

RURBAN FINANCIAL CORP
Form 10-K
March 31, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

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

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

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

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

Indicate by check mark 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.

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

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

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 \$19,641,587.

The number of common shares of the registrant outstanding at March 31, 2011 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 May 5, 2011 are incorporated by reference into Part III of this Annual Report on Form 10-K.

RURBAN FINANCIAL CORP.

2010 ANNUAL REPORT ON FORM 10-K

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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 11 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”), Rurbanc Data Services, Inc. dba 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, which 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. The trust and financial services division of State Bank, Reliance Financial Services (“RFS”), offers various trust and financial services, including asset management services for individuals and corporate employee benefit plans, as well as brokerage services through PrimeVest Financial Services. State Bank presently operates nineteen banking centers, all located within the Ohio counties of Allen, Defiance, Fulton, Lucas, Paulding, Wood and Williams, and one located in Allen County, Indiana. State Bank also presently operates two Loan Production Offices, one in Franklin County, Ohio and one in Steuben County, Indiana. At December 31, 2010, State Bank had 196 full-time equivalent employees.

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, 2010, RMC had no employees.

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, 2010,

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.

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RDSI provides data processing and item processing and related services to community banks located in Illinois, Indiana, Michigan, Ohio and Wisconsin. At December 31, 2010, RDSI had 43 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

State Bank aggressively managed down the level of problem assets throughout the year. At December 31, 2010, non-performing assets had declined \$6.5 million from the prior year. The level of non-performing assets to total assets of 2.09 percent was down from 3.02 percent for the prior year.

Operating expense reductions were a critical part of State Bank's efforts during the year, and included a branch closing, staff reductions and operating efficiencies throughout the organization.

Mortgage loan production continued to be a key part of State Bank revenue growth. Total gain on sale from saleable loans, the majority of which was mortgage production, was \$4.8 million during 2010, an increase of 43 percent over the 2009 revenue levels.

Loan loss provision was a significant drain on earnings during 2010. For the year, provision expense was \$7.6 million to cover loan charge-offs of \$7.9 million. The bank's loan loss allowance of 1.57 percent is up 2 basis points from the prior year. This allowance provided a coverage level for our non-performing loans of 55 percent.

RDSI

On April 27, 2009, the Company announced a transaction between RDSI and New Core Holdings, Inc. d/b/a New Core Banking Systems, headquartered in Birmingham, AL ("New Core"). As part of this transaction, 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. On July 28, 2010, RDSI announced that the proposed strategic partnership and merger with New Core Holdings, Inc. could not be successfully completed as previously contemplated. As part of

that announcement, RDSI incurred a significant write-off of hardware, software and development costs of \$10.0 million. That write-off, together with an aggregate of \$6.3 million in Goodwill and intangible impairments related to the loss of client banks and associated revenue at RDSI, drove the bulk of the net loss in 2010 at the Company. Included in the \$10 million impairment was a \$3.0 million loan loss to New Core Holdings, Inc.

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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.

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 and may disapprove of the payment of dividends to shareholders if the Federal Reserve Board determines that the payment of such dividends would be an unsafe or unsound practice.

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, 2010.

Dividends

In January 2010, the Company announced that it had elected to suspend payment of quarterly cash dividends. There can be no assurance as to if or when the Company might reinstate dividends to shareholders or as to the amount of any dividends which may be declared in future periods.

The Company is a bank holding company and its ability to declare and pay dividends is dependent on certain federal regulatory considerations, including the guidelines of the Federal Reserve Board regarding capital adequacy and dividends. In addition, 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 and paid by its subsidiaries. State Bank may not pay dividends out of its surplus if, after paying these dividends, it would fail to meet the required minimum levels under the risk-based capital guidelines and minimum leverage ratio requirements established by the Federal Reserve Board. In addition, State Bank must obtain the approval of the Federal Reserve Board and the Ohio Division of Financial Institutions if a dividend in any year would cause the total dividends for that year to exceed the sum of the bank's 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 its 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 in the future.

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 nonaffiliated.

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 thereunder 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%, at least 4% must 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, 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. Under the guidelines, capital is compared to the relative risk related to the balance sheet. To derive the risk included in the balance sheet, one of four risk weights (0%, 20%, 50%, and 100%) is applied to different balance sheet and off-balance sheet assets, primarily based on the relative credit risk of the counterparty. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

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.

The Company's management believes that the Company and State Bank, at year end 2010, 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”.

USA 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.

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Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

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

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

- the Dodd-Frank Act creates a Consumer Financial Protection Bureau with broad powers to adopt and enforce consumer protection regulations;
- new capital regulations for bank holding companies will be adopted, which may impose stricter requirements, and any new trust preferred securities will no longer constitute Tier I capital;
- the federal law prohibiting the payment of interest on commercial demand deposit accounts will be eliminated effective in July 2011;
- the standard maximum amount of deposit insurance per customer is permanently increased to \$250,000, and non-interest bearing transaction accounts will have unlimited insurance through December 31, 2012;
- the assessment base for determining deposit insurance premiums will be expanded to include liabilities other than just deposits; and
- new corporate governance requirements applicable generally to all public companies in all industries will require new compensation practices and disclosure requirements, including requiring companies to “claw back” incentive compensation under certain circumstances, to provide shareholders the opportunity to cast a non-binding vote on executive compensation and to consider the independence of compensation advisers.

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

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

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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.

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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.

Item 1A. Risk Factors

Cautionary Statement Regarding Forward-Looking Information

Certain statements contained in this Annual Report on Form 10-K, and in other statements that we make from time to time in filings by the Company with the SEC, in press releases, and in oral and written statements made by or with the approval of the Company which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include: (a) projections of income or expense, earnings per share, the payment or non-payment of dividends, capital structure and other financial items; (b) statements of plans and objectives of the Company or our Board of Directors or management, including those relating to products and services; (c) statements of future economic performance; (d) statements of future customer attraction or retention; and (d) statements of assumptions underlying these statements. These forward-looking statements include, but are not limited to, statements preceded by or that include the words or phrases "anticipates," "believes," "plans," "intends," "expects," "projects," "estimates," "should," "may," "will allow," "will likely result," "will continue," "will remain," or similar expressions.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the forward-looking statements. We desire to take advantage of the "safe harbor" provisions of the Act.

Forward-looking statements involve risks and uncertainties. Actual results may differ materially from those predicted by the forward-looking statements because of various factors and possible events, including those factors identified below. There is also the risk that the Company's management or Board of Directors incorrectly analyzes these risks and forces, or that the strategies the Company develops to address them are unsuccessful.

Forward-looking statements speak only as of that date on which they are made. Except as may be required by law, the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made to reflect unanticipated events.

All forward-looking statements attributable to the Company or any person acting on our behalf are qualified in their entirety by the following cautionary statements.

Changes in economic conditions could adversely affect our earnings, as our borrowers' ability to repay loans and the value of the collateral securing our loans decline.

Our success depends to a large extent upon local and national economic conditions, as well as governmental fiscal and monetary policies. Conditions such as inflation, recession, unemployment, changes in interest rates, money supply and other factors beyond our control can adversely affect our asset quality, deposit levels and loan demand and, therefore, our earnings and our capital. Because we have a significant amount of real estate loans, additional decreases in real estate values could adversely affect the value of property used as collateral and our ability to sell the collateral upon foreclosure. Adverse changes in the economy may also have a negative effect on the ability of our borrowers to make timely repayments of their loans, which would have an adverse impact on our earnings and cash flows.

We continue to experience difficult economic conditions and high unemployment in our market areas, which has impaired the ability of our customers to make payments on their loans, and a significant continued decline in the economy in our market areas could have a materially adverse effect on our financial condition and results of operations. As a result of these economic conditions, the Company's future earnings continue to be susceptible to further declining credit conditions in the markets in which we operate.

Our earnings are significantly affected by the fiscal and monetary policies of the federal government and its agencies.

The policies of the Federal Reserve Board impact us significantly. The Federal Reserve Board regulates the supply of money and credit in the United States. Its policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits, and can also affect the value of financial instruments we hold. Those policies determine to a significant extent our cost of funds for lending and investing. Changes in those policies are beyond our control and are difficult to predict. Federal Reserve Board policies can also affect our borrowers, potentially increasing the risk that they may fail to repay their loans. For example, a tightening of the money supply by the Federal Reserve Board could reduce the demand for a borrower's products and services. This could adversely affect the borrower's earnings and ability to repay its loan, which could have a material adverse effect on our financial condition and results of operations.

Changes in interest rates could have a material adverse effect on our financial condition and results of operations.

Our earnings depend substantially on our interest spread, which is the difference between the rates we earn on loans, securities and other earning assets and the interest rates we pay on deposits and other borrowings. These rates will depend on many factors that are partly or entirely outside of our control, including general economic conditions and the policies of various governmental and regulatory authorities. While we have taken measures intended to manage the risks of operating in a changing rate environment, there can be no assurance that such measures will be effective in avoiding undue interest rate risk. As market interest rates rise, we will have competitive pressures to increase the rates we pay on deposits, which will result in a decrease in net interest income and could have a material adverse effect on our financial condition and results of operations.

If our actual loan losses exceed our allowance for loan losses, our net income will decrease.

Our loan customers may not repay their loans according to their terms, and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. We may experience significant loan losses, which could have a material adverse effect on our operating results. In accordance with accounting principles generally accepted in the United States, we maintain an allowance for loan losses to provide for loan defaults and non-performance, which when combined, we refer to as the allowance for loan losses. Our allowance for loan losses may not be adequate to cover actual credit losses, and future provisions for credit losses could have a material adverse effect on our operating results. Our allowance for loan losses is based on prior experience, as well as an evaluation of

the risks in the current portfolio. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates that may be beyond our control, and these losses may exceed current estimates. Federal regulatory agencies, as an integral part of their examination process, review our loans and allowance for loan losses. We cannot assure you that we will not further increase the allowance for loan losses or that regulators will not require us to increase this allowance. Either of these occurrences could have a material adverse effect on our financial condition and results of operations.

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

On July 28, 2010, the Company announced that it had determined that the planned spin-off of RDSI and merger with New Core cannot be successfully completed. RDSI is working to address a wind-down of the relationships with New Core to enable both companies to pursue their separate strategic directions. As a result of this determination, together with the loss of RDSI's data processing client base and associated revenue, the Company recorded a \$5.6 million pre-tax charge in the second quarter of 2010 for impairment and write-downs of hardware, software and developmental costs related to the data processing business of RDSI. The Company also recorded a \$3.0 million loan provision and associated charge-off at RDSI during the second quarter of 2010 relating to a loan to New Core Holdings Inc. for software development costs.

RDSI currently provides data processing services exclusively to State Bank, as RDSI has discontinued offering data processing services to other client banks. However, RDSI continues to offer item processing and network services, and expects to maintain those primary businesses going forward. The current customer base at RDSI is significantly lower than the prior year and RDSI anticipates normal levels of attrition going forward. Should RDSI be unable to replace lost clients and expand its existing client base, revenue will decline and additional operating losses within that business segment are likely to occur.

FDIC insurance premiums may increase materially, which could negatively affect our profitability.

The FDIC insures deposits at FDIC insured financial institutions, including State Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. During 2008 and 2009, there were higher levels of bank failures which dramatically increased resolution costs of the FDIC and depleted the deposit insurance fund. The FDIC collected a special assessment in 2009 to replenish the Deposit Insurance Fund and also required a prepayment of an estimated amount of future deposit insurance premiums. If the costs of future bank failures increase, deposit insurance premiums may also increase.

Legislative or regulatory changes could adversely impact our businesses.

The financial services industry is extensively regulated. We are subject to state and federal regulation, supervision and legislation that govern almost all aspects of our operations. Laws and regulations may change from time to time and are primarily intended for the protection of consumers, depositors, federal deposit insurance funds and the banking system as a whole, and not to benefit our shareholders. The impact of any changes to laws and regulations or other actions by regulatory agencies may negatively impact us. In light of current conditions in the global financial markets and the global economy, regulators have increased their focus on the regulation of the financial services industry. Most recently, the federal government has intervened on an unprecedented scale in responding to the stresses experienced in the global financial markets. Some of the laws enacted by Congress and regulations promulgated by the federal banking regulators subject us and other financial institutions to additional restrictions, oversight or costs that may have an impact on our business, results of operations or the price of our common shares.

The Dodd-Frank Act was signed into law on July 21, 2010, and, although it became generally effective in July 2010, many of its provisions have extended implementation periods and delayed effective dates and will require extensive rulemaking by regulatory authorities. The Dodd-Frank Act, including future rules implementing its provisions and the interpretation of those rules, could result in a number of adverse impacts on the Company and its subsidiaries. The levels of capital and liquidity with which we must operate may be subject to more stringent capital requirements. In addition, we may be subjected to higher deposit insurance premiums to the FDIC. We may also be subject to additional regulations under the newly established Bureau of Consumer Financial Protection which was given broad authority to implement new consumer protection regulations. These and other provisions of the Dodd-Frank Act may place significant additional costs on us, impede our growth opportunities and place us at a competitive disadvantage.

In addition, effective July 2011, the Dodd-Frank Act eliminates the federal law prohibition on the payment of interest on commercial demand deposit accounts. Depending on competitive responses, this change to a long-standing law could have a material adverse effect on State Bank.

We may be a defendant from time to time in a variety of litigation and other actions, which could have a material adverse effect on our financial condition and results of operations.

The Company and its subsidiaries may be involved from time to time in a variety of litigation arising out of our businesses. The risk of litigation increases in times of increased troubled loan collection activity. Our insurance may not cover all claims that may be asserted against us, and any claims asserted against us, regardless of merit or eventual outcome, may harm our reputation. Should the ultimate judgments or settlements in any litigation exceed our insurance coverage, they could have a material adverse effect on our financial condition and results of operations. In addition, we may not be able to obtain appropriate types or levels of insurance in the future, nor may we be able to obtain adequate replacement policies with acceptable terms, if at all.

Our success depends upon our ability to attract and retain key personnel.

Our success depends upon the continued service of our senior management team and upon our ability to attract and retain qualified financial services personnel. Competition for qualified employees is intense. We cannot assure you that we will be able to retain our existing key personnel or attract additional qualified personnel. If we lose the services of our key personnel, or are unable to attract additional qualified personnel, our business, financial condition and results of operations could be adversely affected.

