State Bank grants commercial, agribusiness, consumer and residential loans to customers. Although State Bank has a diversified loan portfolio, agricultural loans comprised approximately 10% and 11% of the portfolio as of December 31, 2008 and 2007, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates, or other termination clauses, and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit

evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate.

Letters of credit are conditional commitments issued by State Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

	2008	2007
Loan commitments and unused lines of credit	$ 67,785,000	$ 76,445,000
Standby letters of credit	5,436,000	377,000
Total	$ 73,221,000	$ 76,822,000

From time to time, certain due from bank accounts are in excess of federally insured limits.

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

Salary continuation agreements with certain executive officers contain provisions regarding certain events leading to separation from the Company, before the executive officer's normal retirement date, which could result in cash payments in excess of amounts accrued.

Note 24: Future Change in Accounting Principles

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

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

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

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

following existing GAAP until January 1, 2009. Management has adopted SFAS 141R effective January 1, 2009.

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits the Company to choose to measure certain financial assets and liabilities at fair value that are not currently required to be measured at fair value (i.e. the Fair Value Option). Election of the Fair Value Option is made on an instrument-by-instrument basis and is irrevocable. At the adoption date, unrealized gains and losses on financial assets and liabilities for which the Fair Value Option has been elected would be reported as a cumulative adjustment to beginning retained earnings. If the Company elects the Fair Value Option for certain financial assets and liabilities, the Company will report unrealized gains and losses due to changes in their fair value in earnings at each subsequent reporting date. SFAS No. 159 is effective as of January 1, 2008. The Company has not elected the Fair Value Option for any financial assets or liabilities at December 31, 2008.

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

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

$116,303. There was no material impact to the financial position and results of operations as a result of the implementation of EITF 06-04.

Note 25: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	2008	2007
Assets		
Cash and cash equivalents	$ 2,319,901	$ 5,089,342
Investment in common stock of banking subsidiaries	65,847,026	58,521,717
Investment in nonbanking subsidiaries	15,004,464	16,004,390
Other assets	1,913,586	1,972,079
Total assets	$ 85,084,977	$ 81,587,528
Liabilities		
Trust preferred securities	$ 20,000,000	$ 20,000,000
Borrowings from nonbanking subsidiaries	620,000	620,000
Other liabilities	2,802,973	1,642,294
Total liabilities	23,422,973	22,262,294
Stockholders' Equity	61,662,004	59,325,234
Total liabilities and stockholders' equity	$ 85,084,977	$ 81,587,528

Rurban Financial Corp.

Notes to Consolidated Financial Statements
December 31, 2008 and 2007

Condensed Statements of Income

	2008	2007	2006
Income			
Interest income	$ 1,677	$ 4,324	$ 3,099
Dividends from subsidiaries			
Banking Subsidiaries	22,100,000	1,200,000	6,400,000
Nonbanking subsidiaries	3,800,000	300,000	-
Total	25,900,000	1,500,000	6,400,000
Other income	1,603,529	1,353,760	1,491,158
Total income	27,505,206	2,858,084	7,894,257
Expenses			
Interest expense	1,691,792	1,808,520	1,787,023
Other expense	3,171,949	2,831,749	2,683,109
Total expenses	4,863,741	4,640,269	4,470,132
Income (loss) before income tax and equity in undistributed (excess distributed) income of subsidiaries	22,641,465	(1,782,185)	3,424,125
Income tax benefit	(1,111,193)	(1,115,943)	(1,011,797)
Income (loss) before equity in undistributed (excess distributed) income of subsidiaries	23,752,658	(666,242)	4,435,922
Equity in undistributed (excess distributed) income of subsidiaries			
Banking subsidiaries	(17,586,214)	1,710,405	(3,797,432)
Nonbanking subsidiaries	(949,205)	2,212,472	2,121,752
Total	(18,535,419)	3,922,877	(1,675,680)
Net income	$ 5,217,239	$ 3,256,635	$ 2,760,242

Rurban Financial Corp.

Notes to Consolidated Financial Statements
December 31, 2008 and 2007

	2008	2007	2006
Operating Activities			
Net income	$ 5,217,239	$ 3,256,635	$ 2,760,242
Items not requiring (providing cash)			
Equity in (undistributed) excess distributed net income of subsidiaries	18,535,419	(3,268,799)	2,204,917
Expense of Stock Option Plan	119,210	64,406	24,055
Other Assets	58,494	131,085	(49,256)
Other liabilities	(20,320)	(283,757)	(6,032,292)
Net cash provided by (used in) operating activities	23,910,042	(100,430)	(1,092,334)
Investing Activities			
Cash paid to shareholders of National Bank of Montpelier acquisition	(24,000,000)	-	-
Investment In RDSI	-	-	(5,500,000)
Investment in ROC	-	-	(600,000)
Net cash used in investing activities	(24,000,000)	-	(6,100,000)
Financing Activities			
Cash dividends paid	(1,676,723)	(1,302,827)	(1,055,761)
Repayment of note payable	-	-	(240,000)
Purchase of treasury stock	(1,002,760)	(610,260)	-
Net cash used in financing activities	(2,679,483)	(1,913,087)	(1,295,761)
Net Change in Cash and Cash Equivalents	(2,769,441)	(2,013,517)	(8,488,095)
Cash and Cash Equivalents at Beginning of Year	5,089,342	7,102,859	15,590,954
Cash and Cash Equivalents at End of Year	$ 2,319,901	$ 5,089,342	$ 7,102,859

Note 26: Segment Information

The reportable segments are determined by the products and services offered, primarily distinguished between Banking and Data/Item Processing operations. Loans, investments, deposits and financial services provide the revenues in the Banking segment and include the accounts of State Bank, RFCBC and RFS, which provides trust and financial services to customers nationwide.

Service fees provide the revenues in the Data/Item Processing operation and include the accounts of RDSI and DCM. Other segments include the accounts of the Company, Rurban Financial Corp., which provides management services to its subsidiaries.

The accounting policies used are the same as those described in the summary of significant accounting policies. Segment performance is evaluated using net interest income, other revenue, operating expense and net income. Goodwill is allocated. Income taxes and indirect expenses are allocated on revenue. Transactions among segments are made at fair value. The Company allocates certain expenses to other segments. Information reported internally for performance assessment follows. Reclassifications have been made to the 2006 tables to conform to the 2008 and 2007 tables, which include the consolidation of The State Bank and Trust Company, RFCBC and RFS into Banking, RDSI and DCM into Data/Item Processing, and Rurban Financial Corp. into Other.

