RURBAN FINANCIAL CORP
Form 10-K
March 18, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009
OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to ____________

Commission File Number 0-13507

RURBAN FINANCIAL CORP.
(Exact name of Registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	34-1395608 (I.R.S. Employer Identification No.)
401 Clinton Street, Defiance, Ohio (Address of principal executive offices)	43512 (Zip Code)
Registrant's telephone number, including area code:	(419) 783-8950

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

Title of each class	Name of each exchange on which registered
Common Shares, Without Par Value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:
Not Applicable

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ¨ No x

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

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

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

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

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

The aggregate market value of the common shares of the registrant held by non-affiliates computed by reference to the price at which the common shares were last sold as of the last business day of the registrant's most recently completed second fiscal quarter was $34,820,386.

The number of common shares of the registrant outstanding at March 17, 2010 was 4,861,779.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 22, 2010 are incorporated by reference into Part III of this Annual Report on Form 10-K.

RURBAN FINANCIAL CORP.

2009 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

PART I

Item 1. Business.

Certain statements contained in this Annual Report on Form 10-K which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See "Cautionary Statement Regarding Forward-Looking Information" under Item 1A. Risk Factors on page 25 of this Annual Report on Form 10-K.

General

Rurban Financial Corp., an Ohio corporation (the "Company"), is a bank holding company registered under the Bank Holding Company Act of 1956, as amended, and is subject to regulation by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Company was organized in 1983. The executive offices of the Company are located at 401 Clinton Street, Defiance, Ohio 43512.

Through its direct and indirect subsidiaries, The State Bank and Trust Company ("State Bank"), RFCBC, Inc. ("RFCBC"), RDSI Banking Systems ("RDSI"), Rurban Mortgage Company ("RMC"), Rurban Investments, Inc. ("RII") Rurban Statutory Trust I ("RST I"), and Rurban Statutory Trust II ("RST II"), the Company is engaged in a variety of activities, including commercial banking, data and item processing, and trust and financial services, as explained in more detail below. State Bank owns all of the outstanding stock of Rurban Mortgage Company ("RMC") and Rurban Investments Inc. ("RII").

General Description of Holding Company Group

State Bank

State Bank is an Ohio state-chartered bank. State Bank presently operates five branch offices in Defiance County, Ohio (four in the city of Defiance), two branch offices in adjacent Paulding County, Ohio (one each in Paulding and Oakwood), three branch offices in Fulton County, Ohio (one each in Delta, Lyons and Wauseon), one branch offices in Allen County, Ohio, three branch offices in Wood County, Ohio (one each in Luckey, Walbridge and Perrysburg), four branch offices in Williams County, Ohio (one each in Montpelier, Bryan, Pioneer, and West Unity), one branch office in Lucas County, Ohio (Sylvania), a Commercial and Mortgage Loan Production Office in Franklin County, Ohio, a Mortgage Loan Production Office in Steuben County, Indiana and one branch office in Allen County, Indiana. At December 31, 2009, State Bank had 190 full-time equivalent employees.

State Bank offers a full range of commercial banking services, including checking accounts, passbook savings, money market accounts and time certificates of deposit; automatic teller machines; commercial, consumer, agricultural and residential mortgage loans (including "Home Value Equity" line of credit loans); personal and corporate trust services; commercial leasing; bank credit card services; safe deposit box rentals; Internet and telephone banking; and other personalized banking services.

Reliance Financial Services ("RFS") is the trust and financial services division of State Bank. RFS offers various trust and financial services, including asset management services for individuals and corporate employee benefit plans, as well as brokerage services through Raymond James Financial, Inc.

RMC

RMC is an Ohio corporation and wholly-owned subsidiary of State Bank. RMC is a mortgage company; however, it ceased originating mortgage loans in the second quarter of 2000 and is presently inactive. At December 31, 2009, RMC had no employees.

3.

RFCBC

RFCBC is an Ohio corporation and wholly-owned subsidiary of the Company that was incorporated in August 2004. RFCBC operates as a loan subsidiary in servicing and working out problem loans. At December 31, 2009, RFCBC had no employees.

RDSI

RDSI has been in operation since 1964 and became an Ohio corporation in June 1976. RDSI has one operating location in Defiance, Ohio. In September 2006, RDSI acquired Diverse Computer Marketers, Inc. ("DCM") which was merged into RDSI effective December 31, 2007 and now operates as a division of RDSI doing business as "DCM". DCM has one operating location in Lansing, Michigan.

RDSI delivers software systems to the banking industry which provide a broad range of data processing and item processing services in an outsourced environment utilizing Information Technology Inc. (ITI) software. At December 31, 2009, RDSI had 109 full-time equivalent employees.

RST I

RST I is a trust that was organized in August 2000. In September 2000, RST I 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 and the back-up obligations, which in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST I under the Capital Securities.

RST II

RST II is a trust that was organized in August 2005. In September 2005, RST II 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 and the back-up obligations, which in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST II under the Capital Securities.