We depend upon the accuracy and completeness of information about customers.

In deciding whether to extend credit or enter into other transactions with customers, we may rely on information provided to us by customers, including financial statements and other financial information. We may also rely on representations of customers as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to a business, we may assume that the customer's audited financial statements conform with generally accepted accounting principles and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer, and we may also rely on the audit report covering those financial statements. Our financial condition and results of operations could be negatively impacted to the extent we rely on financial statements that do not comply with generally accepted accounting principles or that are materially misleading.

Our ability to pay cash dividends is limited, and we may be unable to pay cash dividends in the future even if we elect to do so.

We are dependent primarily upon the earnings of our operating subsidiaries for funds to pay dividends on our common shares. The payment of dividends by us is also subject to regulatory restrictions. As a result, any payment of dividends in the future will be dependent, in large part, on our ability to satisfy these regulatory restrictions and our subsidiaries' earnings, capital requirements, financial condition and other factors. In January 2010, the Company announced the suspension of quarterly cash dividends. There can be no assurance as to if or when the Company might be able to pay dividends again or as to the amount of any dividends which may be declared and paid to shareholders in future periods. Our continued failure to pay dividends on our common shares could have a material adverse effect on the market price of our common shares.

A limited trading market exists for our common shares which could lead to price volatility.

Your ability to sell or purchase our common shares depends upon the existence of an active trading market for our common shares. While our stock is quoted on the NASDAQ Global Market, it trades infrequently. As a result, you may be unable to sell or purchase our common shares at the volume, price and time you desire. The limited trading market for our common shares may cause fluctuations in the market value of our common shares to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market.

The preparation of our financial statements requires the use of estimates that may vary from actual results.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make significant estimates that affect the financial statements. Two of our most critical estimates are the level of the allowance for loan losses and the accounting for goodwill and other intangibles. Because of the inherent nature of these estimates, we cannot provide complete assurance that we will not be required to charge earnings for significant unexpected loan losses, nor that we will not recognize a material provision for impairment of our goodwill. For additional information regarding these critical estimates, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations beginning on page 33 of this Annual Report on Form 10-K.

Changes in accounting standards could impact our results of operations.

The accounting standard setters, including the Financial Accounting Standards Board, the SEC and other regulatory bodies, periodically change the financial accounting and reporting standards that govern the preparation of our consolidated financial statements. These changes can be difficult to predict and can materially affect how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, which would result in the restatement of our financial statements for prior periods.

Our information systems may experience an interruption or security breach.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability.

We may elect or be compelled to seek additional capital in the future, but capital may not be available when it is needed.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. In addition, we may elect to raise additional capital to support our business or to finance acquisitions, if any, or we may otherwise elect to raise additional capital. In that regard, a number of financial institutions have recently raised considerable amounts of capital as a result of deterioration in their results of operations and financial condition arising from the turmoil in the mortgage loan market, deteriorating economic conditions, declines in real estate values and other factors, which may diminish our ability to raise additional capital. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets, economic conditions and a number of other factors, many of which are outside our control, and on our financial performance. Accordingly, we cannot be assured of our ability to raise additional capital if needed or on terms acceptable to us. If we cannot raise additional capital if and when needed, it may have a material adverse effect on our financial condition, results of operations and prospects.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties.

The Company's principal executive offices are located at 401 Clinton Street, Defiance, Ohio. This facility is owned by State Bank, and a portion of the facility is leased to the Company. State Bank owns the land and buildings occupied by 18 of its banking centers and leases five other properties used as banking centers and office space from various parties on varying lease terms. There is no outstanding mortgage debt on any of the properties which the Company owns. Listed below are the banking centers, loan production offices and service facilities of the Company and their addresses, all of which are located in Allen, Defiance, Fulton, Franklin, Lucas, Paulding, Williams and Wood Counties of Ohio, and Allen and Steuben Counties of Indiana:

| | |
|---|--|
| Main Banking Center & Corporate Offices | 401 Clinton Street, Defiance, OH |
| Angola LPO | 908 North Wayne Street, Suite A, Angola, IN |
| Bryan Banking Center | 1419 West High Street, Bryan, OH |
| Chief Banking Center | 705 Deatrick Street, Defiance, OH |
| Columbus LPO | 109 South High, #8, Dublin, OH |
| Delta Banking Center | 312 Main Street, Delta, OH |
| Fort Wayne Banking Center | 12832 Coldwater Road, Fort Wayne, IN |
| Luckey Banking Center | 235 Main Street, Luckey, OH |
| Lyons Banking Center | 133 East Morenci Street, Lyons, OH |
| Market Street Banking Center | 930 West Market Street, Lima, OH |
| Montpelier Banking Center | 1201 East Main Street, Montpelier, OH |
| Motor Bank Drive-thru | 510 Third Street, Defiance, OH |
| Northtowne Banking Center | 1600 North Clinton Street, Defiance, OH |
| Oakwood Banking Center | 218 North First Street, Oakwood, OH |
| Paulding Banking Center | 220 North Main Street, Paulding, OH |
| Perrysburg Banking Center | 610 East South Boundary Street, Perrysburg, OH |
| Pioneer Banking Center | 119 South State Street, Pioneer, OH |
| Sylvania Banking Center | 6401 Monroe Street, Sylvania, OH |
| Walbridge Banking Center | 311 Main Street, Walbridge, OH |

Wauseon Banking Center
West Unity Banking Center

515 Parkview, Wauseon, OH
112 East Jackson Street, West Unity, OH

RDSI leases office space located at 7622 St Rt. 66, Defiance, Ohio, office space located at 801 Clinton Street, Defiance, Ohio, office space located at 2010 S. Jefferson Ave., Defiance, Ohio, office space located at 104 Depot Street, Archbold, Ohio and office space located at 105 East Holland Street, Archbold, Ohio.

RDSI (DCM) leases office space located at 3101 Technology Blvd., Suite B, Lansing, Michigan.

Item 3. Legal Proceedings.

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

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

Item 4. Reserved.

Supplemental Item: Executive Officers of the Registrant.

The following table lists the names and ages of the executive officers of the Company as of March 31, 2011, the positions presently held by each executive officer and the business experience of each executive officer during the past five years. Unless otherwise indicated, each person has held his principal occupation(s) for more than five years.

| Name | Age | Position(s) Held with the Company and its Subsidiaries and Principal Occupation(s) |
|----------------------|-----|--|
| Mark A. Klein | 56 | President, and Chief Executive Officer of the Company since January 2010; Director of the Company since February 2010; President and Chief Executive Officer of State Bank since January 2006; Director of State Bank since 2006; Member of RFS Investment Committee since March 2007. Senior Vice President Private Banking of Sky Bank, Toledo, Ohio from 2004 to January 2006; Vice President and Team Leader of Sky Bank, Toledo, Ohio from 2000 to 2004; Executive Vice President and Senior Lender of \$450 million Sky Bank affiliate from 1994 to 1999; 12 year Member of Defiance City School Board of Education; Member of Defiance Area Foundation Board (non-profit); Member of Promedica-Defiance Regional Medical Center Foundation Board. |
| Anthony V. Cosentino | 48 | Executive Vice President of the Company and State Bank since March 2010. Vice President for Financial Planning and Analysis at AmTrust Financial Corporation from June 2006 to December 2009. Chief Financial Officer of Fifth Third Bank of Northeastern Ohio, a subsidiary of Fifth Third Bancorp, from August 1994 to May 2006. |
| Jonathan R. Gathman | 37 | Executive Vice President and Senior Lending Officer of the Company since October 2005; Senior Vice President and Commercial Lending Manager from June 2005 through October 2005; Vice President and Commercial Lender from February 2003 through June 2005. Began working for The State Bank and Trust Company in May 1996. |

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:

| (\$in thousands) | 2010 | | | 2009 | | | 2008 | | |
|--|-------------------|----------|--------------|-------------------|----------|--------------|-------------------|----------|--------------|
| | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| Assets: | | | | | | | | | |
| Securities | | | | | | | | | |
| Taxable | \$ 86,961 | \$ 2,267 | 2.61 % | \$ 89,092 | \$ 4,083 | 4.58 % | \$ 84,301 | \$ 4,293 | 5.09 % |
| Non-taxable (1) | 31,895 | 2,114 | 6.63 % | 27,114 | 1,611 | 5.94 % | 17,193 | 1,040 | 6.05 % |
| Federal funds sold | — | — | N/A | 77 | 0 | 0.17 % | 4,985 | 134 | 2.68 % |
| Loans, net (2)(3) | 445,700 | 25,934 | 5.82 % | 453,787 | 27,492 | 6.06 % | 401,770 | 27,601 | 6.87 % |
| Total earning assets | 564,556 | 30,315 | 5.37 % | 570,070 | 33,186 | 5.82 % | 508,250 | 33,067 | 6.51 % |
| Cash and due from banks | 43,024 | | | 27,573 | | | 9,570 | | |
| Allowance for loan losses | (6,913) | | | (5,650) | | | (4,182) | | |
| Premises and equipment | 20,336 | | | 23,993 | | | 21,145 | | |
| Other assets | 52,777 | | | 51,485 | | | 40,708 | | |
| Total assets | \$ 673,781 | | | \$ 667,470 | | | \$ 575,491 | | |
| Liabilities | | | | | | | | | |
| Deposits | | | | | | | | | |
| Savings and interest-bearing demand deposits | \$ 231,294 | \$ 622 | 0.27 % | \$ 209,394 | \$ 780 | 0.37 % | \$ 158,765 | \$ 1,748 | 1.10 % |
| Time deposits | 215,668 | 4,501 | 2.09 % | 226,275 | 5,747 | 2.54 % | 213,891 | 8,319 | 3.89 % |
| Short-term borrowings | 50,092 | 1,851 | 3.70 % | 46,930 | 1,869 | 3.98 % | 44,891 | 1,874 | 4.18 % |
| Advances from FHLB | 28,313 | 1,094 | 3.86 % | 38,571 | 1,625 | 4.21 % | 33,377 | 1,508 | 4.52 % |
| Junior subordinated debentures | 20,620 | 1,534 | 7.44 % | 20,620 | 1,573 | 7.63 % | 20,620 | 1,692 | 8.20 % |
| Other borrowed funds | — | — | N/A | — | — | N/A | — | — | N/A |
| Total interest-bearing liabilities | 545,987 | 9,602 | 1.76 % | 541,790 | 11,594 | 2.14 % | 471,544 | 15,141 | 3.21 % |
| Demand deposits | 62,821 | | | 53,857 | | | 35,386 | | |
| Other liabilities | 7,693 | | | 8,246 | | | 8,597 | | |
| | 616,500 | | | 603,894 | | | 515,527 | | |

| | | | |
|---|------------|------------|------------|
| Total liabilities | | | |
| Shareholders' equity | 57,281 | 63,576 | 59,964 |
| Total liabilities and shareholders' equity | \$ 673,781 | \$ 667,470 | \$ 575,491 |
| Net interest income (tax equivalent basis) | \$ 20,713 | \$ 21,592 | \$ 17,926 |
| Net interest income as a percent of average interest-earning assets | 3.67 % | 3.79 % | 3.53 % |

(1) Security interest is computed on a tax equivalent basis using a 34% statutory tax rate. The tax equivalent adjustment was \$719,000, \$548,000 and \$354,000 in 2010, 2009 and 2008, 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 \$32,000, \$47,000 and \$44,000 in 2010, 2009 and 2008, respectively.

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 2010, 2009 and 2008.

| | Total | | |
|--|------------------------|------------------------------------|------------|
| | Variance 2010/2009 | Variance Attributable To Volume | Rate |
| | (dollars in thousands) | | |
| Interest income | | | |
| Securities | | | |
| Taxable | \$(1,816) | \$(95) | \$(1,721) |
| Non-taxable | 503 | 304 | 199 |
| Federal funds sold | — | — | — |
| Loans, net of unearned income and deferred loan fees | (1,558) | (484) | (1,074) |
| | (2,871) | (275) | (2,596) |
| Interest expense | | | |
| Deposits | | | |
| Savings and interest-bearing demand deposits | (158) | 75 | (233) |
| Time deposits | (1,246) | (259) | (987) |
| Short-term borrowings | (18) | 122 | (140) |
| Advances from FHLB | (531) | (405) | (126) |
| Trust preferred securities | (39) | — | (39) |
| Other borrowed funds | — | — | — |
| | \$(1,992) | \$(467) | \$(1,525) |
| Net interest income | \$(879) | \$192 | \$(1,071) |

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

| | Total Variance 2009/2008 | Variance Attributable To Volume | 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 |

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

| | 2010 | 2009 | 2008 |
|---------------------------------------|------------------------|------------------|------------------|
| | (dollars in thousands) | | |
| U.S. Treasury and government agencies | \$43,651 | \$12,944 | \$15,184 |
| State and political subdivisions | 32,298 | 31,537 | 22,801 |
| Mortgage-backed securities | 54,628 | 52,246 | 64,546 |
| Money Market Mutual Fund | 2,162 | 8,333 | — |
| Other securities | — | — | 52 |
| Marketable equity securities | 23 | 23 | 23 |
| Total | \$132,762 | \$105,083 | \$102,606 |

B. The maturity distribution and weighted average interest rates of securities available for sale at December 31, 2010 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:

| | Within One Year | Maturing | | After Ten Years |
|---|------------------------|---|--|--------------------|
| | | After One Year but within Five Years | After Five Years but within Ten Years | |
| | (dollars in thousands) | | | |
| U.S. Treasury and government agencies | \$4,196 | \$1,997 | \$21,551 | \$15,907 |
| State and political subdivisions | 873 | 3,008 | 6,080 | 22,337 |
| Mortgage-backed securities | 538 | 240 | — | 53,850 |
| Total Securities with maturity | \$5,607 | \$5,245 | \$27,631 | \$92,094 |
| Weighted average yield by maturity (1) | 1.41 % | 2.59 % | 2.24 % | 3.34 % |
| Money Market Mutual Fund with no maturity | \$2,162 | — | — | — |
| Marketable equity securities with no maturity | 23 | — | — | — |
| Total Securities with no stated maturity | \$2,185 | \$— | \$— | \$— |
| 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

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, 2010.