2008	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Income Statement information:						
Net interest income (expense)	$ 19,327,854	$ (109,864)	$ (1,690,115)	$ 17,527,875	$ -	$ 17,527,875
Other revenue - external customers	7,694,299	20,162,913	203,525	28,060,737	-	28,060,737
Other revenue - other segments	54,019	1,513,093	1,432,097	2,999,209	(2,999,209)	-
Net interest income and other revenue	27,076,172	21,566,142	(54,493)	48,587,821	(2,999,209)	45,588,612
Noninterest expense	20,088,447	17,295,426	3,171,950	40,555,823	(2,999,209)	37,556,614
Significant noncash items:						
Depreciation and amortization	1,012,382	2,535,876	136,100	3,684,358	-	3,684,358
Provision for loan losses	689,567	-	-	689,567	-	689,567
Income tax expense	1,784,371	1,452,014	(1,111,193)	2,125,192	-	2,125,192
Segment profit	$ 4,513,787	$ 2,818,702	$ (2,115,250)	$ 5,217,239	$ -	$ 5,217,239
Balance sheet information:						
Total assets	$ 637,108,955	$ 19,955,458	$ 85,084,977	$ 742,149,390	$ (84,530,481)	$ 657,618,909
Goodwill and intangibles	20,113,196	7,137,530	-	27,250,726	-	27,250,726
Premises and equipment expenditures	$ 2,437,582	$ 5,501,574	$ 106,610	$ 8,045,766	$ -	$ 8,045,766

Rurban Financial Corp.

Notes to Consolidated Financial Statements
December 31, 2008 and 2007

2007	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Income Statement information:						
Net interest income (expense)	$ 16,859,523	$ (268,014)	$ (1,804,197)	$ 14,787,312	$ -	$ 14,787,312
Other revenue - external customers	7,434,979	19,347,947	78,473	26,861,399	-	26,861,399
Other revenue - other segments	551,681	1,539,854	1,314,861	3,406,396	(3,406,396)	-
Net interest income and other revenue	24,846,183	20,619,787	(410,863)	45,055,107	(3,406,396)	41,648,711
Noninterest expense	20,338,289	16,872,968	2,831,749	40,043,006	(3,406,396)	36,636,610
Significant noncash items:						
Depreciation and amortization	999,594	2,837,758	132,570	3,969,922	-	3,969,922
Provision for loan losses	521,306	-	-	521,306	-	521,306
Income tax expense	1,076,183	1,273,919	(1,115,942)	1,234,160	-	1,234,160
Segment profit	$ 2,910,405	$ 2,472,900	$ (2,126,670)	$ 3,256,635	$ -	$ 3,256,635
Balance sheet information:						
Total assets	$ 541,717,871	$ 20,419,865	$ 81,439,870	$ 643,577,606	$ (82,363,608)	$ 561,213,998
Goodwill and intangibles	11,691,382	7,384,464	-	19,075,846	-	19,075,846
Premises and equipment expenditures	$ 1,457,804	$ 2,147,634	$ 96,231	$ 3,701,669	$ -	$ 3,701,669

2006	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Income Statement information:						
Net interest income (expense)	$ 17,082,702	$ (264,336)	$ (1,783,924)	$ 15,034,442	$ -	$ 15,034,442
Other revenue - external customers	8,211,356	15,011,143	532,822	23,755,321	-	23,755,321
Other revenue - other segments	3,316,764	1,551,655	997,260	5,865,679	(5,865,679)	-
Net interest income and other revenue	28,610,822	16,298,462	(253,842)	44,655,442	(5,865,679)	38,789,763
Noninterest expense	24,943,476	13,142,661	2,683,109	40,769,246	(5,865,679)	34,903,567
Significant noncash items:						
Depreciation and amortization	933,518	2,505,065	106,382	3,544,965	-	3,544,965
Provision for loan losses	177,838	-	-	177,838	-	177,838
Income tax expense	886,940	1,072,973	(1,011,797)	948,116	-	948,116
Segment profit	$ 2,602,568	$ 2,082,828	$ (1,925,154)	$ 2,760,242	$ -	$ 2,760,242
Balance sheet information:						
Total assets	$ 539,310,887	$ 20,306,144	$ 79,188,059	$ 638,805,090	$ (82,797,837)	$ 556,007,253
Goodwill and intangibles	12,154,202	7,378,838	-	19,533,040	-	19,533,040
Premises and equipment expenditures	$ 3,079,231	$ 5,820,264	$ 142,769	$ 9,042,264	$ -	$ 9,042,264

Note 27: Quarterly Financial Information (Unaudited)

December 31, 2008	March	June	September	December
Interest income	$ 8,125,216	$ 8,315,525	$ 8,021,596	$ 8,206,108
Interest expense	4,308,000	3,883,367	3,573,107	3,376,096
Net interest income	3,817,216	4,432,158	4,448,489	4,830,012
Provision for loan losses	192,218	212,997	146,173	138,179
Noninterest income	7,515,513	6,801,158	6,988,712	6,755,354
Noninterest expense	9,601,360	9,110,346	9,278,898	9,566,009
Income tax expense	429,795	554,149	588,090	553,159
Net income	1,109,356	1,355,824	1,424,040	1,328,019
Earnings per share				
Basis	0.22	0.28	0.29	0.27
Diluted	0.22	0.28	0.29	0.27
Dividends per share	0.08	0.08	0.09	0.09

December 31, 2007	March	June	September	December
Interest income	$ 8,016,828	$ 8,234,039	$ 8,350,340	$ 8,408,422
Interest expense	4,423,552	4,483,901	4,689,389	4,625,477
Net interest income	3,593,276	3,750,138	3,660,951	3,783,287
Provision for loan losses	92,640	145,594	140,409	142,663
Noninterest income	6,738,742	6,507,700	6,782,842	6,832,115
Noninterest expense	9,300,253	9,065,370	9,106,400	9,164,587
Income tax expense	236,672	261,829	333,384	402,275
Net income	702,453	785,045	863,601	905,536
Earnings per share				
Basis	0.14	0.16	0.17	0.18
Diluted	0.14	0.16	0.17	0.18
Dividends per share	0.06	0.06	0.07	0.07

Note 28: Business Acquisitions

National Bank of Montpelier

On December 1, 2008, the Company acquired NBM Bancorp, Incorporated ("NBM Bancorp") and its subsidiary, National Bank of Montpelier ("NBM"), headquartered in Montpelier, Ohio. NBM merged with and into The State Bank and Trust Company. As a result of this acquisition, the Company will have an opportunity to increase its loan and deposit base and reduce transaction costs. The Company also expects to reduce costs through economies of scale.

As a result of the merger and in accordance with the terms of the Agreement and Plan of Merger dated as of May 22, 2008, each of the 219,334 shares of common stock of NBM Bancorp outstanding at the time of the merger were converted into the right to receive $113.98 in cash, which will result in the payment by Rurban in aggregate of approximately $24 million in cash to NBM Bancorp shareholders. Approximately $1 million is recorded as a payable on the company's books as of December 31, 2008.

National Bank of Montpelier has five banking centers in Williams County, two located in Montpelier and one each in Pioneer, West Unity and Bryan, Ohio. Upon the completion of the merger, these banking centers were merged with and became banking centers of The State Bank and Trust Company, a wholly-owned subsidiary of Rurban.