Recent Developments

State Bank

At State Bank, asset quality issues increased throughout the year, with non-performing assets increasing to 3.02 percent of total assets as of December 31, 2009, from 1.00 percent of total assets at year end 2008. Net charge-offs increased to 0.84 percent of total loans for 2009 compared to 0.19 percent of loans for 2008.

As part of its continuing program to reduce operating expenses, State Bank closed two banking centers in 2009, one in Ney, Ohio and one in Montpelier, Ohio. In early 2010 State Bank closed a banking center in Lima, Ohio

Rurban increased its dividend to shareholders from $0.34 per share during 2008 to $0.36 per share in 2009. However, due to an increase in problem assets in the fourth quarter of 2009, the dividend for the first quarter of 2010 was suspended and on-going dividend payouts will be evaluated quarterly

The mortgage banking business line continues to grow, with residential real estate loan production of $238 million for the year, driven by the refinancing boom, compared to $38 million for 2008.

Included within the $5.7 million provision for loan losses, was a provision for a $1.15 million loss recorded due to mortgage fraud by an external title insurance broker. State Bank plans to pursue litigation filed against the principal involved, the local title company, and a title insurance company for recovery of the fraud loss.

4.

RDSI

On April 27, 2009, RDSI announced a strategic partnership with New Core Holdings, Inc. d/b/a New Core Banking Systems, headquartered in Birmingham, AL ("New Core"). As part of this partnership, RDSI and New Core entered into a Reseller Software License and Support Agreement pursuant to which RDSI was granted rights as the exclusive provider of New Core's Single Source™ software.

RDSI and New Core also entered into an Agreement and Plan of Merger pursuant to which New Core would be merged with a newly-created subsidiary of RDSI and become a wholly-owned subsidiary of RDSI. A prerequisite of this merger would be the spin-off of RDSI from Rurban, resulting in RDSI becoming a separate independent public company. This would be followed immediately by the merger of RDSI and New Core. In the merger, the New Core shareholders would receive between 15.5 percent and 26.8 percent of the aggregate common shares of RDSI outstanding immediately following the merger. On October 22, 2009, Rurban announced that its board of directors had approved proceeding with the appropriate filings with the Securities and Exchange Commission (the "SEC") in connection with the contemplated spin-off of RDSI. RDSI anticipates that the spin-off would be completed in the second quarter of 2010, subject to the satisfaction of a number of conditions including final approval by Rurban's Board of Directors of the spin-off and its terms.

Following RDSI's April 2009 announcement of its proposed merger and strategic partnership with New Core, RDSI received notice from Information Technology, Inc. and Fiserv Solutions, Inc. ("Fiserv") stating Fiserv's intention to terminate a series of license agreements between RDSI and Fiserv (the "License Agreements"). Pursuant to the License Agreements, RDSI licensed Fiserv's Premier and other software products which it used to provide data processing services to many of its financial institution customers.

On May 22, 2009, RDSI received a complaint in a lawsuit filed against it by Fiserv in the U.S. District Court for the District of Nebraska. In the lawsuit, Fiserv sought declaratory and injunctive relief relating to the License Agreements and asserted claims for breach of contract.

On July 28, 2009, RDSI reached an agreement with Fiserv to wind down their licensing relationship. Pursuant to this agreement, after December 31, 2010, Fiserv will no longer license its Premier suite of products to RDSI and RDSI will exclusively market New Core's Single Source™ software system. RDSI customers which presently rely on the Premier platform have the option to continue their processing with RDSI and convert to Single Source™, or to move their processing to Fiserv and continue to use Premier. As of the date of the agreement with Fiserv (July 28, 2009), RDSI had 74 data processing customers using Fiserv's Premier software. RDSI also provides item processing services to customers through its DCM division using software licensed from Bankware.

Since entering into the agreement with Fiserv, RDSI has begun its marketing efforts to offer New Core's Single Source™ software to its current data processing customers. As of March 17, 2010, 31 of RDSI's 74 customers had notified RDSI of their intentions to move their processing away from RDSI. As of March 17, 2010, RDSI had 8 executed contracts from current RDSI customers to convert to the Single Source™ software and remain with RDSI. The conversion of the first of these customers – the Company's subsidiary, State Bank – is expected to be completed during March 2010. As of March 17, 2010, 35 of RDSI's current customers had not yet notified RDSI as to their final decision as to whether they will continue their processing with RDSI and convert to Single Source™ or move their processing away from RDSI. Because the decisions by these customers may be made throughout 2010, RDSI is currently unable to determine the number of additional customers that may choose to move their processing away from RDSI, or the amount of additional revenue that RDSI may lose as a result.