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) | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|------------------|------------------|------------------|------------------|------------------|
| Commercial business and agricultural | \$ 113,251 | \$ 126,128 | \$ 127,287 | \$ 126,418 | \$ 116,324 |
| Commercial real estate | 177,890 | 179,909 | 161,566 | 126,784 | 109,503 |
| Residential real estate mortgage | 84,775 | 92,972 | 107,905 | 84,621 | 94,389 |
| Consumer loans to individuals | 51,710 | 53,655 | 53,339 | 51,358 | 49,314 |
| Leases | 194 | 221 | 266 | 330 | 857 |
| Total loans | \$427,820 | \$452,885 | \$450,363 | \$389,511 | \$370,387 |
| Real estate mortgage loans held for resale | \$9,055 | \$16,858 | \$3,824 | \$1,650 | \$390 |

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, 2010, commercial business and agricultural loans made up approximately 26.5 percent of the loan portfolio while commercial real estate loans accounted for approximately 41.6 percent of the loan portfolio. As of December 31, 2010, residential first mortgage loans made up approximately 19.8 percent of the loan portfolio and are secured by first mortgages on residential real estate. As of December 31, 2010, consumer loans to individuals made up approximately 12.1 percent 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, 2010 which, based on remaining scheduled repayments of principal, are due in the periods indicated. Also, the amounts have been classified according to sensitivity to changes in interest rates for commercial and agricultural loans due after one year. (Variable-rate loans are those loans with floating or adjustable interest rates.)

| Maturing (dollars in thousands) | Commercial Business and Agricultural | | Commercial Real Estate Total |
|---|---|---------------------------|------------------------------------|
| | Commercial Business and Agricultural | Commercial Real Estate | |
| Within one year | \$ 16,894 | \$ 17,872 | \$34,766 |
| After one year but within five years | 37,436 | 47,157 | 84,593 |
| After five years | 58,921 | 112,861 | 171,782 |
| Total commercial business, commercial real estate and agricultural loans | \$ 113,251 | \$ 177,890 | \$291,141 |

III. LOAN PORTFOLIO (Continued)

| | Interest Sensitivity | | Total |
|--|------------------------|---------------|------------|
| | Fixed Rate | Variable Rate | |
| Commercial Business and Agricultural | (dollars in thousands) | | |
| Due after one year but within five years | \$ 12,595 | \$ 24,841 | \$ 37,436 |
| Due after five years | 6,481 | 52,440 | 58,921 |
| Total | \$ 19,076 | \$ 77,281 | \$ 96,357 |
| Commercial Real Estate | | | |
| Due after one year but within five years | 14,384 | 32,773 | 47,157 |
| Due after five years | 16,892 | 95,969 | 112,861 |
| Total | \$ 31,276 | \$ 128,742 | \$ 160,018 |
| Commercial Business, Commercial Real Estate and Agricultural | | | |
| Due after one year but within five years | 26,979 | 57,614 | 84,593 |
| Due after five years | 23,373 | 148,409 | 171,782 |
| Total | \$ 50,352 | \$ 206,023 | \$ 256,375 |

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.

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|------------------------|----------|---------|---------|---------|
| | (dollars in thousands) | | | | |
| (a) Loans accounted for on a non-accrual basis | \$12,283 | \$18,543 | \$5,178 | \$5,990 | \$3,828 |
| (b) Accruing loans which are contractually past due 90 days or more as to interest or principal payments | — | — | — | — | — |
| (c) Loans not included in (a) which are "Troubled Debt Restructurings" as defined by Accounting Standards Codification 310-40 | 1,107 | 1,364 | 151 | 159 | 166 |
| Total non-performing loans and troubled debt restructuring | \$13,390 | \$19,907 | \$5,329 | \$6,149 | \$3,994 |
| (d) Other loans defined as impaired | \$2,751 | \$3,597 | \$1,868 | \$593 | \$82 |

| | 2010 (\$ in thousands) |
|---|------------------------------|
| Cash basis interest income recognized on impaired loans outstanding at December 31, 2010 | \$144 |
| Interest income actually recorded on impaired loans and included in net income for the period | 64 |
| 2010 unrecorded interest income on non-accrual loans | 413 |

III. LOAN PORTFOLIO (Continued)

Management believes the allowance for loan losses at December 31, 2010 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, 2010, in addition to the \$12,283,000 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 \$ 7,580,000 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.

3. Foreign Outstandings

None

4. Loan Concentrations

At December 31, 2010, loans outstanding related to agricultural operations or collateralized by agricultural real estate and equipment aggregated approximately \$40,762,000, or 9.5 % of total loans.

D. Other Interest-Bearing Assets

There were no other interest-bearing assets as of December 31, 2010 which would be required to be disclosed under Item III.C.1 or Item III.C.2. if such assets were loans.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

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

| | 2010 | 2009 | 2008 | 2007 | 2006 |
|--|------------------------|-----------|-----------|-----------|-----------|
| | (dollars in thousands) | | | | |
| Loans | | | | | |
| Loans outstanding at end of period | \$427,544 | \$452,558 | \$450,112 | \$389,269 | \$370,102 |
| Average loans outstanding during period | \$445,700 | \$453,787 | \$401,770 | \$381,453 | \$354,726 |
| Allowance for loan losses | | | | | |
| Balance at beginning of period | \$7,030 | \$5,020 | \$3,990 | \$3,717 | \$4,700 |
| Balance, of ALLL acquired in Exchange acquisition | | | | | |
| Balance, of ALLL acquired in Montpelier acquisition | | | 1,104 | | |
| Loans charged-off: | | | | | |
| Commercial business and agricultural loans | | | | | |
| Commercial real estate | (4,739) | (1,248) | (277) | (86) | (1,047) |
| Residential real estate mortgage | (4,748) | (918) | (212) | (18) | (230) |
| Leases | (1,210) | (1,218) | (172) | (81) | (100) |
| Consumer loans and other | | | | | |
| Commercial real estate | — | — | — | — | — |
| Residential real estate mortgage | (637) | (491) | (261) | (247) | (440) |
| Leases | (11,334) | (3,875) | (922) | (432) | (1,817) |
| Recoveries of loans previously charged-off | | | | | |
| Commercial business and agricultural loans | | | | | |
| Commercial real estate | 193 | 50 | 67 | 72 | 405 |
| Residential real estate mortgage | 171 | 14 | 24 | 13 | 14 |
| Leases | 53 | 54 | 4 | 4 | 75 |
| Consumer loans and other | | | | | |
| Commercial real estate | — | — | — | — | — |
| Residential real estate mortgage | 14 | 29 | 63 | 95 | 162 |
| Leases | 431 | 147 | 158 | 184 | 656 |
| Net loans charged-off | (10,903) | (3,728) | (764) | (248) | (1,160) |
| Provision for loan losses | 10,588 | 5,738 | 690 | 521 | 178 |
| Balance at end of period | \$6,715 | \$7,030 | \$5,020 | \$3,990 | \$3,717 |
| Ratio of net charge-offs during the period to average loans outstanding during the period | | | | | |
| | 2.45 | % 0.84 | % 0.19 | % 0.07 | % 0.33 |

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.

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 of Loans In Each Category to | | Percentage of Loans In Each Category to | | Percentage of Loans In Each Category to | | Percentage of Loans In Each Category to | | Percentage of Loans In Each Category to | | Percentage of Loans In Each Category to | |
| | Allowance | Total | Allowance | Total | Allowance | Total | Allowance | Total | Allowance | Total | Allowance | Total |
| | Amount | Loans | Amount | Loans | Amount | Loans | Amount | Loans | Amount | Loans | Amount | Loans |
| | December 31, | December 31, | December 31, | December 31, | December 31, | December 31, | December 31, | December 31, | December 31, | December 31, | December 31, | December 31, |
| | 2010 | 2009 | 2009 | 2008 | 2007 | 2006 | 2006 | 2006 | 2006 | 2006 | 2006 | 2006 |
| | (dollars in thousands) | | | | | | | | | | | |
| Commercial and agricultural | \$1,739 | 26.5 % | \$2,685 | 27.8 % | \$2,304 | 28.2 % | \$2,398 | 32.5 % | \$2,748 | 31.4 % | | |
| Commercial real estate | 3,774 | 41.6 % | 2,804 | 39.7 % | 1,255 | 35.9 % | 547 | 32.5 % | 197 | 29.6 % | | |
| Residential first mortgage | 643 | 19.8 % | 717 | 20.5 % | 884 | 24.0 % | 590 | 21.7 % | 317 | 25.5 % | | |
| Consumer loans and other | 559 | 12.1 % | 824 | 12.0 % | 577 | 11.9 % | 455 | 13.3 % | 455 | 13.5 % | | |
| | \$6,715 | 100.0 % | \$7,030 | 100.0 % | \$5,020 | 100.0 % | \$3,990 | 100.0 % | \$3,717 | 100.0 % | | |

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

V. DEPOSITS

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

| | 2010 | | 2009 | | 2008 | |
|--|------------------------|--------------|----------------|--------------|----------------|--------------|
| | Average Amount | Average Rate | Average Amount | Average Rate | Average Amount | Average Rate |
| | (dollars in thousands) | | | | | |
| Savings and interest-bearing demand deposits | \$231,294 | 0.27 % | \$209,394 | 0.37 % | \$158,765 | 1.10 % |
| Time deposits | 215,668 | 2.09 % | 226,275 | 2.54 % | 213,891 | 3.89 % |
| Demand deposits (non-interest-bearing) | 62,821 | — | 53,857 | — | 35,386 | — |
| | \$509,783 | | \$489,526 | | \$408,042 | |

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

| | Amount (dollars in thousands) |
|---|-------------------------------------|
| Three months or less | \$10,371 |
| Over three months and through six months | 13,363 |
| Over six months and through twelve months | 20,417 |
| Over twelve months | 41,949 |
| Total | \$86,100 |

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VI. RETURN ON EQUITY AND ASSETS

The ratio of net income to average shareholders' equity and average total assets and certain other ratios are as follows for periods ended December 31:

Return on Equity and Assets

| | 2010 | 2009 | 2008 |
|--|------------------------|-----------|-----------|
| | (dollars in thousands) | | |
| Average total assets | \$673,781 | \$667,470 | \$575,491 |
| Average shareholders' equity | \$57,281 | \$63,576 | \$59,964 |
| Net income | \$(15,613) | \$382 | \$5,217 |
| Cash dividends declared | \$— | \$1,752 | \$1,677 |
| Return on average total assets | -2.32 % | 0.06 % | 0.91 % |
| Return on average shareholders' equity | -27.26 % | 0.60 % | 8.70 % |
| Dividend payout ratio (1) | 0 | 458.64 | 32.14 |
| Average shareholders' equity to average total assets | 8.50 % | 9.52 % | 10.42 % |

(1) Cash dividends declared divided by net income.

VII. SHORT-TERM BORROWINGS

The following information is reported for short-term borrowings for 2010, 2009 and 2008:

| | 2010 | 2009 | 2008 |
|--|------------------------|----------|----------|
| | (dollars in thousands) | | |
| Amount outstanding at end of year | \$45,785 | \$52,043 | \$43,426 |
| Weighted average interest rate at end of year | 3.70 % | 3.28 % | 3.91 % |
| Maximum amount outstanding at any month end | \$53,336 | \$52,704 | \$49,554 |
| Average amount outstanding during the year | \$47,755 | \$45,553 | \$44,891 |
| Weighted average interest rate during the year | 3.60 % | 3.81 % | 4.10 % |

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

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 Declared |
|----------------|---------------------------|--------|------------------------------------|
| | High | Low | |
| 2010 | | | |
| First Quarter | \$7.25 | \$5.75 | \$— |
| Second Quarter | 7.19 | 4.03 | — |
| Third Quarter | 4.45 | 2.84 | — |
| Fourth Quarter | 4.10 | 2.33 | — |
| 2009 | High | Low | Declared |
| First Quarter | \$8.61 | \$7.34 | \$0.09 |
| Second Quarter | 8.75 | 7.52 | 0.09 |
| Third Quarter | 8.10 | 7.00 | 0.09 |
| Fourth Quarter | 8.94 | 6.38 | 0.09 |

On January 27, 2010, the Company announced that it had 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. 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.

During the Fourth Quarter 2010, there were no sales of unregistered securities by the Company.

The approximate number of holders of the outstanding common shares of the Company, as of March 31, 2011, was 2,500.

Repurchases of Common Shares

The Company did not have any repurchases of common shares during the twelve months ended December 31, 2010. On April 12, 2007, the Company announced that its Board of Directors had authorized a stock repurchase program pursuant to which the Company could repurchase up to 250,000 of its common shares from time to time over a period of fifteen months. On July 22, 2008, the Board of Directors extended the stock repurchase program for an additional twelve months, with no change in the number of authorized shares. On July 15, 2009, the Board of Directors extended the stock repurchase program for an additional fifteen months, with no change in the number of authorized shares. The Company repurchased a total of 165,654 common shares under the stock repurchase program, which expired on October 12, 2010. There were no shares repurchased under the stock repurchase program during 2010.