The following table summarizes the estimated fair values of the net assets acquired and the computation of the purchase price and goodwill related to the acquisition.

Cash and cash equivalents	$	9,226,000
Investments		48,774,000
Loans		43,655,000
Core deposits intangible		1,411,000
Goodwill		7,474,000
Premises and equipment		1,678,000
Other assets		1,223,000
Total assets acquired	$	113,441,000
Deposits	$	86,794,000
Other liabilities		1,417,000
Total liabilities assumed		88,211,000
Net assets acquired	$	25,230,000

The only significant intangible asset acquired was the core deposit base, which has a useful life of seven years and will be amortized using the straight-line method. The $7.5 million of goodwill was assigned entirely to the banking segment of the business and is not expected to be deductible for tax purposes.

The following proforma disclosures, including the effect of the purchase accounting, depict the results of operations as though the acquisition of Montpelier had taken place at the beginning of each period.

	Year Ended December 31,		
($ 000's) (except per share data)	2008	2007	2006
Net interest income	$ 21,174	$ 18,753	$ 19,121
Net income	$ 6,313	$ 4,325	$ 3,902
Per share - combined:			
Basic net income	$ 1.25	$ 0.86	$ 0.78
Diluted net income	$ 1.25	$ 0.86	$ 0.78

Management's Discussion and Analysis of Financial Condition and Results of Operations

Rurban Financial Corp. ("Rurban"), is a bank holding company registered with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. Through its direct and indirect subsidiaries, Rurban is engaged in commercial banking, computerized data and item processing, and trust and financial services.

The following discussion is intended to provide a review of the consolidated financial condition and results of operations of Rurban and its subsidiaries (collectively, the "Company"). This discussion should be read in conjunction with the Company's consolidated financial statements and related footnotes for the year ended December 31, 2008.

Critical Accounting Policies

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 Company's significant accounting policies are described in detail in the notes to the Company's consolidated financial statements for the year ended December 31, 2008. 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 each impaired 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.

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 by SFAS 141. Goodwill is subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using straight-line and 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.

Impact of Accounting Changes

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

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

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

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

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits the

Company to choose to measure certain financial assets and liabilities at fair value that are not currently required to be measured at fair value (i.e. the Fair Value Option). Election of the Fair Value Option is made on an instrument-by-instrument basis and is irrevocable. At the adoption date, unrealized gains and losses on financial assets and liabilities for which the Fair Value Option has been elected would be reported as a cumulative adjustment to beginning retained earnings. If the Company elects the Fair Value Option for certain financial assets and liabilities, the Company will report unrealized gains and losses due to changes in their fair value in earnings at each subsequent reporting date. SFAS No. 159 is effective as of January 1, 2008. The Company has not elected the Fair Value Option for any financial assets or liabilities at December 31, 2008.

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

At its September 2006 meeting, the Emerging Issues Task Force (“EITF”) reached a final consensus on Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under Statement No. 106 (“SFAS No. 106”) or Accounting Principles Board (APB) Opinion No. 12, Omnibus Opinion-1967. The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007. The Company has endorsement split-dollar life insurance policies. A liability has been recorded through a cumulative-effect adjustment to retained earnings as of January 1, 2008 in the amount of $116,305. There was no material impact to the financial position and results of operations as a result of the implementation of EITF 06-04.

Acquisitions

On December 1, 2008, the Company acquired NBM Bancorp, Incorporated ("NBM Bancorp") and its subsidiary, National Bank of Montpelier ("NBM"), headquartered in Montpelier, Ohio. NBM merged with and into The State Bank and Trust Company. As a result of this acquisition, the Company will have an opportunity to increase its loan and deposit base and reduce transaction costs. The Company also expects to reduce costs through economies of scale.

As a result of the merger and in accordance with the terms of the Agreement and Plan of Merger dated as of May 22, 2008, each of the 219,334 shares of common stock of NBM Bancorp outstanding at the time of the merger were converted into the right to receive $113.98 in cash, which will result in the payment by Rurban in aggregate of approximately $24 million in cash to NBM Bancorp shareholders. Approximately $1 million is recorded as a payable on the company's books as of December 31, 2008.

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The following table summarizes the estimated fair values of the net assets acquired and the computation of the purchase price and goodwill related to the acquisition.

Cash and cash equivalents	$	9,226,000
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Premises and equipment		1,678,000
Other assets		1,223,000
Total assets acquired	$	113,441,000
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Other liabilities		1,417,000
Total liabilities assumed		88,211,000
Net assets acquired	$	25,230,000

The only significant intangible asset acquired was the core deposit base, which has a useful life of seven years and will be amortized using the straight-line method. The $7.5 million of goodwill was assigned entirely to the banking segment of the business and is not expected to be deductible for tax purposes.

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Net income	$ 6,313	$ 4,325	$ 3,902
Per share - combined:			
Basic net income	$ 1.25	$ 0.86	$ 0.78
Diluted net income	$ 1.25	$ 0.86	$ 0.78

EARNINGS SUMMARY

Net income for 2008 was $5.2 million, or $1.06 per diluted share, compared with net income of $3.3 million, or $0.65 per diluted share, and net income of $2.8 million, or $0.55 per diluted share, reported for 2007 and 2006, respectively. Cash dividends per share were $0.34 in 2008, $0.26 in 2007 and $0.21 in 2006.

Rurban continued to make substantial progress in all business segments in 2008. The earnings improvement was driven by both the Banking and Data and Item Processing segments of Rurban. The leading drivers of profitability gains at The State Bank and Trust Company were significant improvements in net interest margin, consistent and sound underwriting, prudent loan growth, improvements in mortgage banking production, and continued attention to expense control. A key component to the Company's growth plan is strategic acquisitions, with the resultant organization being immediately accretive. In concert with that plan, the Company completed the acquisition of National Bank of Montpelier. RDSI Banking Systems, Rurban's technology subsidiary, which provides data and item processing services to the banking industry, produced another outstanding year with earnings increasing 14% over the 2007 levels. These earnings improvements were generated by additional sales of new client banks, additional products sold to existing clients and the attention to cost saving measures that took place on the item processing side of the business as the company gained efficiencies. Rurban will continue to focus its energies on growth, efficiency and profitability.

CHANGES IN FINANCIAL CONDITION

Balance sheet growth over the past twelve months has been achieved through organic growth and the acquisition of National Bank of Montpelier. Total loans increased 15.6%, or $60.8 million. $16.6 million, or 4%, of this growth was through organic growth over the course of 2008, funded largely by cash and the cash flow from investment securities. Due in large part to the acquisition of National Bank of Montpelier, assets grew by 17% year-over-year to $657.6 million.

Significant Events of 2008

The State Bank and Trust Company ("State Bank"), Rurban's banking subsidiary, completed the acquisition of National Bank of Montpelier, with five branches located in Williams County, on December 1, 2008. The acquisition was valued at $25.0 million. This acquisition increases State Bank's banking center locations from 17 to 22. The acquisition is expected to be immediately accretive to earnings.