RDSI expects to ultimately offset the loss of current customers and associated revenues through the customers gained by the planned merger with New Core and through the addition of new banking customers that execute contracts to move their processing to RDSI and convert to Single Source™. As of March 17, 2010, New Core had one banking site using the Single Source™ software and 4 executed contracts with non-RDSI customers. However, the amount and timing of RDSI's receipt of revenues from new customers is currently uncertain, and there can be no assurances that RDSI will be able to fully replace the revenues it loses from current customers that elect to move their processing away from RDSI. The sales process of offering the Single Source™ software is a complex effort involving software presentations, viewing of test software, and the prospective customer's due diligence, concluding with approval by the prospective customer's board of directors and execution of a contract.

In view of the foregoing, it is anticipated that RDSI will experience a significant decrease in revenues in 2010 and that annual revenues will not recover to 2009 levels until after 2010, if at all. Although RDSI has some ability, if necessary, to reduce staffing levels and certain variable expenses to partially offset the impact of decreases in revenues over time, RDSI does not anticipate a reduction in overall expenses in 2010. Rather, RDSI expects to continue to incur increased expenses over the next 12 months in connection with its increased sales, marketing and conversion efforts with respect to the Single Source™ software, as well as continued accelerated depreciation of RDSI's Fiserv-related assets. In addition, RDSI is likely to incur increased expenses following the planned spin-off and merger with New Core in connection with the management and operation of RDSI as an independent public company and the increased research and development expenses associated with the continued development and enhancement of Single Source™. These expenses will be partially or fully offset by the elimination of software leasing fees currently paid to Fiserv. Finally, it is anticipated that the loss of bank clients by RDSI may cause the current portion of goodwill reflected on RDSI's balance sheet to become impaired, which would require RDSI to record a non-cash loss through its income statement as early as the first quarter of 2010.

As a result of the anticipated decrease in revenues resulting from the loss of current RDSI customers, the uncertainty regarding if and when the lost revenues will be replaced through the addition of new customers, and the anticipated increased expenses that will be incurred by RDSI in 2010, RDSI is expected to experience a net loss in 2010 and possibly beyond. Because of the uncertainties described above, the extent of the net loss in 2010 cannot be determined at this time. No assurances can be given that the net loss for 2010 will not be significant or that the net loss by RDSI will not extend beyond 2010.

We believe that RDSI's current capital level is adequate and do not expect that RDSI will need to raise additional capital to support its business operations in 2010 or 2011. However, in the event that the amount of net losses by RDSI are greater than currently anticipated, there is a risk that RDSI may be required to raise additional capital. RDSI's ability to raise additional capital, if and when needed, will depend upon conditions in the capital markets, economic conditions and a number of other factors, many of which are outside RDSI's control, and on RDSI's financial performance and condition. Accordingly, no assurances can be given that RDSI will be able to raise additional capital if and when needed or on terms acceptable to RDSI. If RDSI cannot raise additional capital if and when needed, it may have a material adverse effect on RDSI's financial condition and results of operations.

Competition

State Bank experiences significant competition in attracting depositors and borrowers. Competition in lending activities comes principally from other commercial banks in the lending areas of State Bank, and, to a lesser extent, from savings associations, insurance companies, governmental agencies, credit unions, securities brokerage firms and pension funds. The primary factors in competing for loans are interest rates charged and overall banking services.

State Bank's competition for deposits comes from other commercial banks, savings associations, money market funds and credit unions as well as from insurance companies and securities brokerage firms. The primary factors in competing for deposits are interest rates paid on deposits, account liquidity and convenience of office location.

6.

RDSI and DCM also operate in a highly competitive field. RDSI and DCM compete primarily on the basis of the value and quality of their data processing and item processing services and convenience to their customers.

RFS operates in the highly competitive trust services field and its competition consists primarily of other bank trust departments.

Supervision and Regulation

The following is a description of the significant statutes and regulations applicable to the Company and its subsidiaries. The description is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by the U.S. Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to the Company or its subsidiaries could have a material effect on our business.

Regulation of Bank Holding Companies and Their Subsidiaries in General

The Company is a bank holding company and, as such, is subject to regulation under the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). The Bank Holding Company Act requires the prior approval of the Federal Reserve Board before a bank holding company may acquire direct or indirect ownership or control of more than 5% of the voting shares of any bank (unless the bank is already majority owned by the bank holding company), acquire all or substantially all of the assets of another bank or bank holding company, or merge or consolidate with any other bank holding company. Subject to certain exceptions, the Bank Holding Company Act also prohibits a bank holding company from acquiring 5% of the voting shares of any company that is not a bank and from engaging in any business other than banking or managing or controlling banks. The primary exception to this prohibition allows a bank holding company to own shares in any company the activities of which the Federal Reserve Board had determined, as of November 19, 1999, to be so closely related to banking as to be a proper incident thereto.

The Company is subject to the reporting requirements of, and examination and regulation by, the Federal Reserve Board. The Federal Reserve Board has extensive enforcement authority over bank holding companies, including, without limitation, the ability to assess civil money penalties, issue cease and desist or removal orders, and require that a bank holding company divest subsidiaries, including its subsidiary banks. In general, the Federal Reserve Board may initiate enforcement actions for violations of laws and regulations and unsafe or unsound practices. A bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with extensions of credit and/or the provision of other property or services to a customer by the bank holding company or its subsidiaries.