Item 6. Selected Financial Data

SUMMARY OF SELECTED FINANCIAL DATA

FINANCIAL HIGHLIGHTS
(Dollars in thousands except per share data)

| | Year Ended December 31 | | | | |
|---|------------------------|------------|------------|------------|------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| EARNINGS | | | | | |
| Interest income | \$ 29,564 | \$ 32,591 | \$ 32,669 | \$ 33,010 | \$ 30,971 |
| Interest expense | 9,602 | 11,592 | 15,141 | 18,222 | 15,936 |
| Net interest income | 19,962 | 20,999 | 17,528 | 14,788 | 15,035 |
| Provision for loan losses | 10,588 | 5,738 | 690 | 521 | 178 |
| Noninterest income | 20,819 | 29,304 | 27,891 | 26,861 | 23,755 |
| Noninterest expense | 52,308 | 44,843 | 37,387 | 36,637 | 34,904 |
| Provision (credit) for income taxes | (6,502) | (660) | 2,125 | 1,234 | 948 |
| Net income (loss) | (15,613) | 382 | 5,217 | 3,257 | 2,760 |
| PER SHARE DATA | | | | | |
| Basic earnings | \$ (3.21) | \$ 0.07 | \$ 1.06 | \$ 0.65 | \$ 0.55 |
| Diluted earnings | (3.21) | 0.07 | 1.06 | 0.65 | 0.55 |
| Cash dividends declared | 0.00 | 0.36 | 0.34 | 0.26 | 0.21 |
| AVERAGE BALANCES | | | | | |
| Average shareholders' equity | \$ 57,281 | \$ 63,576 | \$ 59,964 | \$ 57,945 | \$ 54,501 |
| Average total assets | 673,781 | 667,470 | 575,491 | 556,572 | 554,095 |
| RATIOS | | | | | |
| Return on average shareholders' equity | -27.26 % | 0.60 % | 8.70 % | 5.62 % | 5.06 % |
| Return on average total assets | (2.32) | 0.06 | 0.91 | 0.59 | 0.50 |
| Cash dividend payout ratio (cash dividends divided by net income) | 0.00 | 458.18 | 32.14 | 40.01 | 38.25 |
| Average shareholders' equity to average total assets | 8.50 | 9.52 | 10.42 | 10.41 | 9.84 |
| PERIOD END TOTALS | | | | | |
| Total assets | \$ 660,288 | \$ 673,049 | \$ 657,619 | \$ 561,214 | \$ 556,007 |

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| | | | | | |
|--------------------------------------|---------|----------|----------|----------|----------|
| Total investments and fed funds sold | 132,762 | 105,083 | 112,606 | 94,661 | 111,562 |
| Total loans and leases | 427,544 | 452,558 | 450,112 | 389,269 | 370,102 |
| Loans held for sale | 9,055 | 16,858 | 3,824 | 1,650 | 390 |
| Total deposits | 515,678 | 491,242 | 484,221 | 406,031 | 414,555 |
| Notes Payable | 3,290 | 2,147 | 1,000 | 922 | 2,589 |
| Advances from FHLB | 22,807 | 35,267 | 36,647 | 24,000 | 21,000 |
| Trust Preferred Securities | 20,620 | 20,620 | 20,620 | 20,620 | 20,620 |
| Shareholders' equity | 46,024 | 61,708 | 61,662 | 59,325 | 56,955 |
| Shareholders' equity per share | \$ 9.47 | \$ 12.69 | \$ 12.63 | \$ 11.92 | \$ 11.33 |

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Item 7. 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, 2010.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with generally accepted accounting principles 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, 2010. 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 the nature and amount of problem assets and associated collateral, 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 valuations, 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.

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Goodwill and Other Intangibles - The Company records all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangibles, at fair value as required. Goodwill is subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using straight-line 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.

New Accounting Pronouncements

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

In January 2010, FASB issued ASU 2010-06 which requires new disclosures regarding significant transfers in and out of Level 1 and 2 fair value measurements and the reasons for the transfers. This ASU also requires that a reporting entity should present separately information about purchases, sales, issuances and settlements, on a gross basis rather than a net basis for activity in Level 3 fair value measurements using significant unobservable inputs. It also clarifies existing disclosures on the level of disaggregation, in that the reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities, and that a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 and 3. The new disclosures and clarifications of existing disclosures for ASC 820 became effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. See Note 22, Disclosure About Fair Value of Assets and Liabilities.

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

In July 2010, FASB issued ASU 2010-20 which is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. See Note 4, Loans.

ASC Topic 860, Transfers and Servicing.

In November 2009, an amendment to the accounting standards for transfers of financial assets was issued. This amendment removes the concept of a qualifying special purpose entity from existing GAAP and removes the exception from applying the accounting and reporting standards within ASC 810, Consolidation, to qualifying special purpose entities. This amendment also establishes conditions for accounting and reporting of a transfer of a portion of a financial asset, modifies the asset sale/derecognition criteria, and changes how retained interests are initially measured. This amendment is expected to provide greater transparency about transfers of financial assets and a transferor's continuing involvement, if any, with the transferred assets. This accounting pronouncement is effective in 2010. The adoption of this pronouncement did not have a material impact on the Corporation's financial statements.

ASC Topic 810, Consolidation.

In November 2009, an amendment to the accounting standards for consolidation was issued. The new guidance amends the criteria for determining the primary beneficiary of, and the entity required to consolidate, a variable interest entity. This accounting pronouncement is effective in 2010. The adoption of this pronouncement did not have a material impact on the Corporation's financial statements.

Strategic Partnership

On April 27, 2009, the Company announced a transaction between RDSI and New Core Holdings, Inc. d/b/a New Core Banking Systems, headquartered in Birmingham, AL ("New Core"). As part of this transaction, 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. On July 28, 2010, the Company announced that it had determined that the planned spin-off of RDSI and merger with New Core could not be successfully completed. RDSI continues to work to address a wind-down of the relationships with New Core.

EARNINGS SUMMARY

Net loss for 2010 was \$15,613,210, or \$3.21 per diluted share, compared with net income of \$382,491, or \$0.07 per diluted share, and net income of \$5.2 million, or \$1.06 per diluted share, reported for 2009 and 2008, respectively. Cash dividends per share were \$0.00 in 2010, \$0.36 in 2009 and \$0.34 in 2008.

The 2010 earnings reflect the impact of the economic downturn as problem asset costs increased as well as the impairments associated with RDSI. The primary factors contributing to this change in earnings were the provision for loan loss reserves (\$1.9 million "banking group only", more than the prior-year), and the expenses incurred due to RDSI (\$10.0 million). Included in the \$10 million was a loan provision of \$3.0 million, a reduction in accrued fee income of \$0.32 million and operating expenses of \$6.7 million from hardware and software impairments. In addition, a goodwill impairment at RDSI of \$4.7 million was realized at December 31, 2010. The customer intangible was also impaired at RDSI at December 31, 2010, resulting in a writedown of \$1.6 million.

Positive results for 2010 include stabilized loan volume and organic core deposit growth of \$25.6 million. Core deposits now represent 58.2 percent of total deposits compared to 55.9 percent at year-end 2009. Both of these factors helped to produce a stable net interest margin of 3.92 percent at State Bank. The mortgage banking business line continues to grow, with residential real estate loan production of \$241 million for the year, resulting in \$4.8 million of

revenue from gain on sale. The bulk of this revenue was directly attributable to mortgage production.

RDSI reported a 2010 fiscal year net loss of \$14.0 million, compared to net income of \$875 thousand reported for the 2009 fiscal year. Significantly affecting the 2010 results were the impairments (\$10.0 million) associated with the Single Source™ software, as well as the writedown of goodwill (\$4.7 million) and intangibles (\$1.6 million).

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CHANGES IN FINANCIAL CONDITION

Total assets at December 31, 2010 were \$660.3 million, compared to \$673.0 million at December 31, 2009. Loans (excluding loans held for sale) were \$427.5 million at December 31, 2010, compared to \$452.6 million at December 31, 2009. Total deposits were \$515.7 million at year-end 2010, compared to \$491.2 million at December 31, 2009. Non-interest bearing deposits at December 31, 2010 were \$62.7 million, compared to \$57.2 million at December 31, 2009. Total shareholders' equity was \$46.0 million at year-end 2010, down from \$61.7 million from the prior year-end.

Significant Events of 2010

The State Bank aggressively managed down the level of problem assets throughout the year. At December 31, 2010, non-performing assets had declined \$6.5 million from the prior year. The level of non-performing assets to total assets of 2.09 percent was down from 3.02 percent for the prior year. Loan delinquency has trended downward from a high of 4.33 percent of total loans in February to 2.77 percent as of the end of December 2010.

Operating expense reductions were a critical part of State Bank's efforts during the year, and included a branch closing, staff reductions and operating efficiencies throughout the organization.

Mortgage loan production continued to be a key part of State Bank revenue growth. Total gain on sale from saleable loans, the majority of which was mortgage production, was \$4.8 million during 2010, an increase of 43 percent over the 2009 revenue levels.

Loan loss provision was a significant drain on earnings during 2010. For the year, provision expense was \$10.6 million to cover loan net charge-offs of \$10.9 million, of which \$3.0 million was at RDSI and \$7.9 million was for State Bank. The bank's loan loss allowance of 1.57 percent is up 7 basis points from the prior year. This allowance provided a coverage level for our non-performing loans of 55 percent.

On July 28, 2010, RDSI announced that the proposed strategic partnership and merger with New Core Holdings, Inc. could not be successfully completed as previously contemplated. As part of that announcement, RDSI incurred a significant write-off of hardware, software and development costs. That pretax write-off of \$10.0 million drove the bulk of the net loss in 2010 at the Company.

On December 31, 2010, after an extensive review of the operation and projections at RDSI, the Company recorded impairments to goodwill and customer intangible held at RDSI. Goodwill was reduced by \$4.7 million and the customer intangible was reduced by \$1.6 million to reflect its fair value.

Significant Events of 2009

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.

During 2009, State Bank closed two banking centers as part of its continuing program to reduce operating expenses.

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 Banking Systems entered into a Reseller Software License and Support Agreement pursuant to which RDSI was granted rights as the exclusive provider of New Core's Single Source™ software. RDSI and New Core also entered into an Agreement and Plan of Merger pursuant to which New Core would be merged with a newly-created subsidiary of RDSI and become a wholly-owned subsidiary of RDSI. A prerequisite of this merger would be the spin-off of RDSI from

Rurban, resulting in RDSI becoming a separate independent public company. This would be followed immediately by the merger of RDSI and New Core.

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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 continued to grow in 2009, 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.

RESULTS OF OPERATIONS

| | 2010 | Year Ended December 31, | | | Year Ended December 31, | | | |
|--|-----------|----------------------------|----------|---|----------------------------|-----------|----------|---|
| | | 2009 | % Change | | 2009 | 2008 | % Change | |
| (dollars in thousands except per share data) | | | | | | | | |
| Total Assets | \$660,288 | \$673,049 | -2 | % | \$673,049 | \$657,619 | 2 | % |
| Total Securities | 132,762 | 105,083 | 26 | % | 105,083 | 102,606 | 2 | % |
| Loans Held for Sale | 9,055 | 16,858 | -46 | % | 16,858 | 3,824 | 341 | % |
| Loans (Net) | 427,544 | 452,558 | -6 | % | 452,558 | 450,112 | 1 | % |
| Allowance for Loan Losses | 6,715 | 7,030 | -4 | % | 7,030 | 5,020 | 40 | % |
| Total Deposits | \$515,678 | \$491,242 | 5 | % | \$491,242 | \$484,221 | 1 | % |
| Total Revenues | \$40,781 | \$50,303 | -19 | % | \$50,303 | \$45,419 | 11 | % |
| Net Interest Income | 19,962 | 20,999 | -5 | % | 20,999 | 17,528 | 20 | % |
| Loan Loss Provision | 10,588 | 5,738 | 85 | % | 5,738 | 690 | 732 | % |
| Non-interest Income | 20,819 | 29,304 | -29 | % | 29,304 | 27,891 | 5 | % |
| Non-interest Expense | 52,308 | 44,843 | 17 | % | 44,843 | 37,388 | 20 | % |
| Net Income (Loss) | (15,613) | 382 | * | | 382 | 5,217 | -93 | % |
| Basic Earnings (Loss) per Share | \$(3.21) | \$0.07 | * | | \$0.07 | \$1.06 | -93 | % |
| Diluted Earnings (Loss) per Share | \$(3.21) | \$0.07 | * | | \$0.07 | \$1.06 | -93 | % |

*Percentage comparison not meaningful

Net Interest Income

| | 2010 | Year Ended December 31, | | | Year Ended December 31, | | | |
|------------------------|----------|----------------------------|----------|---|----------------------------|----------|----------|---|
| | | 2009 | % Change | | 2009 | 2008 | % Change | |
| (dollars in thousands) | | | | | | | | |
| Net Interest Income | \$19,962 | \$20,999 | -5 | % | \$20,999 | \$17,528 | 20 | % |

Net interest income was \$20.0 million for 2010 compared to \$21.0 million for 2009, a decrease of 4.9 percent driven mainly by lower loan volumes. Average earning assets declined to \$564.6 million in 2010 compared to \$570.1 million in 2009, also due to loan volume. The consolidated 2010 full-year net interest margin declined 12 basis points

to 3.67 percent compared to 3.79 percent at December 31, 2009.

Net interest income was \$21.0 million for 2009 compared to \$17.5 million for 2008, an increase of 19.8 percent, which resulted from the Banking segment being in a liability-sensitive position and the full-year impact of the National Bank of Montpelier (“NBM”) acquisition. Average earning assets also increased to \$570.1 million in 2009 compared to \$508.3 million in 2008, again as a result of the full-year impact of the NBM acquisition. The consolidated 2009, or full-year net interest margin improved 26 basis points to 3.79 percent, compared to 3.53 percent for 2008.

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Loan Loss Provision

A Provision for Loan Losses of \$10.6 million was taken in 2010 compared to \$5.7 million taken for 2009. The \$4.9 million increase was due to the higher level of charge-offs driven by the continual weakening of the economy. For 2010, net charge-offs totaled \$10.9 million, or 2.55 percent of average loans. Management continues to proactively identify problem loans and is developing strategies for removing these loans from non-performing status. State Bank anticipates that 2011 will show improvement from the current level of problem assets.

A Provision for Loan Losses of \$5.74 million was taken in 2009 compared to \$690 thousand taken for 2008. The \$5.05 million increase was due to the increase in problem assets primarily driven by the continual weakening of the economy. For 2009, net charge-offs totaled \$3.73 million, or 0.84 percent of average loans. Consistent with external economic conditions, State Bank witnessed an increase in delinquencies within all segments of its loan portfolio.