The turmoil in the banking industry during the majority of the year, and especially the fourth quarter, had many institutions electing to participate in the Government's TARP/Capital Purchase Program. After thorough consideration of the program's advantages and disadvantages, Rurban Financial Corp. and its Board of Directors elected not to participate in the program due to Rurban's strong capital position and the TARP program's uncertainties relative to the Government's intervention and expectation relative to the funds' usage.

State Bank expanded its reach into Columbus, Ohio's high volume mortgage market by adding a Mortgage Origination Group to the Columbus Loan Production Office.

Asset quality essentially remained stable, with non-performing assets declining slightly to 1.00 percent of total assets. Net charge-offs remained moderate and significantly below peers at 0.19 percent of total loans for 2008.

RDSI, Rurban's data and item processing subsidiary, reported another record year. Revenue increased to $21.6 million, a $946,000, or 4.6% increase, over the previous year's results. Net income increased $346,000, or 14.0%, to $2.8 million for the year, representing another record result.

Rurban increased its dividend to shareholders from $0.26 per share during 2007 to $0.34 per share in 2008.

Significant Events of 2007

During the first quarter of 2007, Rurban merged Reliance Financial Services, N.A., its trust and investment subsidiary, and The Exchange Bank, its recently acquired community bank, into State Bank. This action has allowed efficiencies leading to continuing core profit improvement at The State Bank and Trust Company.

State Bank continues to expand its reach to higher-growth markets. In January 2007, the Fort Wayne, Indiana Loan Production Office was converted to a full-service branch. State Bank continued its entrance to growth markets by opening a Loan Production Office in Columbus, Ohio in December, 2007.

RDSI and DCM, Rurban's data and item processing subsidiaries, reported another record year. The total number of banks being processed increased by 5 to 117. Revenue increased to $20.6 million, a $4.3 million, or 27% increase, over the previous year's results. Net income was a record $2.5 million for the year.

On April 12, 2007, Rurban initiated a stock repurchase program, authorizing the repurchase of up to 250,000 shares, or approximately 5%, of the Company's outstanding shares. As of the end of the fourth quarter, Rurban repurchased 48,500 shares at an average cost of $12.58.

Rurban increased its dividend to shareholders from $0.21 per share during 2006 to $0.26 per share in 2007.

RESULTS OF OPERATIONS

	Year Ended December 31,			Year Ended December 31,		
	2008	2007	% Change	2007	2006	% Change
	(dollars in thousands except per share data)					
Total Assets	$ 657,619	$ 561,214	17%	$ 561,214	$ 556,007	1%
Total Securities	102,606	92,661	11%	92,661	102,462	-10%
Loans Held for Sale	3,824	1,650	132%	1,650	390	323%
Loans (Net)	445,091	385,278	16%	385,278	366,384	5%
Allowance for Loan Losses	5,020	3,990	26%	3,990	3,717	7%
Total Deposits	$ 484,221	$ 406,031	19%	$ 406,031	$ 414,555	-2%
Total Revenues	$ 45,589	$ 41,648	9%	$ 41,648	$ 38,790	7%
Net Interest Income	17,528	14,787	19%	14,787	15,034	-2%
Loan Loss Provision	690	521	32%	521	178	193%
Non-interest Income	28,061	26,861	4%	26,861	23,755	13%
Non-interest Expense	37,557	36,637	3%	36,637	34,904	5%
Net Income	5,217	3,257	60%	3,257	2,760	18%
Basic Earnings per Share	$ 1.06	$ 0.65	63%	$ 0.65	$ 0.55	18%
Diluted Earnings per Share	$ 1.06	$ 0.65	63%	$ 0.65	$ 0.55	18%

Net Interest Income

	Year Ended December 31,			Year Ended December 31,		
	2008	2007	% Change	2007	2006	% Change
	(dollars in thousands)					
Net Interest Income	$ 17,528	$ 14,787	19%	$ 14,787	$ 15,034	-2%

Net interest income was $17.5 million for 2008 compared to $14.8 million for 2007, an increase of 18.5%, which resulted from the Banking segment being in a liability-sensitive position and core loan growth during the year of $16.6 million. Average earning assets also increased to $508.3 million in 2008 compared to $488.3 million in 2007 as a result of the yearly loan growth. The consolidated 2008, or full year, net interest margin improved 43 basis points to 3.53 percent for 2008, compared to 3.10% for 2007.

Net interest income was $14.8 million for 2007 compared to $15.0 million for 2006, a decrease of 1.6%, which primarily resulted from margin compression. Average earning assets also decreased to $488.3 million in 2007 compared to $490.6 million in 2006 as a result of repositioning the balance sheet to improve the net interest margin. Over a 12 month period, the Company was successful in converting lower yielding investments into a funding source for loan growth and converting higher cost deposits to core deposits and increasing wholesale funding due to favorable rates.

Loan Loss Provision

A Provision for Loan Losses of $690,000 was taken in 2008 compared to $521,000 taken for 2007; the $169,000 increase was due to the additional loan growth in 2008, along with a weakening economy. For 2008, net charge-offs totaled $764,000, or 0.19 percent of average loans. Consistent with external economic conditions, State Bank is seeing a slight increase in delinquencies within all segments of its portfolio; however, the current levels are not significant or alarming. State Bank has managed through a difficult 2008, but it is not insulated from the economic factors facing the industry in 2009.

A Provision for Loan Losses of $521,000 was taken in 2007 compared to $178,000 taken for 2006; the $343,000 increase reflects a more normal accrual in 2007.

Non-interest Income

	December 31,			December 31,		
	2008	2007	% Change	2007	2006	% Change
	(dollars in thousands)					
Total Non-interest Income	$ 28,061	$ 26,861	4%	$ 26,861	$ 23,755	13%
Data Service Fees	$ 20,165	$ 19,382	4%	$ 19,382	$ 15,011	29%
Trust Fees	$ 3,082	$ 3,385	-9%	$ 3,385	$ 3,192	6%
Deposit Service Fees	$ 2,416	$ 2,244	8%	$ 2,244	$ 2,161	4%
Gains on Sale of Loans	$ 741	$ 574	29%	$ 574	$ 1,249	-54%
Investment Securities Recoveries	$ 197	$ -	N/A	$ -	$ 889	N/A
Net Proceeds from VISA IPO	$ 132	$ -	N/A	$ -	$ -	N/A
Gains (losses) on Sale of Securities	$ -	$ 2	N/A	$ 2	$ (495)	N/A
Other	$ 1,328	$ 1,274	4%	$ 1,274	$ 1,748	-27%

Total non-interest income was $28.1 million for 2008 compared to $26.9 million for 2007, representing a $1.2 million, or 4.5% increase year-over-year. This increase was driven by a $783,000, or 4.04 percent, increase in data service fees. Increases in Customer Service Fees of $172,000, or 7.68 percent, and gains on sale of loans of $167,000, or 29.1 percent, were offset by decreases in Trust Fees of $303,000, or 8.96 percent. The continued decline in the equity markets has negatively impacted trust fees, which are generally calculated on invested balances. The improved Customer Service Fees and gain on sale of loans are a result of State Bank's continuing focus on its High Performance Checking program, well-developed referral program, and improving cross-selling of additional products.