Under Federal Reserve Board policy, a bank holding company is expected to act as a source of financial strength to its subsidiary bank and to commit resources to support its subsidiary bank. Pursuant to this policy, the Federal Reserve Board may require a bank holding company to contribute additional capital to an undercapitalized subsidiary bank.

State Bank is a member of the Federal Reserve System, so its primary federal regulator is the Federal Reserve Board. The Federal Reserve Board issues regulations governing the operations of State Bank and examines State Bank. The Federal Reserve Board may initiate enforcement action against insured depository institutions and affiliated persons for violations of laws and regulations and for engaging in unsafe or unsound practices. The deposits of State Bank are insured by the Federal Deposit Insurance Corporation ("FDIC") and are subject to the applicable provisions of the Federal Deposit Insurance Act.

As a state-chartered bank incorporated under Ohio law, State Bank is also subject to regulation, supervision and examination by the Ohio Division of Financial Institutions (the "Division"). The Division may initiate supervisory measures or formal enforcement actions against Ohio state-chartered banks and, if the grounds provided by law exist, the Division may place an Ohio bank in conservatorship or receivership. Whenever the Division considers it necessary or appropriate, the Division may also examine the affairs of any holding company or any affiliate or subsidiary of an Ohio bank.

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

The Federal Home Loan Banks ("FHLBs") provide credit to their members in the form of advances. As a member of the FHLB of Cincinnati, State Bank must maintain certain minimum investments in the capital stock of the FHLB of Cincinnati. State Bank was in compliance with these requirements at December 31, 2009.

Dividends

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

On January 27, 2010, the Company announced that it has elected to suspend payment of quarterly cash dividends at this time and will evaluate future dividend payouts on a quarterly basis. There can be no assurance as to the amount of dividends which may be declared in future periods with respect to the common shares of the Company, 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.

Transactions with Affiliates, Directors, Executive Officers and Shareholders

Sections 23A and 23B of the Federal Reserve Act and Federal Reserve Board Regulation W restrict transactions by banks and their subsidiaries with their affiliates. Any company or entity that controls, is controlled by or is under common control with a bank is generally considered to be an affiliate of the bank.

In general, Sections 23A and 23B and Regulation W:

- limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of the bank's capital stock and surplus (i.e., tangible capital);

- limit the extent to which a bank or its subsidiaries may engage in "covered transactions" with all affiliates to 20% of the bank's capital stock and surplus; and

- require that all covered transactions be on terms substantially the same, or at least as favorable to the bank or subsidiary, as those provided to non-affiliates.

The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar types of transactions.

A bank's authority to extend credit to executive officers, directors and greater than 10% shareholders, as well as entities such persons control, is subject to Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated there under by the Federal Reserve Board. Among other things, these loans must be made on terms substantially the same as those offered to unaffiliated individuals (or be made under a benefit or compensation program and on terms widely available to employees) and must not involve a greater than normal risk of repayment. In addition, the amount of loans a bank may make to these persons is based, in part, on the bank's capital position, and specified approval procedures must be followed in making loans which exceed specified amounts.

Regulatory Capital

The Federal Reserve Board has adopted risk-based capital guidelines for bank holding companies and for state member banks, such as State Bank. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk weighted assets by assigning assets and off-balance-sheet items to broad risk categories. The minimum ratio of total capital to risk weighted assets (including certain off-balance-sheet items, such as standby letters of credit) is 8%. Of that 8%, 4% is to be comprised of common shareholders' equity (including retained earnings but excluding treasury stock), non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets ("Tier 1 capital"). The remainder of total risk-based capital ("Tier 2 capital") may consist, among other things, of certain amounts of mandatory convertible debt securities, subordinated debt, preferred stock not qualifying as Tier 1 capital, an allowance for loan and lease losses and net unrealized gains, after applicable taxes, on available-for-sale equity securities with readily determinable fair values, all subject to limitations established by the guidelines. The Federal Reserve Board also imposes a minimum leverage ratio (Tier 1 capital to total assets) of 3% for bank holding companies and state member banks that meet certain specified conditions, including no operational, financial or supervisory deficiencies, and including having the highest regulatory rating. The minimum leverage ratio is 1%-2% higher for other bank holding companies and state member banks based on their particular circumstances and risk profiles and those experiencing or anticipating significant growth. Failure to meet applicable capital guidelines could subject a banking institution to a variety of enforcement remedies available to federal and state regulatory authorities, including the termination of deposit insurance by the FDIC.

The federal banking regulators have established regulations governing prompt corrective action to resolve capital deficient banks. The regulations establish five capital level categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under these regulations, institutions which become undercapitalized can become subject to mandatory regulatory scrutiny and limitations, which increase as capital decreases. Such institutions may also be required to file capital plans with their primary federal regulator, and their holding companies may be required to guarantee the capital shortfall up to 5% of the assets of the capital deficient institution at the time it becomes undercapitalized.