Non-interest Income

| | Year Ended December 31, | | | Year Ended December 31, | | | |
|-----------------------------|----------------------------|----------|----------|----------------------------|----------|----------|---|
| | 2010 | 2009 | % Change | 2009 | 2008 | % Change | |
| | (dollars in thousands) | | | | | | |
| Total Non-interest Income | \$20,819 | \$29,305 | -29 | % \$29,305 | \$27,891 | 5 | % |
| Data Service Fees | \$9,736 | \$18,860 | -48 | % \$18,860 | \$20,165 | -6 | % |
| Trust Fees | \$2,548 | \$2,509 | 2 | % \$2,509 | \$3,082 | -19 | % |
| Deposit Service Fees | \$2,461 | \$2,608 | -6 | % \$2,608 | \$2,416 | 8 | % |
| Gains on Sale of Loans | \$4,801 | \$3,355 | 43 | % \$3,355 | \$741 | 353 | % |
| Investment Securities | | | | | | | |
| Recoveries | \$74 | \$— | N/A | \$— | \$197 | N/A | |
| Net Proceeds from VISA IPO | \$— | \$— | N/A | \$— | \$132 | N/A | |
| Gains on Sale of Securities | \$451 | \$960 | -53 | % \$960 | \$— | N/A | |
| Other | \$749 | \$1,013 | -26 | % \$1,013 | \$1,158 | -13 | % |

Total non-interest income was \$20.8 million for 2010 compared to \$29.3 million for 2009, representing an \$8.5 million, or 29.0 percent decrease year-over-year. This decrease was driven by a \$9.1 million decline in data processing income as a result of the loss of data processing clients by RDSI during 2010. As of December 31, 2010, only one client bank (State Bank) remained as a data processing customer of RDSI. The equity markets throughout 2010 held trust fees flat, which are generally calculated on invested balances. The increase in gain on sale of loans and loan servicing fees was driven by mortgage banking. The Company originated \$241 million in saleable loan production during 2010. The sales of these loans allowed for the sold and serviced loan portfolio to grow from \$208 million in 2009 to over \$328 million at December 31, 2010. This portfolio provides a servicing fee annuity, which is expected to provide servicing revenue for the foreseeable future.

Total non-interest income was \$29.3 million for 2009 compared to \$27.9 million for 2008, representing a \$1.41 million, or 5.1 percent increase year-over-year. This increase was driven by a \$2.61 million increase in net gain on sale of loans. Increases in net realized gain on sales of securities of \$960 thousand and loan servicing fees of \$208 thousand, or 88.6 percent, were offset by decreases in Data Processing fees of \$1.31 million, or 6.48 percent, and Trust Fees of \$573 thousand, or 18.6 percent. The loss of RDSI's largest customer in July of 2009, coupled with the de-conversion of six client banks in the fourth quarter of 2009, caused the majority of the decline in data processing income. The equity markets throughout 2009 negatively impacted trust fees, which are generally calculated on

invested balances. The increase in gain on sale of loans and loan servicing fees was driven by mortgage banking. In 2009, \$213 million of saleable loans were generated compared to just \$38 million in 2008. The sales of these loans also allowed for the sold and serviced loan portfolio to grow from \$71 million in 2008 to over \$208 million at December 31, 2009. This portfolio provides a servicing fee annuity, which is expected to provide servicing revenue for the foreseeable future.

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RDSI Banking Systems (“RDSI”)

| | 2010 | Year Ended December 31, 2009 | % Change | 2009 | Year Ended December 31, 2008 | % Change | |
|-------------------|---------|------------------------------------|----------|------------|------------------------------------|----------|------------------------|
| | | | | | | | (dollars in thousands) |
| Data Service Fees | \$9,736 | \$18,860 | -48 | % \$18,860 | \$20,165 | -6 | % |

Data service fees decreased \$9.1 million, or 48.4 percent, to \$9.7 million in 2010 from \$18.9 million in 2009. During 2010, RDSI’s data processing clients, utilizing the ITI software administered by RDSI, decreased from 77 to only one utilizing this software, State Bank. In late 2009, the decrease of clients began, accounting for the 6 percent revenue decline in the 2009 fiscal year.

RDSI reported a 2010 fiscal year net loss of \$14.0 million, compared to \$875 thousand reported for the 2009 fiscal year. Significantly affecting our 2010 results were the impairment expenses incurred due to the unsuccessful spin-off of RDSI and RDSI’s planned merger with New Core Banking Systems, as well as the goodwill and other intangible impairment taken at RDSI.

Data service fees decreased \$1.31 million, or 6.5 percent, to \$18.9 million in 2009 from \$20.2 million in 2008, and increased \$783 thousand, or 4 percent, from 2007 to 2008. Data processing fees contributed 63.7 percent of Rurban’s recurring non-interest income for 2009. The majority of the decrease from 2008 to 2009 was due to the loss of RDSI’s largest customer in July of 2009, as well as six client banks de-converting in the fourth quarter of 2009.

RDSI reported 2009 fiscal year net income of \$875 thousand, compared to \$2.82 million reported for the 2008 fiscal year. Significantly affecting our 2009 results were the extraordinary expenses incurred due to the planned spin-off of RDSI and RDSI’s planned merger with New Core Banking Systems.

Non-interest Expense

| | 2010 | Year Ended December 31, 2009 | % Change (dollars in thousands) | 2009 | Year Ended December 31, 2008 | % Change | |
|-------------------------------------|----------|------------------------------------|------------------------------------|----------|------------------------------------|----------|---|
| Total Non-interest Expense | \$52,308 | \$44,843 | 17 % | \$44,843 | \$37,388 | 20 % | % |
| Salaries & Employee Benefits | \$17,932 | \$21,035 | -15 % | \$21,035 | \$17,318 | 21 % | % |
| Professional Fees | \$2,546 | \$2,891 | -12 % | \$2,891 | \$1,859 | 56 % | % |
| FDIC Insurance Expense | \$1,138 | \$1,132 | 1 % | \$1,132 | \$59 | 1819 % | % |
| Goodwill & Intangible Impairment | \$6,273 | \$— | N/A | \$— | \$— | 0 % | % |
| Hardware & software impairment | \$4,892 | \$— | N/A | \$— | \$— | 0 % | % |
| All Other | \$19,527 | \$19,785 | -1 % | \$19,785 | \$18,152 | 9 % | % |

Non-interest expense for 2010 increased \$7.5 million, or 16.7 percent over 2009. Impairment expenses at RDSI were \$13.0 million, and when excluded, total non-interest expense was down 12.3 percent from the prior year. As RDSI clients declined, the Company made commensurate declines in expenses, mainly through a reduction in work force, as decreased staff levels were required to service remaining clients. State Bank continued to have higher than normal expenses related to OREO and foreclosure. Total expense writedowns at RDSI for 2010 included software, hardware and other developmental costs due to Single Source™ (\$6.7 million), a Goodwill impairment (\$4.7 million) and customer intangible impairment (\$1.6 million).

Non-interest expense for 2009 increased \$7.45 million, or 19.9 percent over 2008. The full-year expenses of the NBM acquisition contributed \$1.70 million of this increase, while mortgage banking expenses increased \$2.43 million over 2008. Professional fees increased \$1.03 million from 2008 due mainly to fees incurred in connection with the planned spin-off of RDSI and RDSI's planned merger with New Core Banking Systems. Insurance expense increased \$1.07 million year-over-year due mainly to increased FDIC insurance premiums. Finally, equipment expense increased \$1.15 million over 2008 due mainly to accelerated software amortization and additional equipment purchases by RDSI.

FINANCIAL CONDITION

Investments

During 2010, the Company increased its level of available for sale securities by nearly \$28 million and ended the year at \$132.8 million. This increase was the result of lower loan volumes for the Company coupled with higher levels of deposit growth. The increased levels of investments impacted the Company's net interest margin as investment yields were lower than potential loan yields.

Loans

| | 12/31/2010 | % of Total | 12/31/2009 | % of Total | % Inc/(Dec) | 12/31/2008 | % of Total | % Inc/(Dec) |
|---------------------|------------------------|---------------|------------|---------------|----------------|------------|---------------|----------------|
| | (dollars in thousands) | | | | | | | |
| Commercial | \$72,489 | 17 % | \$ 84,643 | 19 % | -14 % | \$ 83,645 | 21 % | 1 % |
| Commercial R.E. | 177,890 | 41 % | 179,909 | 35 % | -1 % | 161,566 | 33 % | 11 % |
| Agricultural | 40,762 | 10 % | 41,485 | 10 % | -2 % | 43,641 | 11 % | -5 % |
| Residential | 84,775 | 20 % | 92,972 | 24 % | -9 % | 107,905 | 22 % | -14 % |
| Consumer | 51,710 | 12 % | 53,655 | 12 % | -4 % | 53,339 | 13 % | 1 % |
| Leases | 194 | 0 % | 221 | 0 % | -12 % | 266 | 0 % | -17 % |
| Loans | \$427,820 | | \$ 452,885 | | -6 % | \$ 450,362 | | 1 % |
| Loans held for sale | 9,055 | | 16,858 | | | 3,824 | | |
| Total | \$436,875 | | \$ 469,743 | | | \$ 454,186 | | |

Loans decreased \$25.1 million to \$427.8 million at December 31, 2010. Loan volume declined in most categories, except for residential loans. Loans held for sale decreased by nearly \$8 million, as the bank reduced the level of residential loans in process. State Bank aggressively moved out a number of problem credits during the year.

Loans increased \$2.5 million to \$452.9 million at December 31, 2009. This growth was due to commercial real estate growth of \$18.3 million and commercial growth of \$997 thousand. Residential real estate and agriculture loan balances decreased \$14.9 million and \$2.2 million, respectively in 2009. The reduction in balances in residential real estate was due to the refinancing boom. The majority of this balance reduction was included in salable mortgages into the secondary market.

Asset Quality

| | Period Ended December 31, (dollars in millions) | | | | | |
|------------------------------------|--|------------|---------------------------------------|------------|---------------------------------------|--|
| | 12/31/2010 | 12/31/2009 | Change in Dollars / Percentages | 12/31/2008 | Change in Dollars / Percentages | |
| Non-performing loans | \$ 12.3 | \$ 18.5 | \$ (6.2) | \$ 5.2 | \$ 13.3 | |
| Non-performing assets | \$ 13.8 | \$ 20.3 | \$ (6.5) | \$ 6.6 | \$ 13.7 | |
| Non-performing assets/total assets | 2.09 % | 3.02 % | -0.93 % | 1.00 % | 2.02 % | |
| Net charge-offs | \$ 10.9 | \$ 3.8 | \$ 7.1 | \$ 0.8 | \$ 3.0 | |
| Net charge-offs/total loans | 2.55 % | 0.84 % | 1.71 % | 0.19 % | 0.65 % | |
| Loan loss provision | \$ 10.6 | \$ 5.7 | \$ 4.9 | \$ 0.7 | \$ 5.0 | |
| Allowance for loan losses | \$ 6.7 | \$ 7.0 | \$ (0.3) | \$ 5.0 | \$ 2.0 | |
| Allowance/loans | 1.57 % | 1.50 % | 0.07 % | 1.12 % | 0.38 % | |
| Allowance/non-performing loans | 55 % | 38 % | 17 % | 97 % | -59 % | |
| Allowance/non-performing assets | 49 % | 35 % | 14 % | 76 % | -42 % | |

Non-performing assets (loans + OREO (Other Real Estate Owned) + OAO (Other Assets Owned)) were \$13.8 million, or 2.09 percent, of total assets at December 31, 2010, a decrease of \$6.5 million from 2009.

CAPITAL RESOURCES

Stockholders' equity at December 31, 2010, was \$46.0 million, equivalent to 7.5 percent of total assets. The total risk-based capital ratio was 11.0 percent at December 31, 2010. Total consolidated regulatory (risk-based) capital was \$48.4 million at December 31, 2010, and \$59.8 million at December 31, 2009.

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Goodwill and Intangibles

The Company completed the most recent annual goodwill impairment test as of December 31, 2010. The first step impairment test compares the fair value of the reporting units with the carrying values, including goodwill. The reporting units are State Bank and RDSI. State Bank passed step one, which concluded no impairment. RDSI failed the step one and step two tests, which resulted in an impairment of goodwill in the amount of \$4.7 million. This impairment was realized at December 31, 2010. The customer related intangible at RDSI was a direct result of the customers acquired as part of the DCM acquisition. As the initial level of customers has not expanded since the acquisition, it was determined that an impairment was required of \$1.6 million.

The fair value testing of Goodwill and Intangibles was conducted pursuant to ASC Topic 350 and utilized company prepared projections of cash flows, historical financial results and market based comparisons. These inputs were used to evaluate the expected future cash flows of the businesses and those results determined the fair value of the Goodwill and Intangibles.

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 \$100 thousand for State Bank and \$0 for RDSI, 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. Sources 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, loans held for sale, and borrowings from various sources. The assets, excluding the borrowings, are commonly referred to as liquid assets. Liquid assets were \$172.2 million at December 31, 2010 compared to \$146.8 million at December 31, 2009. During 2010, the Company continued to utilize strategies that would move the balance sheet to a more asset-sensitive position.

The Company's commercial real estate, residential first and multi-family mortgage portfolio of \$262.7 million at December 31, 2010 can and has been readily used to collateralize borrowings, which 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, 2010, all eligible commercial real estate, residential first, and multi-family 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 2010, 2009 and 2008 follows.

The Company experienced positive cash flows from operating activities in 2010, negative cash flows from operating activities in 2009, and positive cash flows from operating activities in 2008. Net cash from operating activities was \$16.9 million, \$(7.2) million and \$9.7 million for the years ended December 31, 2010, 2009 and 2008, respectively. Significant non-cash items from operations included software and fixed asset impairments (\$4.9 million), goodwill and intangible impairments (\$6.3 million) and OREO impairments of \$972 thousand. Net cash flows from loans originated and held for sale was a positive \$12.6 million.

Cash flow from investing activities was a use of cash of \$18.1 million, \$9.5 million, and \$647 thousand for December 31, 2010, 2009, and 2008, respectively. The changes in net cash from investing activities for 2010 include the purchase of available-for-sale securities of \$76.6 million, net change in loans of \$11.1 million and the purchase of premises and equipment of \$2.1 million. The changes in net cash from investing activities for 2009 include the purchase of available-for-sale securities of \$67.9 million, net change in loans of \$7.7 million and the purchase of premises and equipment of \$3.4 million. 2008 changes in net cash from investing activities include the purchase of NBM of \$14.8 million, and purchases of premises and equipment of \$8.0 million. In 2010, 2009 and 2008, the Company received \$10.0 million, \$27.1 million and \$36.5 million, respectively, from sales of securities available for sale, while proceeds from repayments, maturities and calls of securities were \$37.7 million, \$40.8 million and \$48.1 million in 2010, 2009 and 2008, respectively.