Total non-interest income was $26.9 million for 2007 compared to $23.8 million for 2006, representing a $3.1 million, or 13.1% increase year-over-year. Non-interest income in 2006 was increased a net $1.1 million from the one-time impact of a $495,000 charge taken to restructure the bond portfolio, an $889,000 recovery of losses previously recorded on WorldCom bonds, and a gain associated with the sale of the credit card portfolio of $740,000. Excluding these 2006 one-time items, non-interest income increased $4.2 million, or 18.7%, year-over-year. This increase was driven by a $4.4 million, or 29% increase in data service fees, which were primarily attributable to the DCM acquisition.

RDSI Banking Systems ("RDSI")

	Year Ended December 31,			Year Ended December 31,		
	2008	2007	% Change	2007	2006	% Change
	(dollars in thousands)					
Data Service Fees	$ 20,165	$ 19,382	4%	$ 19,382	$ 15,011	29%

Data service fees increased $783,000, or 4%, to $20.2 million in 2008 from $19.4 million in 2007, and increased $4.4 million, or 29%, from 2006 to 2007. Data processing fees contributed 71.9% of Rurban's recurring non-interest income for 2008. The majority of the increase was due to RDSI now billing clients directly for postage use. This increase to revenue is offset by an increase in postage expense. RDSI serviced over 113 community banks in 2007.

Earnings for the 2008 fiscal year were $2.8 million compared to $2.5 million for 2007, up $346,000, or 14.0%. The Company continues to see a solid pipeline of potential customers for both the data processing and item processing business lines entering 2009, as six additional banks are scheduled to be converted by June of 2009.

RDSI, including DCM provide data processing and item processing services for 113 community banks in Arkansas, Florida, Illinois, Indiana, Kansas, Michigan, Missouri, Nebraska, Nevada, Ohio and Wisconsin. RDSI and DCM differentiate themselves from their competition through the quality of their products and the excellence of their customer service. The applications utilized by RDSI are driven by world-class software. Customer service encompasses on-time delivery every morning and a discipline of responding to and resolving customer questions and issues within one hour. RDSI provides turnkey solutions for its clients through its partnerships with vendors experienced in a full array of banking products.

Non-interest Expense

	Year Ended December 31,			Year Ended December 31,		
	2008	2007	% Change	2007	2006	% Change
	(dollars in thousands)					
Total Non-interest Expense	$ 37,557	$ 36,637	3%	$ 36,637	$ 34,904	5%
Salaries & Employee Benefits	$ 17,318	$ 17,007	2%	$ 17,007	$ 16,584	3%
Professional Fees	$ 1,859	$ 2,227	-17%	$ 2,227	$ 2,396	-7%
All Other	$ 18,380	$ 17,403	6%	$ 17,403	$ 15,924	9%

Non-interest expense increased for 2008 nominally by $920,000, or 2.51 percent. The acquisition of National Bank of Montpelier contributed approximately $250,000 of this increase, primarily from the December operating expenses and the one-time acquisition cost. During 2008, RDSI switched from outsourcing their preparation and mailing activities to managing these mailings in-house. This increased postage expense by $760,000 during 2008 and this pass-through was offset by increases in revenue. RDSI also experienced an increase in non-federal taxes as it expanded into newer markets and sales tax expense in these new markets increased. Rurban controlled compensation and benefits with a mere 1.83 percent increase year-over-year. These increases were offset by expense reductions in equipment expenses (RDSI) and professional fees associated with loan workouts (State Bank). Data/Item Processing segment expenses were $17.3 million in 2008 compared to $16.9 million in 2007. This $400,000 increase in RDSI was partially due to the in-house processing of postage. Banking segment expenses were $20.1 million in 2008 compared with $20.3 million in 2007.

Non-interest expense increased $1.7 million, or 4.9% in 2007, primarily from the additional expenses incurred within the Data/Item Processing segment relating to the incorporation of full-year expenses from the DCM acquisition, which occurred in September of 2006. Data/Item Processing segment expenses were $16.9 million in 2007 compared to $13.1 million in 2006. This $3.7 million increase in RDSI was partially offset by a $1.9 million improvement within our Banking segment. This non-interest expense reduction was primarily the result of reductions in professional fees associated with loan workouts and the reduction of 42 full-time positions within the company, of which 23 were part of the Banking segment. This significantly reduced compensation and employee benefits expense. This reduction was also aided by approximately $500,000 of one-time expenses taken in the fourth quarter of 2006.

FINANCIAL CONDITION

Investments

The Company evaluates its securities portfolio for impairment throughout the year. An impairment is recorded against individual equity securities if their cost significantly exceeds their fair value for a substantial amount of time. An impairment is also recorded for investments in debt securities, unless the decrease in fair value is attributable to interest rates and management has the intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.

Management believes that it has the ability and intent to retain the investments with a loss evidenced by the Company's liquidity position discussed later in the Liquidity section, and over the past three years, the Company has had net gains on the sale of securities and any losses were minimal.

Loans

	12/31/2008	% of Total	12/31/2007	% of Total	% Inc/(Dec)	12/31/2006	% of Total	% Inc/(Dec)
	(dollars in thousands)							
Commercial	$ 83,645	19%	$ 83,049	21%	1%	$ 71,641	19%	16%
Commercial R.E.	161,566	35%	126,785	33%	27%	109,503	30%	16%
Agricultural	43,641	10%	43,369	11%	1%	44,683	12%	-3%
Residential	107,905	24%	84,621	22%	28%	94,389	25%	-10%
Consumer	53,339	12%	51,357	13%	4%	49,314	13%	4%
Leases	266	0%	330	0%	-19%	857	1%	-61%
Loans	$ 450,362		$ 389,511		16%	$ 370,387		5%
Loans held for sale	3,824		1,650			390		
Total	$ 454,186		$ 391,161			$ 370,777		

Loans increased $60.8 million to $450.1 million at December 31, 2008. This growth was due to the acquisition of $44.2 million from the acquisition of National Bank of Montpelier and $16.6 million of core loan growth.

In 2007, loans increased $19.2 million to $390 million at December 31, 2007. This growth was due to commercial loan increases as residential and consumer loan balances decreased slightly during 2007.