9.

The Company's management believes that the Company and State Bank, at year end 2009, satisfied all requirements to be deemed "well capitalized".

Federal Deposit Insurance Corporation ("FDIC")

The FDIC is an independent federal agency which insures the deposits of federally-insured banks and savings associations up to certain prescribed limits and safeguards the safety and soundness of financial institutions. State Bank's deposits are subject to the deposit insurance assessments of the FDIC. Under the FDIC's deposit insurance assessment system, the assessment rate for any insured institution may vary according to regulatory capital levels of the institution and other factors such as supervisory evaluations.

The FDIC is authorized to prohibit any insured institution from engaging in any activity that poses a serious threat to the insurance fund and may initiate enforcement actions against a bank, after first giving the institution's primary regulatory authority an opportunity to take such action. The FDIC may also terminate the deposit insurance of any institution that has engaged in or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, order or condition imposed by the FDIC.

Monetary Policy and Economic Conditions

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

Holding Company Activities

In November 1999, the Gramm-Leach-Bliley Act was enacted, permitting bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized under the Federal Deposit Insurance Corporation Act of 1991 prompt corrective action provisions, is well managed, and has at least a satisfactory rating under the Community Reinvestment Act by filing a declaration that the bank holding company wishes to become a financial holding company. No regulatory approval is required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board.

The Gramm-Leach-Bliley Act defines "financial in nature" to include: (i) securities underwriting, dealing and market making; (ii) sponsoring mutual funds and investment companies; (iii) insurance underwriting and agency; (iv) merchant banking activities; and (v) activities that the Federal Reserve Board has determined to be closely related to banking.

The Company has not elected to become a financial holding company. The Company intends to continue to analyze the proposed advantages and disadvantages of becoming a financial holding company on a periodic basis.

SEC and NASDAQ Regulation

The Company is subject to the jurisdiction of the SEC and certain state securities authorities relating to the offering and sale of its securities. The Company is subject to the registration, reporting and other regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and the rules adopted by the SEC under those acts. The Company’s common shares are listed on The NASDAQ Global Market under the symbol “RBNF”, and the Company is subject to the rules and regulations of The NASDAQ Stock Market, Inc. (“NASDAQ”) applicable to listed companies.

Sarbanes-Oxley Act of 2002 and Related Rules Affecting Corporate Governance

As mandated by the Sarbanes-Oxley Act of 2002 (“SOX”), the SEC has adopted rules and regulations governing, among other matters, corporate governance, auditing and accounting, executive compensation, and enhanced the timely disclosure of corporate information. The SEC has also approved corporate governance rules promulgated by NASDAQ. The Board of Directors of the Company has taken a series of actions to comply with the NASDAQ and SEC rules and to further strengthen its corporate governance practices. The Company has adopted and implemented a Code of Conduct and Ethics and a copy of that policy can be found on the Company’s website at www.rurbanfinancial.net by first clicking “Corporate Governance” and then “Code of Conduct”. The Company has also adopted charters of the Audit Committee, the Compensation Committee and the Governance and Nominating Committee, which charters are available on the Company’s website at www.rurbanfinancial.net by first clicking “Corporate Governance” and then “Supplementary Info”.

Patriot Act

The Uniting and Strengthening of America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “Patriot Act”) gives the United States Government greater powers over financial institutions to combat money laundering and terrorist access to the financial system in our country. The Patriot Act requires regulated financial institutions to establish programs for obtaining identifying information from customers seeking to open new accounts and establish enhanced due diligence policies, procedures and controls designed to detect and report suspicious activity.

Effect of Environmental Regulation

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

Available Information

The Company will provide, without charge, to each shareholder, upon written request to Rurban Financial Corp., P.O. Box 467, Defiance, Ohio 43512, Attention: Linda Sickmiller, Investor Relations Department, a copy of the Company's Annual Report on Form 10-K, including the Financial Statements and Schedules thereto required to be filed with the SEC, for the Company's most recent fiscal year.

11.

The Company maintains an Internet website at www.rurbanfinancial.net (this uniform resource locator, or URL, is an inactive textual reference only and is not intended to incorporate the Company's website into this Annual Report on Form 10-K). The Company makes available free of charge on or through its Internet website the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as well as the Company's definitive proxy statements filed pursuant to Section 14 of the Exchange Act, as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the SEC.

Statistical Financial Information Regarding the Company

The following schedules and tables analyze certain elements of the consolidated balance sheets and statements of income of the Company and its subsidiaries, as required under Exchange Act Industry Guide 3 promulgated by the SEC, and should be read in conjunction with the narrative analysis presented in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements of the Company and its subsidiaries included at pages F-1 through F-57 of this Annual Report on Form 10-K.