Net cash flow provided from financing activities was \$6.9 million, \$13.5 million, and \$1.9 million for the years ended December 31, 2010, 2009 and 2008, respectively. Significant financing activity during 2010 included repayment of Fed Funds purchased at \$5.0 million and repayment of FHLB advances of \$12.5 million. 2009 and 2008 had FHLB advances of \$7.5 million and \$24.0 million, respectively. Finally, \$24.5 million, \$7.0 million and \$(8.6) million of the change is attributable to the change in deposits for 2010, 2009 and 2008, respectively.

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, lines of credit 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.

The Company's commercial real estate, residential first, and multi-family mortgage portfolios of \$262.7 million have been pledged to meet collateralization requirements as of December 31, 2010. Based on the current collateralization requirements of the FHLB, approximately \$4.2 million of additional borrowing capacity existed at December 31, 2010.

At December 31, 2010, the Company had \$11.5 million in federal funds lines. As of December 31, 2009, the Company had \$20.5 million in federal funds lines. Federal funds borrowed at December 31, 2010 and 2009 were \$0 and \$5.0 million, respectively. The Company also had \$41.3 million in unpledged securities that may be used to pledge for additional borrowings.

At December 31, 2010, Rurban Financial Corp., the bank Holding Company, had a \$5 million line of credit (LOC). The balance at December 31, 2010 and 2009 was \$1.7 million and \$0, respectively.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

| Contractual Obligations | Total | Payment due by period | | | More than 5 years |
|--|----------------------|-----------------------|---------------------|---------------------|---------------------|
| | | Less than 1 year | 1 - 3 years | 3 - 5 years | |
| Long-Term Debt Obligations | \$22,807,351 | \$13,668,477 | \$3,138,874 | \$6,000,000 | \$— |
| Other Debt Obligations | 24,910,471 | 2,009,503 | 1,280,968 | — | 20,620,000 |
| Operating Lease Obligations | 1,546,769 | 359,944 | 566,413 | 265,000 | 355,412 |
| Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP | 214,925,512 | 109,156,087 | 81,884,807 | 21,464,356 | 2,420,262 |
| Total | \$264,190,103 | \$125,194,011 | \$86,871,062 | \$27,729,356 | \$23,395,674 |

The Company's contractual obligations as of December 31, 2010 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 \$22.8 million. Other debt obligations are comprised of Trust Preferred securities of \$20.6 million and Notes Payable of \$3.3 million. The operating lease obligation is a lease on the RDSI-South building of \$87,500 per year, the RDSI-North building of \$162,000 per year and the DCM-Lansing facility of \$104,600 per year. Other long-term liabilities include time deposits of \$214.9 million.

ASSET LIABILITY MANAGEMENT

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

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

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

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

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

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

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, 2010. The table 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)

| | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter | Total |
|-------------------------------------|------------|------------|-----------|-----------|-----------|------------|------------|
| Rate Sensitive Assets | | | | | | | |
| Variable Rate Loans | \$ 48,552 | \$ 11,225 | \$ 5,792 | \$ 6,423 | \$ 5,037 | \$ 13,346 | \$ 90,375 |
| Average interest rate | 4.22% | 3.93% | 3.84% | 4.22% | 3.93% | 3.61% | 4.06% |
| Adjustable Rate Loans | \$ 37,668 | \$ 26,943 | \$ 23,376 | \$ 18,769 | \$ 15,724 | \$ 81,283 | \$ 203,763 |
| Average interest rate | 5.47% | 5.53% | 5.56% | 5.57% | 5.64% | 5.81% | 5.65% |
| Fixed Rate Loans | \$ 54,314 | \$ 29,657 | \$ 15,589 | \$ 12,897 | \$ 6,495 | \$ 23,510 | \$ 142,461 |
| Average interest rate | 5.60% | 5.95% | 5.79% | 5.80% | 5.47% | 4.45% | 5.52% |
| Total Loans | \$ 140,534 | \$ 67,825 | \$ 44,756 | \$ 38,089 | \$ 27,256 | \$ 118,139 | \$ 436,599 |
| Average interest rate | 5.09% | 5.45% | 5.42% | 5.42% | 5.28% | 5.29% | 5.27% |
| Fixed rate investment securities | \$ 22,681 | \$ 11,095 | \$ 7,056 | \$ 4,757 | \$ 4,139 | \$ 76,541 | \$ 126,269 |
| Average interest rate | 3.68% | 3.50% | 3.77% | 3.09% | 3.29% | 2.78% | 3.09% |
| Variable rate investment securities | \$ 4,603 | \$ 542 | \$ 552 | \$ 564 | \$ 575 | \$ 3,405 | \$ 10,241 |
| Average interest rate | 2.07% | 2.01% | 2.01% | 2.01% | 2.01% | 2.15% | 2.09% |
| Fed Funds Sold & Other | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Average interest rate | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Total Rate Sensitive Assets | \$ 167,818 | \$ 79,462 | \$ 52,364 | \$ 43,410 | \$ 31,970 | \$ 198,085 | \$ 573,109 |
| Average interest rate | 4.82% | 5.15% | 5.16% | 5.12% | 4.97% | 4.27% | 4.74% |
| Rate Sensitive Liabilities | | | | | | | |
| Demand - Non Interest Bearing | \$ 12,572 | \$ 12,572 | \$ 12,572 | \$ 12,572 | \$ 12,458 | \$ — | \$ 62,746 |
| Demand - Interest Bearing | \$ 21,184 | \$ 21,184 | \$ 21,184 | \$ 21,184 | \$ 20,972 | \$ — | \$ 105,708 |
| Average interest rate | 0.14% | 0.14% | 0.14% | 0.14% | 0.14% | 0.00% | 0.14% |
| Money Market Accounts | \$ 16,961 | \$ 16,961 | \$ 16,961 | \$ 16,961 | \$ 16,792 | \$ — | \$ 84,636 |
| Average interest rate | 0.39% | 0.39% | 0.39% | 0.39% | 0.39% | 0.00% | 0.39% |
| Savings | \$ 9,711 | \$ 9,511 | \$ 9,511 | \$ 9,511 | \$ 9,418 | \$ — | \$ 47,662 |
| Average interest rate | 0.16% | 0.16% | 0.16% | 0.16% | 0.16% | 0.00% | 0.16% |
| Certificates of Deposit | \$ 109,173 | \$ 55,018 | \$ 26,926 | \$ 7,752 | \$ 13,713 | \$ 2,344 | \$ 214,926 |
| Average interest rate | 1.35% | 2.14% | 2.13% | 2.46% | 2.55% | 3.73% | 1.79% |
| Fixed rate FHLB Advances | \$ 11,861 | \$ 923 | \$ 4,023 | \$ 6,000 | \$ — | \$ — | \$ 22,807 |
| Average interest rate | 4.00% | 3.26% | 3.20% | 2.92% | 0.00% | 0.00% | 3.54% |
| Variable rate FHLB Advances | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Average interest rate | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Fixed rate Notes Payable | \$ 309 | \$ 1,281 | \$ — | \$ — | \$ — | \$ 10,310 | \$ 11,900 |
| Average interest rate | 6.50% | 6.50% | 0.00% | 0.00% | 0.00% | 10.60% | 10.05% |
| Variable rate Notes Payable | \$ 1,700 | \$ — | \$ — | \$ — | \$ — | \$ 10,310 | \$ 12,010 |
| Average interest rate | 4.00% | 0.00% | 0.00% | 0.00% | 0.00% | 2.10% | 2.37% |
| Fed Funds Purchased, Repos & Other | \$ 25,785 | \$ 20,000 | \$ — | \$ — | \$ — | \$ — | \$ 45,785 |
| Average interest rate | 2.90% | 4.74% | 0.00% | 0.00% | 0.00% | 0.00% | 3.70% |
| Total Rate Sensitive Liabilities | \$ 209,256 | \$ 137,450 | \$ 91,177 | \$ 73,980 | \$ 73,353 | \$ 22,964 | \$ 608,180 |
| Average interest rate | 1.38% | 1.71% | 0.89% | 0.64% | 0.63% | 6.08% | 1.38% |

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

| Comparison of 2010 to 2009 | First Year | Years 2 - 5 | Thereafter | Total |
|--|---------------|----------------|------------|------------|
| Total Rate Sensitive Assets: | | | | |
| At December 31, 2010 | \$167,818 | \$207,206 | \$198,085 | \$573,109 |
| At December 31, 2009 | 188,112 | 248,276 | 141,859 | 578,247 |
| Increase (decrease) | \$(20,294) | \$(41,070) | \$56,226 | \$(5,139) |
| Total Rate Sensitive Liabilities: | | | | |
| At December 31, 2010 | \$209,256 | \$375,960 | \$22,964 | \$608,180 |
| At December 31, 2009 | 220,145 | 358,338 | 22,835 | 601,318 |
| Increase (decrease) | \$(10,889) | \$17,622 | \$129 | \$6,862 |

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, by 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 non-interest 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 loan, security, and liability maturities in order to protect against the effects of wide interest rate fluctuations on net income and shareholders' equity.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The disclosures required by this item appear under the caption “Asset Liability Management” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations beginning on page 33 of this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data.

The Consolidated Balance Sheets of the Company and its subsidiaries as of December 31, 2010 and December 31, 2009, the related Consolidated Statements of Income, Stockholders’ Equity and Cash Flows for each of the years in the three-year period ended December 31, 2010, the related Notes to Consolidated Financial Statements and the Report of Independent Registered Public Accounting Firm, appear on pages F-1 through F-57 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not Applicable.

Item 9A. Controls and Procedures

During the course of our external audit for the year ended December 31, 2010, we noted an adjustment identified by our external auditors related to an impairment of an intangible asset at RDSI. While management has concluded the Company did not maintain effective internal control over financial reporting as of December 31, 2010, due to this material weakness, this did not result in a material misstatement of the Company’s financial statements, including the annual and interim financial statements for 2010.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

With the participation of the Company’s President and Chief Executive Officer (the principal executive officer) and Executive Vice President and Chief Financial Officer (the principal financial officer), the Company’s management has evaluated the effectiveness of the Company’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the Company’s President and Chief Executive Officer and Executive Vice President and Chief Financial Officer have concluded that, as a result of a material weakness in internal control over financial reporting discussed below, the Company’s disclosure controls and procedures were not effective as of December 31, 2010.

Material Weakness

Management's evaluation of the Company's disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K identified a material weakness in the Company's internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

During the course of Rurban's external audit for the year ended December 31, 2010, Rurban recorded an adjustment identified by the Company's external auditors related to an impairment of the intangible customer asset at its data and item processing subsidiary, Rurbanc Data Services, Inc. ("RDSI"). This impairment was caused primarily by the loss of data and item processing customers of RDSI and the resulting decrease in the projected future revenues of RDSI. As a result of this adjustment, Rurban will record a pre-tax, non-cash charge of \$1.6 million as of December 31, 2010, to reflect the impairment of the customer intangible at RDSI.

Notwithstanding the identified material weakness described above, management has concluded that the financial statements and other financial information included in this Annual Report on Form 10-K presents fairly in all material respects the financial condition, results of operations and cash flows for the periods presented.

Management has taken remedial steps to address the material weakness discussed above by strengthening their processes regarding intangible impairment analysis, which shall occur on an annual basis.

Management's Annual Report on Internal Control Over Financial Reporting

The "Management's Report on Internal Control Over Financial Reporting" is provided on page F-1 of this Annual Report on Form 10-K.

Changes in Internal Controls Over Financial Reporting

Other than the remedial steps taken to address the material weakness discussed above, there were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not Applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers

The information required by Item 401 of SEC Regulation S-K concerning the directors of the Company and the nominees for re-election as directors of the Company at the Annual Meeting of Shareholders to be held on May 5, 2011 (the "2011 Annual Meeting"), is incorporated herein by reference from the disclosure included in the Company's definitive Proxy Statement relating to the 2011 Annual Meeting (the "2011 Proxy Statement"), under the caption "PROPOSAL NO. 1 – ELECTION OF DIRECTORS". The information concerning the executive officers of the Company required by Item 401 of SEC Regulation S-K is set forth in the portion of Part I of this Annual Report on Form 10-K entitled "Supplemental Item: Executive Officers of the Registrant."

Compliance with Section 16(a) of the Exchange Act

The information required by Item 405 of SEC Regulation S-K is incorporated herein by reference from the disclosure included in the Company's 2010 Proxy Statement under the caption "SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE."

Committee Charters and Code of Conduct and Ethics

The Company's Board of Directors has adopted charters for each of the Audit Committee, the Compensation Committee and the Governance and Nominating Committee. Copies of these charters are available on the Company's Internet website at www.rurbanfinancial.net by first clicking "Corporate Governance" and then "Supplementary Info". The Company has adopted a Code of Conduct and Ethics that applies to the Company's directors, officers and employees. A copy of the Code of Conduct and Ethics is available on the Company's Internet website at www.rurbanfinancial.net under the "Corporate Governance" tab. Interested persons may also obtain copies of the Code of Conduct and Ethics, the Audit Committee charter, the Compensation Committee charter and the Executive Governance and Nominating Committee charter, without charge, by writing to Rurban Financial Corp., Attn: Linda Sickmiller, Investor Relations, 401 Clinton Street, Defiance, OH 43512.

Director Nominating Procedures

Information regarding the procedures by which shareholders of the Company may recommend and/or nominate individuals for election as directors of the Company is incorporated herein by reference from the disclosure included under the caption “CORPORATE GOVERNANCE – Nominating Procedures” in the Company’s 2011 Proxy Statement. These procedures have not materially changed from those described in the Company’s definitive Proxy Statement for the 2010 Annual Meeting of Shareholders held on April 22, 2010.

Audit Committee

The information required by Items 407(d)(4) and 407(d)(5) of SEC Regulation S-K is incorporated herein by reference from the disclosure included under the caption “MEETINGS AND COMMITTEES OF THE BOARD – Committees of the Board – Audit Committee” in the Company’s 2011 Proxy Statement.

Item 11. Executive Compensation.