Asset Quality

	Period Ended December 31, (dollars in millions)				
	12/31/2008	12/31/2007	Change in Dollars / Percentages	12/31/2006	Change in Dollars / Percentages
Non-performing loans	$ 5.2	$ 6.0	$ (0.8)	$ 3.8	$ 2.2
Non-performing assets	$ 6.6	$ 6.2	$ 0.4	$ 3.9	$ 2.3
Non-performing assets/total assets	1.00%	1.10%	-0.10%	0.70%	0.40%
Net chargeoffs	$ 0.8	$ 0.2	$ 0.6	$ 1.2	$ (1.0)
Net chargeoffs/total loans	0.19%	0.07%	0.12%	0.31%	-0.24%
Loan loss provision	$ 0.7	$ 0.5	$ 0.2	$ 0.2	$ 0.3
Allowance for loan losses	$ 5.0	$ 4.0	$ 1.0	$ 3.7	$ 0.3
Allowance/loans	1.12%	1.03%	0.09%	1.00%	0.03%
Allowance/non-performing loans	76%	65%	11%	97%	-32%
Allowance/non-performing assets	76%	65%	11%	95%	-30%

Non-performing assets (loans + OREO + OAO) were $6.59 million, or 1.00 percent, of total assets at December 31, 2008, an increase of $317,000 from the linked quarter, and an increase of $425,000 from a year-ago. The acquisition of National Bank of Montpelier contributed $845,000 in non-performing assets at year-end. Asset quality remains stable as we enter 2009. Consistent with external economic conditions, State Bank is seeing a slight increase in delinquencies within all segments of its portfolio; however, the current levels are not significant or alarming. State Bank has managed through a difficult 2008, but it is not insulated from the economic factors facing the industry in 2009.

CAPITAL RESOURCES

Stockholders' equity at December 31, 2008, was $61.7 million, equivalent to 9.4% of total assets. On a tangible basis, the ratio was 5.8%. The total risk-based capital ratio was 13.2% at December 31, 2008, well in excess of the "well-capitalized" regulatory threshold of 10%.

Total consolidated regulatory (risk-based) capital was $59.5 million at December 31, 2008, and $64.2 million at December 31, 2007. As of December 31, 2008, all of the $20 million of trust preferred securities qualified as Tier 1 capital.

Goodwill and Intangibles

The company completed the most recent annual goodwill impairment test as of December 31, 2008. This was the first year that a third party valuation was completed and the valuation was done consisting of the first step goodwill impairment test. The first step impairment test compares the fair value of the reporting units with the carrying values, including goodwill. The reporting units are the State Bank and RDSI and tests on both units reflected no impairment.

Planned Purchases of Premises and Equipment

Management plans to purchase additional premises and equipment to meet the current and future needs of the Company's customers. These purchases, including buildings and improvements and furniture and equipment (which includes computer hardware, software, office furniture and license agreements), are currently expected to total approximately $3.2 million over the next year. These purchases are expected to be funded by cash on hand and from cash generated from current operations.

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 $134.5 million at December 31, 2008 compared to $111.5 million at December 31, 2007. During 2008, the Company continued to liquidate investments and use the funding to grow the loan portfolio. The acquisition of National Bank of Montpelier also added liquidity to the organization. The loan to deposits ratio at National Bank of Montpelier prior to the acquisition was 48%. Rurban liquidated approximately $39 million of the $51 million in investments during December of 2008, and used $25 million to pay the shareholders of NBM Bancorp. The Company anticipates using the rest of the liquidity to fund loan growth throughout 2009. The approximately $13 million in investments that were retained will also provide liquidity to the Company, as cash flows are expected on these investments over the next 3 years.

The Company's commercial real estate and residential first mortgage portfolio of $269.5 million at December 31, 2008, and commercial real estate and residential first mortgage portfolio of $211.4 million at December 31, 2007, which can and has been readily 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 December 31, 2008, all eligible commercial real estate and first mortgage loans were pledged under an FHLB blanket lien.

The cash flow statements for the periods presented provide an indication of the Company's sources and uses of cash as well as an indication of the ability of the Company to maintain an adequate level of liquidity. A discussion of the cash flow statements for 2008, 2007 and 2006 follows.

The Company experienced positive cash flows from operating activities in 2008, 2007 and 2006. Net cash from operating activities was $9.7 million, $5.9 million and $4.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

Cash flow from investing activities was a use of cash of $647,000, $12.8 million and $21.0 million for December 31, 2008, 2007, and 2006, respectively. The changes in net cash from investing activities for 2008 include the purchase of National Bank of Montpelier of $14.8 million, and purchases of premises and equipment of $8.0 million. The changes in net cash from investing activities for 2007 include the purchase of bank owned life insurance of $1.0 million and purchases of premises and equipment of $3.7 million. The changes in net cash from investing activities for 2006 include the cash paid to the shareholders of Exchange Bank that totaled $6.5 million and cash paid to the shareholders of DCM that totaled $4.9 million. In 2008, 2007 and 2006, the Company received $36.5 million, $3.5 million and $33.3 million, respectively, from sales of securities available for sale, while proceeds from repayments, maturities and calls of securities were $48.1 million, $37.2 million and $19.5 million in 2008, 2007 and 2006, respectively.

Net cash flow provided from financing activities was $1.9 million, $1.6 million, and $26.1 million for the years ended December 31, 2008, 2007 and 2006, respectively. The net cash increase was primarily due to an increase in net borrowings from the FHLB of $12.6 million, $3.0 million and $(24.5) million for December 31, 2008, 2007 and 2006, respectively. Additionally $(8.6) million, $(8.5) million and $29.7 million of the change is attributable to the change in deposits.

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 the national certificate of deposit market. Management expects the risk of changes in off-balance-sheet arrangements to be immaterial to earnings.

Approximately $138.6 million commercial real estate and residential first mortgage loans of the Company's $269.5 million portfolio qualify to collateralize FHLB borrowings and have been pledged to meet FHLB collateralization requirements as of December 31, 2008. Based on the current collateralization requirements of the FHLB, approximately $13.7 million of additional borrowing capacity existed at December 31, 2008.

At December 31, 2008, the Company had $25.5 million in federal funds lines. As of December 31, 2007, the Company had $20.9 million in federal funds lines. There were no Federal funds borrowed at December 31, 2008 and 2007. The Company also had $17.2 million in unpledged securities that may be used to pledge for additional borrowings.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

	Payment due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
Long-Term Debt Obligations	$ 36,646,854	$ 9,082,228	$ 25,925,752	$ 1,638,874	$ -
Other Debt Obligations	21,620,000	1,000,000	-	-	20,620,000
Operating Lease Obligations	2,143,078	447,183	652,283	423,200	620,412
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	242,516,203	158,844,618	69,090,559	12,155,618	2,425,408
Total	$ 302,926,135	$ 169,374,029	$ 95,668,594	$ 14,217,692	$ 23,665,820

The Company's contractual obligations as of December 31, 2008 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 $36.6 million. Other debt obligations are comprised of Trust Preferred securities of $20.6 million and Notes Payable of $1.0 million. The operating lease obligation is a lease on the RDSI-South building, of $99,600 per year, the RDSI-North building of $162,000 a year and the DCM-Lansing facility of $89,400 per year. Other long-term liabilities include time deposits of $242.5 million.