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

The following are the condensed average balance sheets for the years ending December 31 and the interest earned or paid on such amounts and the average interest rate thereon:

	2009			2008			2007		
($in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:									
Securities									
Taxable	$ 89,092	$ 4,083	4.58%	$ 84,301	$ 4,293	5.09%	$ 84,389	$ 4,284	5.08%
Non-taxable (1)	27,114	1,611	5.94%	17,193	1,040	6.05%	16,405	978	5.96%
Federal funds sold	77	0	0.17%	4,985	134	2.68%	5,072	225	4.44%
Loans, net (2)(3)	453,787	27,492	6.06%	401,770	27,601	6.87%	381,449	27,893	7.31%
Total earning assets	570,070	33,186	5.82%	508,250	33,067	6.51%	487,315	33,380	6.85%
Cash and due from banks	27,573			9,570			11,605		
Allowance for loan losses	(5,650)			(4,182)			(3,843)		
Premises and equipment	23,993			21,145			19,788		
Other assets	51,485			40,708			41,707		
Total assets	$ 667,470			$ 575,491			$ 556,572		
Liabilities									
Deposits									
Savings and interest-bearing demand deposits	$ 209,394	$ 780	0.37%	$ 158,765	$ 1,748	1.10%	$ 138,314	$ 2,714	1.96%
Time deposits	226,275	$ 5,747	2.54%	213,891	8,319	3.89%	231,605	10,882	4.70%
Short-term borrowings	46,930	1,869	3.98%	44,891	1,874	4.18%	36,588	1,653	4.52%
Advances from FHLB	38,571	1,625	4.21%	33,377	1,508	4.52%	19,329	1,037	5.36%
Junior subordinated debentures	20,620	1,573	7.63%	20,620	1,692	8.20%	20,620	1,809	8.77%
Other borrowed funds	-	-	N/A	-	-	N/A	1,641	127	7.74%
Total interest-bearing liabilities	541,790	11,594	2.14%	471,544	15,141	3.21%	448,097	18,222	4.07%
Demand deposits	53,857			35,386			42,848		
Other liabilities	8,246			8,597			7,682		
Total liabilities	603,894			515,527			498,627		
Shareholders' equity	63,576			59,964			57,945		

Total liabilities and shareholders' equity	$ 667,470	$ 575,491	$ 556,572
Net interest income (tax equivalent basis)	$ 21,592	$ 17,926	$ 15,158
Net interest income as a percent of average interest-earning assets	3.79%	3.53%	3.11%

(1) Security interest is computed on a tax equivalent basis using a 34% statutory tax rate. The tax equivalent adjustment was $548,000, $354,000 and $333,000 in 2009, 2008 and 2007, respectively.

(2) Nonaccruing loans and loans held for sale are included in the average balances.

(3) Loan interest is computed on a tax equivalent basis using a 34% statutory tax rate. The tax equivalent adjustment was $47,000, $44,000 and $38,000 in 2009, 2008 and 2007 respectively.

13.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (Continued)

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

Volume Variance - change in volume multiplied by the previous year's rate.
Rate Variance - change in rate multiplied by the previous year's volume.
Rate/Volume Variance - change in volume multiplied by the change in rate. This variance was allocated to volume variance and rate variance in proportion to the relationship of the absolute dollar amount of the change in each. Interest on non-taxable securities has been adjusted to a fully tax equivalent basis using a statutory tax rate of 34% in 2009, 2008 and 2007.

	Total Variance 2009/2008	Variance Attributable To Volume	Variance Attributable To Rate
	(dollars in thousands)		
Interest income			
Securities			
Taxable	$ (210)	$ 235	$ (445)
Non-taxable	571	590	(19)
Federal funds sold	(134)	(134)	-
Loans, net of unearned income and deferred loan fees	(108)	3,353	(3,461)
	119	4,044	(3,925)
Interest expense			
Deposits			
Savings and interest-bearing demand deposits	(968)	437	(1,405)
Time deposits	(2,572)	458	(3,030)
Short-term borrowings	(5)	83	(88)
Advances from FHLB	117	224	(107)
Trust preferred securities	(119)	-	(119)
Other borrowed funds	-	-	-
	$ (3,547)	$ 1,202	$ (4,749)
Net interest income	$ 3,666	$ 2,842	$ 824

14.

I. DISTRIBUTION OF ASSETS, LIABILITIES AND SHAREHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL (Continued)

	Total Variance 2008/2007	Variance Attributable To Volume	Rate
	(dollars in thousands)		
Interest income			
Securities			
Taxable	$ 11	$ (4)	$ 15
Non-taxable	62	48	14
Federal funds sold	(94)	(4)	(90)
Loans, net of unearned income and deferred loan fees	(292)	1,444	(1,736)
	(313)	1,484	(1,797)
Interest expense			
Deposits			
Savings and interest-bearing demand deposits	(966)	357	(1,323)
Time deposits	(2,563)	(788)	(1,775)
Short-term borrowings	221	354	(133)
Advances from FHLB	471	656	(185)
Trust preferred securities	(117)	-	(117)
Other borrowed funds	(127)	(127)	-
	$ (3,081)	$ 452	$ (3,533)
Net interest income	$ 2,768	$ 1,032	$ 1,736

15.