The executive compensation information required by this item is incorporated herein by reference to the information contained in the Company’s 2011 Proxy Statement under the captions “COMPENSATION OF EXECUTIVE OFFICERS” and “DIRECTOR COMPENSATION”.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by Item 403 of SEC Regulation S-K is incorporated herein by reference from the disclosure included in the Company’s 2011 Proxy Statement under the caption “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT”.

Equity Compensation Plan Information

The Rurban Financial Corp. Stock Option Plan (the “1997 Plan”) was approved by the shareholders of the Company at the 1997 Annual Meeting of Shareholders. The 1997 Plan expired in accordance with its terms on March 12, 2007, and no additional stock options, stock appreciation rights (“SARS”) or other awards may be granted under the 1997 Plan. At the 2008 Annual Meeting of Shareholders, the shareholders of the Company approved the Rurban Financial Corp. 2008 Stock Incentive Plan (the “2008 Plan”).

The following table shows, as of December 31, 2010, the number of common shares issuable upon exercise of outstanding stock options, the weighted-average exercise price of those stock options, and the number of common shares remaining for future issuance under the Company’s equity compensation plans (excluding common shares issuable upon exercise of outstanding stock options):

| Plan category | Number of securities | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities |
|--|--|---|--|
| | to be issued upon exercise of outstanding options, warrants and rights | | remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
| Equity compensation plans approved by security holders | 334,728 | \$9.94 | 65,000 (1) |
| Equity compensation plans not approved by security holders | N/A | N/A | N/A |

(1) Represents common shares of the Company remaining available for future issuance under the 2008 Plan (subject to certain adjustments). The 1997 Plan expired in accordance with its terms on March 12, 2007, and no additional stock options, stock appreciation rights or other awards may be granted under the 1997 Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by Item 404 of SEC Regulation S-K is incorporated herein by reference to the information contained in the Company’s 2011 Proxy Statement under the caption “TRANSACTIONS WITH RELATED PERSONS”.

The information required by Item 407(a) of SEC Regulation S-K is incorporated herein by reference to the information contained in the Company’s 2011 Proxy Statement under the caption “CORPORATE GOVERNANCE – Director Independence”.

Item 14. Principal Accountant Fees and Services

The information required to be disclosed in this Item 14 is incorporated herein by reference to the information contained in the Company's 2011 Proxy Statement under the caption "AUDIT COMMITTEE DISCLOSURE" – Pre-Approval of Services Performed by Independent Registered Public Accounting Firm" and "AUDIT COMMITTEE DISCLOSURE" – Services of Independent Registered Public Accounting Firm for 2010 Fiscal Year".

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements.

A list of all financial statements included in this Annual Report on Form 10-K is included under “INDEX TO CONSOLIDATED FINANCIAL STATEMENTS” on page 63 herein.

(a) (2) Financial Statement Schedules.

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

(a) (3) Exhibits.

| Exhibit No. | Description | Location |
|-------------|---|---|
| 2.1 | Agreement and Plan of Merger, dated as of April 25, 2009, by and among Rurbanc Data Services, Inc., NC Merger Corp. and New Core Holdings, Inc. | Incorporated herein by reference to Exhibit 2.1 to the Company’s Current Report on Form 8-K filed April 29, 2009 (File No. 0-13507). |
| 2.2 | First Amendment to Agreement and Plan of Merger, dated as of December 29, 2009, by and among Rurbanc Data Services, Inc., NC Merger Corp. and New Core Holdings, Inc. | Filed herewith. |
| 3.1 | Amended Articles of Registrant, as amended | Incorporated herein by reference to Exhibit 3(a)(i) to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 1989 (File No. 0-13507). |
| 3.2 | Certificate of Amendment to the Amended Articles of Rurban Financial Corp. | Incorporated herein by reference to Exhibit 3(b) to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (File No. 0-13507). |
| 3.3 | Certificate of Amendment to the Amended Articles of Rurban Financial Corp. | Incorporated herein by reference to Exhibit 3(c) to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-13507). |

| Exhibit No. | Description | Location |
|-------------|---|--|
| 3.4 | Amended and Restated Articles of Rurban Financial Corp. [Note: filed for purposes of SEC reporting compliance only – this document has not been filed with the Ohio Secretary of State.] | Incorporated herein by reference to Exhibit 3.4 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (File No. 0-13507). |
| 3.5 | Amended and Restated Regulations of Rurban Financial Corp. | Incorporated herein by reference to Exhibit 3.5 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507). |
| 3.6 | Certificate Regarding Adoption of Amendment to Section 2.01 of the Amended and Restated Regulations of Rurban Financial Corp. by the Shareholders on April 16, 2009 | Incorporated herein by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed April 22, 2009 (File No. 0-13507). |
| 4.1 | Indenture, dated as of September 15, 2005, by and between Rurban Financial Corp. and Wilmington Trust Company, as Debenture Trustee, relating to Floating Rate Junior Subordinated Deferrable Interest Debentures | Incorporated herein by reference to Exhibit 4.1 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 (File No. 0-13507). |
| 4.2 | Amended and Restated Declaration of Trust of Rurban Statutory Trust II, dated as of September 15, 2005 | Incorporated herein by reference to Exhibit 4.2 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 (File No. 0-13507). |
| 4.3 | Guarantee Agreement, dated as of September 15, 2005, by and between Rurban Financial Corp. and Wilmington Trust Company, as Guarantee Trustee | Incorporated herein by reference to Exhibit 4.3 to the Company’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 (File No. 0-13507). |
| 4.4 | Agreement to furnish instruments and agreements defining rights of holders of long-term debt | Filed herewith. |

| Exhibit No. | Description | Location |
|-------------|--|---|
| 10.1* | Rurban Financial Corp. Plan to Allow Directors to Elect to Defer Compensation | Incorporated herein by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-13507). |
| 10.2* | Rurban Financial Corp. 1997 Stock Option Plan | Incorporated herein by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-13507). |
| 10.3* | Form of Non-Qualified Stock Option Agreement with Five-Year Vesting under Rurban Financial Corp. 1997 Stock Option Plan | Incorporated herein by reference to Exhibit 10(w) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-13507). |
| 10.4* | Form of Non-Qualified Stock Option Agreement with Vesting After One Year of Employment under Rurban Financial Corp. 1997 Stock Option Plan | Incorporated herein by reference to Exhibit 10(a) to the Company's Current Report on Form 8-K filed March 21, 2005 (File No. 0-13507). |
| 10.5* | Form of Incentive Stock Option Agreement with Five-Year Vesting under Rurban Financial Corp. 1997 Stock Option Plan | Incorporated herein by reference to Exhibit 10(x) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-13507). |
| 10.6* | Form of Incentive Stock Option Agreement with Vesting After One Year of Employment under Rurban Financial Corp. 1997 Stock Option Plan | Incorporated herein by reference to Exhibit 10(c) to the Company's Current Report on Form 8-K filed March 21, 2005 (File No. 0-13507). |
| 10.7* | Form of Stock Appreciation Rights under Rurban Financial Corp. 1997 Stock Option Plan | Incorporated herein by reference to Exhibit 10(b) to the Company's Current Report on Form 8-K filed March 21, 2005 (File No. 0-13507). |
| 10.8* | Rurban Financial Corp. 2008 Stock Incentive Plan | Incorporated herein by reference to Exhibit 10 to the Company's Current Report on Form 8-K filed April 22, 2008 (File No. 0-13507). |
| 10.9* | Form of Restricted Stock Award Agreement (For Employees) under Rurban Financial Corp. 2008 Stock Option Plan | Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed April 22, 2008 (File No. 0-13507). |
| 10.10* | Form of Incentive Stock Option Agreement with Five-Year Vesting under Rurban Financial Corp. 2008 Stock Incentive Plan | Incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (File No. 0-13507). |

| | | |
|--------|--|---|
| 10.11* | Form of Non-Qualified Stock Option Award Agreement with Five-Year Vesting under Rurban Financial Corp. 2008 Stock Incentive Plan | Incorporated herein by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (File No. 0-13507). |
|--------|--|---|

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| Exhibit No. | Description | Location |
|-------------|--|---|
| 10.12* | Employees' Stock Ownership and Savings Plan of Rurban Financial Corp. | Incorporated herein by reference to Exhibit 10(y) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (File No. 0-13507). |
| 10.13* | Rurban Financial Corp. Employee Stock Purchase Plan | Incorporated herein by reference to Exhibit 10(z) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (File No. 0-13507). |
| 10.14* | Employment Agreement, dated July 30, 2010, between Rurban Financial Corp. and Mark A. Klein | Incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 5, 2010 (File No. 0-13507). |
| 10.15* | Second Amended and Restated Change of Control Agreement, dated July 30, 2010, between Rurban Financial Corp. and Mark A. Klein | Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed August 5, 2010 (File No. 0-13507). |
| 10.16* | Change of Control Agreement, dated April 21, 2010, between Rurban Financial Corp. and Anthony V. Cosentino | Filed herewith. |
| 10.17* | Amended and Restated Supplemental Executive Retirement Plan Agreement, effective as of December 31, 2008, by and between Rurban Financial Corp. and Kenneth A. Joyce | Incorporated herein by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (File No. 0-13507). |
| 10.18* | Amended and Restated Supplemental Executive Retirement Plan Agreement, effective as of December 31, 2008, by and between Rurban Financial Corp. and Mark A. Klein | Filed herewith. |
| 10.19* | First Amendment to Amended and Restated Supplemental Executive Retirement Plan Agreement, dated as April 20, 2009, by and between Rurban Financial Corp. and Mark A. Klein | Incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed April 22, 2009 (File No. 0-13507). |

| Exhibit No. | Description | Location |
|-------------|--|--|
| 10.20* | Non-Qualified Deferred Compensation Plan effective as of January 1, 2007 | Incorporated herein by reference to Exhibit 10.20 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (File No. 0-13507) |
| 11 | Statement re: Computation of Per Share Earnings | Included in Note 1 of the Notes to Consolidated Financial Statements of Registrant in the financial statements portion of this Annual Report on Form 10-K. |
| 21 | Subsidiaries of Registrant | Filed herewith. |
| 23 | Consent of BKD, LLP | Filed herewith. |
| 24 | Power of Attorney of Directors and Executive Officers | Included on signature page of this Annual Report on Form 10-K |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification – Principal Executive Officer | Filed herewith. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification – Principal Financial Officer | Filed herewith. |
| 32.1 | Section 1350 Certification – Principal Executive Officer and Principal Financial Officer | Filed herewith. |

*Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

RURBAN FINANCIAL CORP.

By: /s/ Anthony V. Cosentino

Anthony V. Cosentino, Executive Vice President and
Chief Financial Officer
Date: March 31, 2011

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS, that each undersigned officer and/or director of Rurban Financial Corp., an Ohio corporation (the "Corporation"), which is about to file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2010, hereby constitutes and appoints Mark A. Klein and Anthony V. Cosentino, and each of them, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign both the Annual Report on Form 10-K and any and all amendments and documents related thereto, and to file the same, and any and all exhibits, financial statements and schedules related thereto, and other documents in connection therewith, with the Securities and Exchange Commission and the NASDAQ Stock Market, granting unto said attorneys-in-fact and agents, and substitute or substitutes, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all things that each of said attorneys-in-fact and agents, or either of them or his or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Name | Date | Capacity |
|--|----------------|---|
| /s/ Mark A. Klein Mark A. Klein | March 31, 2011 | President and Chief Executive Officer |
| /s/ Anthony V. Cosentino Anthony V. Cosentino | March 31, 2011 | Executive Vice President and Chief Financial Officer |
| /s/ Thomas A. Buis Thomas A. Buis | March 31, 2011 | Director |
| /s/ Robert A. Fawcett, Jr. Robert A. Fawcett, Jr. | March 31, 2011 | Director |

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/s/ Gaylyn J. Finn March 31, 2011 Director
Gaylyn J. Finn

/s/ Richard L. Hardgrove March 31, 2011 Director
Richard L. Hardgrove

/s/ Rita A. Kissner March 31, 2011 Director
Rita A. Kissner

/s/ Mark A. Klein March 31, 2011 Director
Mark A. Klein

/s/ Thomas L. Sauer March 31, 2011 Director
Thomas L. Sauer

/s/ Timothy J. Stolly March 31, 2011 Director
Timothy J. Stolly

Date: March 31, 2011

Rurban Financial Corp.

December 31, 2010 and 2009

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FINANCIAL HIGHLIGHTS

(Dollars in thousands except per share data)

| | Year Ended December 31 | | | | |
|---|------------------------|------------|------------|------------|------------|
| | 2010 | 2009 | 2008 | 2007 | 2006 |
| EARNINGS | | | | | |
| Interest income | \$ 29,564 | \$ 32,591 | \$ 32,669 | \$ 33,010 | \$ 30,971 |
| Interest expense | 9,602 | 11,592 | 15,141 | 18,222 | 15,936 |
| Net interest income | 19,962 | 20,999 | 17,528 | 14,788 | 15,035 |
| Provision for loan losses | 10,588 | 5,738 | 690 | 521 | 178 |
| Noninterest income | 20,819 | 29,304 | 27,891 | 26,861 | 23,755 |
| Noninterest expense | 52,308 | 44,843 | 37,387 | 36,637 | 34,904 |
| Provision (credit) for income taxes | (6,502) | (660) | 2,125 | 1,234 | 948 |
| Net income (loss) | (15,613) | 382 | 5,217 | 3,257 | 2,760 |
| PER SHARE DATA | | | | | |
| Basic earnings | \$ (3.21) | \$ 0.07 | \$ 1.06 | \$ 0.65 | \$ 0.55 |
| Diluted earnings | (3.21) | 0.07 | 1.06 | 0.65 | 0.55 |
| Cash dividends declared | 0.00 | 0.36 | 0.34 | 0.26 | 0.21 |
| AVERAGE BALANCES | | | | | |
| Average shareholders' equity | \$ 57,281 | \$ 63,576 | \$ 59,964 | \$ 57,945 | \$ 54,501 |
| Average total assets | 673,781 | 667,470 | 575,491 | 556,572 | 554,095 |
| RATIOS | | | | | |
| Return on average shareholders' equity | -27.26 % | 0.60 % | 8.70 % | 5.62 % | 5.06 % |
| Return on average total assets | (2.32) | 0.06 | 0.91 | 0.59 | 0.50 |
| Cash dividend payout ratio (cash dividends divided by net income) | 0.00 | 458.18 | 32.14 | 40.01 | 38.25 |
| Average shareholders' equity to average total assets | 8.50 | 9.52 | 10.42 | 10.41 | 9.84 |
| PERIOD END TOTALS | | | | | |
| Total assets | \$ 660,288 | \$ 673,049 | \$ 657,619 | \$ 561,214 | \$ 556,007 |
| Total investments and fed funds sold | 132,762 | 105,083 | 112,606 | 94,661 | 111,562 |
| Total loans and leases | 427,544 | 452,558 | 450,112 | 389,269 | 370,102 |

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| | | | | | |
|-----------------------------------|---------|----------|----------|----------|----------|
| Loans held for sale | 9,055 | 16,858 | 3,824 | 1,650 | 390 |
| Total deposits | 515,678 | 491,242 | 484,221 | 406,031 | 414,555 |
| Notes Payable | 3,290 | 2,147 | 1,000 | 922 | 2,589 |
| Advances from FHLB | 22,807 | 35,267 | 36,647 | 24,000 | 21,000 |
| Trust Preferred Securities | 20,620 | 20,620 | 20,620 | 20,620 | 20,620 |
| Shareholders' equity | 46,024 | 61,708 | 61,662 | 59,325 | 56,955 |
| Shareholders' equity per share | \$ 9.47 | \$ 12.69 | \$ 12.63 | \$ 11.92 | \$ 11.33 |

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Management's Report on Internal Control
Over Financial Reporting

The management of Rurban Financial Corp. (the "Company") 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 Company'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 Company'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 Company 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 Company and its consolidated subsidiaries are being made only in accordance with authorizations of management and directors of the Company; and
- c) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the assets of the Company 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 Company's internal control over financial reporting as of December 31, 2010, 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, 2010, the Company's internal control over financial reporting was not effective, as a result of a material weakness in internal control over financial reporting, as discussed below.