ASSET LIABILITY MANAGEMENT

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

Interest rate risk is the exposure of a banking institution's financial condition to adverse movements in interest rates. Accepting this risk can be an important source of 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 terms of new loans or investments; 2) selling existing assets or repaying certain liabilities; and 3) hedging existing assets, liabilities, or anticipated transactions. An institution might also invest in more complex financial instruments intended to hedge or otherwise change interest rate risk. Interest rate swaps, futures contacts, 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.

Quantitative Market Risk Disclosure. The following table provides information about the Company's financial instruments used for purposes other than trading that are sensitive to changes in interest rates as of December 31, 2008. It does not present when these items may actually reprice. For loans receivable, securities, and liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturities as well as the historical impact of interest rate fluctuations on the prepayment of loans and mortgage backed securities. For core deposits (demand deposits, interest-bearing checking, savings, and money market deposits) that have no contractual maturity, the table presents principal cash flows and applicable related weighted-average interest rates based upon the Company's historical experience, management's judgment and statistical analysis, as applicable, concerning their most likely withdrawal behaviors. The current historical interest rates for core deposits have been assumed to apply for future periods in this table as the actual interest rates that will need to be paid to maintain these deposits are not currently known. Weighted average variable rates are based upon contractual rates existing at the reporting date.

Principal/Notional Amount Maturing or Assumed to be Withdrawn In:
(Dollars in thousands)

	2009	2010	2011	2012	2013	Thereafter	Total
Rate Sensitive Assets							
Variable Rate Loans	$ 58,629	$ 8,865	$ 4,518	$ 2,973	$ 1,921	$ 3,931	$ 80,837
Average interest rate	4.07%	4.25%	4.23%	4.22%	4.26%	4.09%	4.11%
Adjustable Rate Loans	$ 43,366	$ 33,822	$ 28,191	$ 20,854	$ 17,251	$ 70,580	$ 214,064
Average interest rate	6.51%	6.41%	6.48%	6.48%	6.49%	6.46%	6.47%
Fixed Rate Loans	$ 49,077	$ 32,096	$ 27,239	$ 14,379	$ 9,351	$ 26,894	$ 159,035
Average interest rate	6.37%	6.47%	6.49%	6.34%	6.24%	5.55%	6.26%
Total Loans	$ 151,072	$ 74,783	$ 59,948	$ 38,206	$ 28,523	$ 101,405	$ 453,936
Average interest rate	5.52%	6.18%	6.32%	6.25%	6.26%	6.13%	5.98%
Fixed rate investment securities	$ 21,306	$ 10,018	$ 5,655	$ 4,123	$ 4,760	$ 50,651	$ 96,513
Average interest rate	4.68%	5.04%	5.10%	5.38%	5.16%	5.03%	4.98%
Var rate investment securities	$ 417	$ 395	$ 390	$ 348	$ 185	$ 8,603	$ 10,338
Average interest rate	4.98%	4.97%	4.96%	5.08%	4.82%	5.25%	5.20%
Fed Funds Sold & Other	$ 10,000	$ -	$ -	$ -	$ -	$ -	$ 10,000
Average interest rate	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%
Total Rate Sensitive Assets	$ 182,795	$ 85,196	$ 65,992	$ 42,677	$ 33,468	$ 160,659	$ 570,787
Average interest rate	5.12%	6.04%	6.20%	6.16%	6.09%	5.73%	5.69%

Rate Sensitive Liabilities							
Demand - Non Interest Bearing	$ 10,456	$ 10,457	$ 10,457	$ 10,457	$ 10,416	$ -	$ 52,243
Demand - Interest Bearing	$ 14,628	$ 14,628	$ 14,628	$ 14,628	$ 14,611	$ -	$ 73,123
Average interest rate	0.38%	0.38%	0.38%	0.38%	0.38%	0.00%	0.38%
Money Market Accounts	$ 16,404	$ 16,404	$ 16,404	$ 16,404	$ 16,409	$ -	$ 82,025
Average interest rate	0.81%	0.81%	0.81%	0.81%	0.81%	0.00%	0.81%
Savings	$ 6,864	$ 6,864	$ 6,864	$ 6,864	$ 6,858	$ -	$ 34,314
Average interest rate	0.24%	0.24%	0.24%	0.24%	0.24%	0.00%	0.24%
Certificates of Deposit	$ 156,203	$ 54,595	$ 12,334	$ 9,283	$ 3,548	$ 6,553	$ 242,516
Average interest rate	3.06%	3.18%	3.95%	3.79%	3.75%	3.66%	3.19%
Fixed rate FHLB Advances	$ 6,500	$ 11,000	$ 12,532	$ 2,155	$ 4,460	$ -	$ 36,647
Average interest rate	4.36%	5.38%	4.17%	3.26%	3.42%	0.00%	4.42%
Variable rate FHLB Advances	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Average interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	4.99%	4.88%
Fixed rate Notes Payable	$ -	$ -	$ -	$ -	$ -	$ 10,310	$ 10,310
Average interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	10.60%	10.60%
Variable rate Notes Payable	$ 1,000	$ -	$ -	$ -	$ -	$ 10,310	$ 11,310
Average interest rate	3.75%	0.00%	0.00%	0.00%	0.00%	4.99%	4.88%
Fed Funds Purchased, Repos & Other	$ 8,426	$ -	$ 15,000	$ 20,000	$ -	$ -	$ 43,426
Average interest rate	0.55%	0.00%	4.77%	4.74%	0.00%	0.00%	3.94%
Total Rate Sensitive Liabilities	$ 220,481	$ 113,948	$ 88,219	$ 79,791	$ 56,302	$ 27,173	$ 585,914
Average interest rate	2.43%	2.22%	2.19%	1.97%	0.87%	6.80%	2.34%

Principal/Notional Amount Maturing or Assumed to be Withdrawn In:
(Dollars in thousands)

Comparison of 2008 to 2007	First Year	Years 2 - 5	Thereafter	Total
Total Rate Sensitive Assets:				
At December 31, 2008	$ 182,795	$ 227,333	$ 160,659	$ 570,787
At December 31, 2007	176,907	179,502	133,191	489,600
Increase (decrease)	$ 5,888	$ 47,831	$ 27,468	$ 81,187
Total Rate Sensitive Liabilities:				
At December 31, 2008	$ 220,481	$ 338,260	$ 27,173	$ 585,914
At December 31, 2007	231,589	241,378	21,612	494,579
Increase (decrease)	$ (11,108)	$ 96,882	$ 5,561	$ 91,335

The above table reflects expected maturities, not expected repricing. The contractual maturities adjusted for anticipated prepayments and anticipated renewals at current interest rates, as shown in the preceding table, are only part of the Company's interest rate risk profile. Other important factors include the ratio of rate-sensitive assets to rate sensitive liabilities (which takes into consideration loan repricing frequency but not when deposits may be repriced) and the general level and direction of market interest rates. For core deposits, the repricing frequency is assumed to be longer than when such deposits actually reprice. For some rate sensitive liabilities, their repricing frequency is the same as their contractual maturity. For variable rate loans receivable, repricing frequency can be daily or monthly. For adjustable rate loans receivable, repricing can be as frequent as annually for loans whose contractual maturities range from one to thirty years. The Company continued to reposition its balance sheet over the past two years liquidating investments and reducing high cost certificates of deposit which had a positive impact on the margin and helped balance the gap position.