II. INVESTMENT PORTFOLIO

A. The book value of securities available for sale as of December 31 in each of the following years are summarized as follows:

Book Value of Securities

	2009	2008	2007
		(dollars in thousands)	
U.S. Treaury and government agencies	$ 12,944	$ 15,184	$ 40,189
State and political subdivisions	31,537	22,801	16,019
Mortgage-backed securities	52,246	64,546	36,380
Money Market Mutual Fund	8,333	-	-
Other securities	-	52	50
Marketable equity securities	23	23	23
Total	$ 105,083	$ 102,606	$ 92,661

B. The maturity distribution and weighted average interest rates of securities available for sale at December 31, 2009 are set forth in the table below. The weighted average interest rates are based on coupon rates for securities purchased at par value and on effective interest rates considering amortization or accretion if the securities were purchased at a premium or discount:

	Maturing			
	Within One Year	After One Year but within Five Years	After Five Years but within Ten Years	After Ten Years
		(dollars in thousands)		
U.S. Treaury and government agencies	$ -	$ 107	$ 4,489	$ 8,348
State and political subdivisions	1,045	3,781	5,518	21,193
Mortgage-backed securities	527	2,417	-	49,302
Total Securities with maturity	$ 1,572	$ 6,305	$ 10,007	$ 78,843
Weighted average yield by maturity (1)	3.63%	4.03%	3.06%	4.75%
Money Market Mutual Fund with no maturity	$ 8,333	-	-	-
Marketable equity securities with no maturity	23	-	-	-
Total Securities with no stated maturity	$ 8,356	$ -	$ -	$ -
Weighted average yield no maturity (1)	< 0.01%	-	-	-

(1) Yields are not presented on a tax-equivalent basis. Money market funds represent the payments received on mortgage-backed securities or funds received from the maturity or calls of U.S Treasury, government agency and municipal securities. These funds are then reinvested back into these securities

16.

C. Excluding those holdings of the investment portfolio in U.S. Treasury securities and other agencies of the U.S. Government, there were no other securities of any one issuer which exceeded 10% of the shareholders' equity of the Company at December 31, 2009.

III. LOAN PORTFOLIO

A. Types of Loans - Total loans on the balance sheet are comprised of the following classifications at December 31 for the years indicated:

Types of Loans

(dollars in thousands)	2009	2008	2007	2006	2005
Commercial business and agricultural	$ 126,128	$ 127,287	$ 126,418	$ 116,324	$ 123,559
Commercial real estate	179,909	161,566	126,784	109,503	64,108
Real estate mortgage	92,972	107,905	84,621	94,389	89,086
Consumer loans to individuals	53,655	53,339	51,358	49,314	48,877
Leases	221	266	330	857	1,661
Total loans	$ 452,885	$ 450,363	$ 389,511	$ 370,387	$ 327,291
Real estate mortgage loans held for resale	$ 16,858	$ 3,824	$ 1,650	$ 390	$ 224

Concentrations of Credit Risk: The Company grants commercial, real estate and installment loans to customers mainly in Northwest Ohio. Commercial loans include loans collateralized by commercial real estate, business assets and, in the case of agricultural loans, crops and farm equipment and the loans are expected to be repaid from cash flow from operations of businesses. As of December 31, 2009, commercial business and agricultural loans made up approximately 27.8 percent of the loan portfolio while commercial real estate loans accounted for approximately 39.7 percent of the loan portfolio. As of December 31, 2009, residential first mortgage loans made up approximately 20.5 percent of the loan portfolio and are secured by first mortgages on residential real estate. As of December 31, 2009, consumer loans to individuals made up approximately 11.9% of the loan portfolio and are primarily secured by consumer assets.

B. Maturities and Sensitivities of Loans to Changes in Interest Rates - The following table shows the amounts of commercial and agricultural loans outstanding as of December 31, 2009 which, based on remaining scheduled repayments of principal, are due in the periods indicated. Also, the amounts have been classified according to sensitivity to changes in interest rates for commercial and agricultural loans due after one year. (Variable-rate loans are those loans with floating or adjustable interest rates.)

Maturing (dollars in thousands)	Commercial Business and Agricultural	Commercial Real Estate	Total
Within one year	$ 21,280	$ 13,673	$ 34,953
After one year but within five years	40,771	47,890	88,661
After five years	64,077	118,346	182,423
Total commercial business, commercial real estate and agricultural loans	$ 126,128	$ 179,909	$ 306,037

17.