The Company manages its interest rate risk by the employment of strategies to assure that desired levels of both interest-earning assets and interest-bearing liabilities mature or reprice with similar time frames. Such strategies include: 1) loans receivable which are renewed (and repriced) annually, 2) variable rate loans, 3) certificates of deposit with terms from one month to six years, 4) securities available for sale which mature at various times primarily from one through ten years, 5) federal funds borrowings with terms of one day to 90 days, and 6) Federal Home Loan Bank borrowings with terms of one day to ten years.

Impact of Inflation and Changing Prices

The majority of assets and liabilities of the Company are monetary in nature and therefore, the Company differs greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. However, inflation does have an important impact on the growth of total assets in the banking industry and the resulting need to increase equity capital at higher than normal rates in order to maintain an appropriate equity to assets ratio. Inflation significantly affects noninterest expense, which tends to rise during periods of general inflation.

Management believes the most significant impact on financial results is the Company's ability to react to changes in interest rates. Management seeks to maintain an essentially balanced position between interest sensitive assets and liabilities and actively manages the amount of securities available for sale in order to protect against the effects of wide interest rate fluctuations on net income and shareholders' equity.

Forward-Looking Statements

This report may contain forward-looking statements about the Company and its subsidiaries within the meaning of the Private Securities Litigation Reform Act of 1995, which are not statements of historical fact. These forward-looking statements include statements preceded by or that include the words or phases "anticipates," "believes," "plans," "intends," "expects," "projects," "estimates," "should," "may," "would be," "will allow," "will likely result," "will continue," "will remain," or similar expressions. Forward-looking statements are subject to numerous risks and uncertainties that could cause actual results to differ materially from those predicted by the forward-looking statements. These risks and uncertainties include, but are not limited to, risks and uncertainties inherent in the national and regional banking industry, changes in economic conditions in the market areas in which the Company and its subsidiaries operate, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the market areas in which the Company and its subsidiaries operate, changes in the competitive environment, geopolitical events, the loss of key personnel and other factors. For a more detailed discussion of the factors that could affect the Company's financial results, please see Item 1A "Risk Factors" in the Company's most recent Annual Report on Form 10-K filed with the SEC.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made. The Company does not undertake, and specifically disclaims any obligation, to update any forward looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements, except as required by law.

Market for Rurban Financial Corp. Common Stock Related Shareholder Matters

The common shares of the Company are traded on The NASDAQ Global Market (symbol "RBNF"). The table below sets forth the high and low sales prices and the cash dividends declared with respect to the common shares of the Company for the indicated periods. The high and low prices reflect actual prices for purchases and sales of the Company's common shares as reported by NASDAQ and not inter-dealer prices.

	Per Share Sales Prices		Per Share Dividends
2008	High	Low	Declared
First Quarter	$ 12.60	$ 9.79	$ 0.08
Second Quarter	10.96	9.52	0.08
Third Quarter	10.24	7.72	0.09
Fourth Quarter	9.50	7.54	0.09
2007	High	Low	Declared
First Quarter	$ 11.92	$ 10.66	$ 0.06
Second Quarter	12.82	11.71	0.06
Third Quarter	12.90	12.46	0.07
Fourth Quarter	13.25	10.25	0.07

The Company plans to continue to pay regular quarterly cash dividends. However, there can be no assurance as to the amount of dividends which will be declared with respect to the common shares of the Company in the future, since such dividends are subject to the discretion of the Company's Board of Directors, cash needs, general business conditions, dividends from the subsidiaries and applicable governmental regulations and policies. For a discussion of the regulatory limitations on our ability to pay dividends, see "Supervision and Regulation – Dividends" in Part I of this Annual Report on Form 10-K.

The approximate number of holders of the outstanding common shares of the Company, as of February 14, 2009, was 2,744.

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Corporate Information

STOCK LISTING

Rurban Financial Corp.'s common stock is traded on the NASDAQ Global Market under the ticker symbol RBNF.

STOCK TRANSFER AGENT

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
(800) 368-5948

CORPORATE ADDRESS

Rurban Financial Corp.
401 Clinton Street
Defiance, OH 43512
www.rurbanfinancial.net

MARKET MAKERS

Robert W. Baird & Co., Inc.
Knight Equity Markets, L.P.
Stifel Nicolaus & Co.
Sweney Cartwright & Co.
UBS Securities, LLC

INVESTOR RELATIONS

Ms. Valda Colbart
P.O. Box 467
Defiance, OH 43512
(419) 784-2759 or (800) 273-5820
rfcinv@rurban.net

FORM 10-K

The Annual Report on Form 10-K, as required to be filed with the Securities and Exchange Commission, will be made available to interested shareholders via www.rurbanfinancial.net.

SUBSIDIARIES

The State Bank and Trust Company
Reliance Financial Services (DBA)
RDSI Banking Systems
DCM (DBA)

OWNERSHIP OPPORTUNITIES

Dividend Reinvestment Plan (DRIP): This powerful investment technique allows you to reinvest your dividends automatically. Receive free custodial services, quarterly statements, 1099, dividend reinvestment and more. Contact Ms. Valda Colbart at rfcinv@rurban.net or (419) 784-2759 or (800) 368-5948 for additional information.

SHAREHOLDER DIRECT STOCK PURCHASE PROGRAM

DRIP participants or stockholders utilizing Registrar and Transfer Company custodial services may purchase stock in their account at any time free of charge. Simply complete a request card and stock will be purchased for you.

For more information, call (800) 368-5948 or (419) 784-2759.

RBNF E-MAIL ALERT SERVICE

You can receive our news releases by e-mail. This service is available free of charge through our website. Simply go to www.rurbanfinancial.net and click on "Investor Relations," then "Email Notification."

CORPORATE GOVERNANCE

The Rurban Financial Corp. Code of Conduct and Ethics, as required by the Sarbanes-Oxley Act, is available via www.rurbanfinancial.net or by requesting a copy from Investor Relations.

Certain statements within this document, which are not statements of historical fact, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties and actual results may differ materially from those predicted by the forward-looking statements. These risks and uncertainties include, but are not limited to, risks and uncertainties inherent in the national and regional banking, insurance and mortgage industries, competitive factors specific to markets in which Rurban and its subsidiaries operate, future interest rate levels, legislative and regulatory actions, capital market conditions, general economic conditions, geopolitical events, the loss of key personnel and other factors.

Forward-looking statements speak only as of the date on which they are made, and Rurban undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made except as required by law. All subsequent written and oral forward-looking statements attributable to Rurban or any person acting on our behalf are qualified by these cautionary statements.



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