III. LOAN PORTFOLIO (Continued)

	Interest Sensitivity		
	Fixed Rate	Variable Rate	Total
	(dollars in thousands)		
Commercial Business and Agricultural			
Due after one year but within five years	$ 17,416	$ 23,355	$ 40,771
Due after five years	4,548	59,529	64,077
Total	$ 21,964	$ 82,884	$ 104,848
Commercial Real Estate			
Due after one year but within five years	14,082	33,808	47,890
Due after five years	19,527	98,819	118,346
Total	$ 33,609	$ 132,627	$ 166,236
Commercial Business, Commercial Real Estate and Agricultural			
Due after one year but within five years	31,498	57,163	88,661
Due after five years	24,075	158,348	182,423
Total	$ 55,573	$ 215,511	$ 271,084

C. Risk Elements

1. Non-accrual, Past Due, Restructured and Impaired Loans – The following schedule summarizes non-accrual, past due, restructured and impaired loans at December 31 in each of the following years.

	2009	2008	2007	2006	2005
	(dollars in thousands)				
(a) Loans accounted for on a non-accrual basis	$ 18,543	$ 5,178	$ 5,990	$ 3,828	$ 6,270
(b) Accruing loans which are contractually past due 90 days or more as to interest or principal payments	-	-	-	-	5
(c) Loans not included in (a) which are "Troubled Debt Restructurings" as defined by Statement of Financial Accounting Standards No. 15	1,364	151	159	166	825
Total non-performing loans	$ 19,907	$ 5,329	$ 6,149	$ 3,994	$ 7,100
(d) Other loans defined as impaired	$ 3,597	$ 1,868	$ 593	$ 82	$ 3,283

		2009 ($ In thousands)
Cash basis interest income recognized on impaired loans outstanding at December 31, 2009	$	597
Interest income actually recorded on impaired loans and included in net income for the period		565
2009 unrecorded interest income on non-accrual loans		402

18.

III. LOAN PORTFOLIO (Continued)

Management believes the allowance for loan losses at December 31, 2009 was adequate to absorb any losses on non-performing loans, as the allowance balance is maintained by management at a level considered adequate to cover losses that are probable based on past loss experience, general economic conditions, information about specific borrower situations, including their financial position and collateral values, and other factors and estimates which are subject to change over time.

1. Discussion of the Non-accrual Policy

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

2. Potential Problem Loans

As of December 31, 2009, in addition to the $19,907,000 of non-performing loans reported under Item III.C.1. above (which amount includes all loans classified by management as doubtful or loss), there were approximately $11,723,000 in other outstanding loans where known information about possible credit problems of the borrowers caused management to have concerns as to the ability of such borrowers to comply with the present loan repayment terms (loans classified as substandard by management) and which may result in disclosure of such loans pursuant to Item III.C.1. at some future date. In regard to loans classified as substandard, management believes that such potential problem loans have been adequately evaluated in the allowance of loan losses.

III. LOAN PORTFOLIO (Continued)

3. Foreign Outstandings

None

4. Loan Concentrations

At December 31, 2009, loans outstanding related to agricultural operations or collateralized by agricultural real estate and equipment aggregated approximately $41,485,000, or 9.2 % of total loans.

D. Other Interest-Bearing Assets

There were no other interest-bearing assets as of December 31, 2009 which would be required to be disclosed under Item III.C.1 or Item III.C.2. if such assets were loans.

20.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

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

Summary of Loan Loss Experience

	2009	2008	2007	2006	2005
			(dollars in thousands)		
Loans					
Loans outstanding at end of period	$ 452,558	$ 450,112	$ 389,269	$ 370,102	$ 327,048
Average loans outstanding during period	$ 453,787	$ 401,770	$ 381,453	$ 354,726	$ 268,158
Allowance for loan losses					
Balance at beginning of period	$ 5,020	$ 3,990	$ 3,717	$ 4,700	$ 4,899
Balance, of ALLL acquired in Exchange acquisition					910
Balance, of ALLL acquired in Montpelier acquisition		1,104			
Loans charged-off:					
Commercial business and agricultural loans	(1,248)	(277)	(86)	(1,047)	(2,249)
Commercial real estate	(918)	(212)	(18)	(230)	(511)
Real estate mortgage	(1,218)	(172)	(81)	(100)	(133)
Leases	-	-	-	-	(208)
Consumer loans to individuals	(491)	(261)	(247)	(440)	(308)
	(3,875)	(922)	(432)	(1,817)	(3,409)
Recoveries of loans previously charged-off					
Commercial business and agricultural loans	50	67	72	405	1,548
Commercial real estate	14	24	13	14	18
Real estate mortgage	54	4	4	75	2
Leases	-	-	-	-	4
Consumer loans to individuals	29	63	95	162	145
	147	158	184	656	1,717
Net loans charged-off	(3,728)	(764)	(248)	(1,160)	(1,692)
Provision for loan losses	5,738	690	521	178	583
Balance at end of period	$ 7,030	$ 5,020	$ 3,990	$ 3,717	$ 4,700

Ratio of net charge-offs during the period to average loans outstanding during the period	0.84%	0.19%	0.07%	0.33%	0.63%

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

21.

IV. SUMMARY OF LOAN LOSS EXPERIENCE (Continued)

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

Allocation of the Allowance for Loan Losses
Percentage