Management's evaluation identified a material weakness in the Company's internal control over financial reporting as of December 31, 2010. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. During the course of the Company's external audit for the year ended December 31, 2010, the Company recorded an adjustment identified by the Company's external auditors related to an impairment of the intangible customer asset at RDSI. This impairment resulted from the loss of customers and associated revenue at RDSI during the 2010 fiscal year.

While management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2010, due to this material weakness, this did not result in a material misstatement of the Company's financial statements, including the annual and interim financial statements for 2010.

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

RURBAN FINANCIAL CORP.

Mark A. Klein
President and Chief Executive Officer

Anthony V. Cosentino
Chief Financial Officer

March 31, 2011

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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, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2010. 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, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Cincinnati, Ohio
March 31, 2011

Rurban Financial Corp.

Consolidated Balance Sheets
December 31

ASSETS

| | 2010 | 2009 |
|---|----------------------|----------------------|
| Cash and due from banks | \$30,417,813 | \$24,824,785 |
| Available-for-sale securities | 132,762,058 | 105,083,112 |
| Loans held for sale | 9,055,268 | 16,857,648 |
| Loans, net of unearned income | 427,544,414 | 452,557,581 |
| Allowance for loan losses | (6,715,397) | (7,030,178) |
| Premises and equipment, net | 14,622,541 | 16,993,640 |
| Federal Reserve and Federal Home Loan Bank Stock, at cost | 3,748,250 | 3,748,250 |
| Foreclosed assets held for sale, net | 1,538,307 | 1,767,953 |
| Interest receivable | 2,068,965 | 2,324,868 |
| Goodwill | 16,733,830 | 21,414,790 |
| Core deposits and other intangibles | 2,585,132 | 4,977,513 |
| Purchased software | 1,021,036 | 5,338,319 |
| Cash value of life insurance | 13,211,247 | 12,792,045 |
| Deferred income taxes | 3,202,986 | - |
| Other assets | 8,491,235 | 11,398,776 |
| Total assets | \$660,287,685 | \$673,049,102 |

See Notes to Consolidated Financial Statements

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Rurban Financial Corp.

Consolidated Balance Sheets
December 31

LIABILITIES AND SHAREHOLDERS' EQUITY

| | 2010 | 2009 |
|---|---------------|---------------|
| Liabilities | | |
| Deposits | | |
| Non interest bearing demand | \$62,745,906 | \$57,229,795 |
| Interest bearing NOW | 105,708,472 | 87,511,973 |
| Savings | 47,662,315 | 43,321,364 |
| Money Market | 84,635,537 | 86,621,953 |
| Time Deposits | 214,925,512 | 216,557,067 |
| Total deposits | 515,677,742 | 491,242,152 |
| Short-term borrowings | 45,785,254 | 52,042,820 |
| Notes payable | 3,290,471 | 2,146,776 |
| Federal Home Loan Bank advances | 22,807,351 | 35,266,510 |
| Trust preferred securities | 20,620,000 | 20,620,000 |
| Interest payable | 1,971,587 | 1,507,521 |
| Deferred income taxes | — | 2,715,716 |
| Other liabilities | 4,111,182 | 5,799,952 |
| Total liabilities | 614,263,587 | 611,341,447 |
| 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 | 15,235,206 | 15,186,042 |
| Retained earnings | 18,802,106 | 34,415,316 |
| Accumulated other comprehensive income (loss) | 1,187,514 | 1,307,025 |
| Treasury stock, at cost | | |
| Common; 2010 - 165,654 shares, 2009 -165,654 shares | (1,769,311) | (1,769,311) |
| Total stockholders' equity | 46,024,098 | 61,707,655 |
| Total liabilities and stockholders' equity | \$660,287,685 | \$673,049,102 |

See Notes to Consolidated Financial Statements

Rurban Financial Corp.

Consolidated Statements of Operations
Years Ended December 31

| | 2010 | 2009 | 2008 |
|--|---------------------|---------------------|---------------------|
| Interest Income | | | |
| Loans | | | |
| Taxable | \$25,838,773 | \$27,272,465 | \$27,473,302 |
| Tax-exempt | 62,721 | 91,294 | 84,878 |
| Securities | | | |
| Taxable | 2,266,719 | 4,082,639 | 4,289,728 |
| Tax-exempt | 1,395,143 | 1,063,190 | 686,458 |
| Other | 260 | 81,562 | 134,079 |
| Total interest income | 29,563,616 | 32,591,150 | 32,668,445 |
| Interest Expense | | | |
| Deposits | 5,123,015 | 6,525,942 | 10,066,325 |
| Notes payable | 116,198 | 132,116 | 34,576 |
| Repurchase Agreements | 1,731,227 | 1,733,668 | 1,821,330 |
| Federal funds purchased | 3,990 | 2,827 | 18,432 |
| Federal Home Loan Bank advances | 1,093,659 | 1,624,700 | 1,508,115 |
| Trust preferred securities | 1,533,806 | 1,573,293 | 1,691,792 |
| Total interest expense | 9,601,895 | 11,592,546 | 15,140,570 |
| Net Interest Income | 19,961,721 | 20,998,604 | 17,527,875 |
| Provision for Loan Losses | | | |
| Provision for loan losses - Bank Only | 7,587,603 | 5,738,098 | 689,567 |
| Provision for loan losses - RDSI | 3,000,000 | — | — |
| Total provision for loan losses | 10,587,603 | 5,738,098 | 689,567 |
| Net Interest Income After Provision for Loan Losses | 9,374,118 | 15,260,506 | 16,838,308 |
| Non—interest Income | | | |
| Data service fees | 9,736,416 | 18,859,701 | 20,165,451 |
| Trust fees | 2,547,699 | 2,508,723 | 3,081,898 |
| Customer service fees | 2,460,733 | 2,607,985 | 2,416,093 |
| Net gains on loan sales | 4,800,812 | 3,354,654 | 740,985 |
| Net realized gains on sales of available-for-sale securities | 450,885 | 960,320 | — |
| Net proceeds from VISA IPO | — | — | 132,106 |
| Investment securities recoveries | 73,774 | — | 197,487 |
| Loan servicing fees | 284,080 | 152,820 | 66,755 |
| Gain (losses) on sale of assets | (199,903) | (134,732) | 247,517 |
| Other | 664,327 | 995,126 | 844,105 |
| Total non-interest income | \$20,818,823 | \$29,304,597 | \$27,892,397 |

See Notes to Consolidated Financial Statements

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Rurban Financial Corp.

Consolidated Statements of Operations
Years Ended December 31

| | 2010 | 2009 | 2008 |
|---|-----------------------|-------------------|--------------------|
| Non-interest Expense | | | |
| Salaries and employee benefits | \$17,932,196 | \$21,034,671 | \$17,318,103 |
| Net occupancy expense | 2,100,958 | 2,227,452 | 2,015,946 |
| FDIC Insurance Expense | 1,137,615 | 1,131,550 | 59,726 |
| Equipment expense | 6,433,537 | 7,463,352 | 6,308,564 |
| Fixed asset and software impairment expense | 4,892,231 | — | — |
| Data processing fees | 743,538 | 609,876 | 427,251 |
| Professional fees | 2,545,552 | 2,891,607 | 1,859,447 |
| Marketing expense | 455,967 | 857,727 | 831,727 |
| Printing and office supplies | 453,702 | 601,626 | 554,267 |
| Telephone and communications | 1,191,497 | 1,622,077 | 1,686,834 |
| Postage and delivery expense | 1,748,545 | 2,079,463 | 2,165,098 |
| Insurance expense | 71,791 | 91,086 | 94,944 |
| Employee expense | 818,375 | 1,151,438 | 1,084,028 |
| Goodwill impairment | 4,680,960 | — | — |
| Other intangibles impairment | 1,591,844 | — | — |
| OREO impairment | 971,517 | — | — |
| State, local and other taxes | 543,673 | 724,546 | 985,503 |
| Other | 3,994,948 | 2,356,529 | 1,996,834 |
| Total non-interest expense | 52,308,446 | 44,843,000 | 37,388,272 |
| Income (Loss) Before Income Tax | (22,115,505) | (277,897) | 7,342,432 |
| Provision (Credit) for Income Taxes | (6,502,295) | (660,388) | 2,125,193 |
| Net Income (Loss) | \$(15,613,210) | \$382,491 | \$5,217,239 |
| Basic Earnings (Loss) Per Share | \$(3.21) | \$0.07 | \$1.06 |
| Diluted Earnings (Loss) Per Share | \$(3.21) | \$0.07 | \$1.06 |

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, 2008 | 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 |
| Comprehensive Income | | | | | | |
| Net Income | | | 382,491 | | | 382,491 |
| Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect | | | | 1,428,682 | | 1,428,682 |

| | | | | | | |
|--|--------------|--------------|--------------|--------------|---------------|--------------|
| Total comprehensive income | | | | | | 1,811,173 |
| Dividends on common stock, \$0.36 per share | | | (1,752,492) | | | (1,752,492) |
| Expense of stock option plan | 143,261 | | | | | 143,261 |
| Shares repurchased under stock repurchase plan | | | | | (156,291) | (156,291) |
| Balance, December 31, 2009 | \$12,568,583 | \$15,186,042 | \$34,415,316 | \$ 1,307,025 | \$(1,769,311) | \$61,707,655 |
| Comprehensive Income | | | | | | |
| Net Income (Loss) | | | (15,613,210) | | | (15,613,210) |
| Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect | | | | (119,511) | | (119,511) |
| Total comprehensive income (loss) | | | | | | (15,732,721) |
| Expense of stock option plan | 49,164 | | | | | 49,164 |
| Balance, December 31, 2010 | \$12,568,583 | \$15,235,206 | \$18,802,106 | \$ 1,187,514 | \$(1,769,311) | \$46,024,098 |

See Notes to Consolidated Financial Statements

Rurban Financial Corp.
Consolidated Statements of Cash Flows
Years Ended December 31

| | 2010 | 2009 | 2008 |
|---|-----------------|----------------|--------------|
| Operating Activities | | | |
| Net Income (Loss) | \$(15,613,210) | \$382,491 | \$5,217,239 |
| Items not requiring (providing) cash | | | |
| Depreciation and amortization | 4,007,624 | 4,473,367 | 3,684,358 |
| Provision for loan losses | 10,587,603 | 5,738,098 | 689,567 |
| Expense of share-based compensation plan | 49,164 | 143,261 | 119,210 |
| Amortization of premiums and discounts on securities | 1,546,843 | 608,534 | 133,614 |
| Amortization of intangible assets | 800,537 | 858,423 | 710,324 |
| Deferred income taxes | (5,857,134) | (1,008,042) | 1,482,203 |
| FHLB Stock Dividends | — | — | (127,200) |
| Proceeds from sale of loans held for sale | 240,632,657 | 219,243,608 | 38,708,669 |
| Originations of loans held for sale | (228,029,465) | (228,922,103) | (40,142,425) |
| Gain from sale of loans | (4,800,812) | (3,354,654) | (740,985) |
| (Gain) loss on sale of foreclosed assets | 201,934 | 102,713 | (4,517) |
| (Gain) loss on sales of fixed assets | (2,031) | 32,019 | (243,000) |
| Net realized gains on available-for-sale securities | (450,885) | (960,320) | — |
| Software and fixed asset impairment | 4,892,231 | — | — |
| OREO impairment | 971,517 | — | — |
| Goodwill and Intangible Impairment | 4,680,960 | — | — |
| Other intangible impairment | 1,591,844 | — | — |
| Changes in | | | |
| Interest receivable | 255,903 | 639,795 | 935,431 |
| Other assets | 2,615,258 | (5,412,295) | 641,023 |
| Interest payable and other liabilities | (1,224,705) | 251,756 | (1,400,738) |
| Net cash provided by (used in) operating activities | 16,855,833 | (7,183,349) | 9,662,773 |
| Investing Activities | | | |
| Purchases of available-for-sale securities | (76,637,203) | (67,881,565) | (46,231,266) |
| Proceeds from maturities of available-for-sale securities | 37,686,088 | 40,839,927 | 48,098,994 |
| Proceeds from sales of available-for-sale securities | 9,995,135 | 27,081,457 | 36,519,016 |
| Net change in loans | 11,081,255 | (7,721,644) | (19,140,093) |
| Purchase of premises, equipment and software | (2,146,254) | (3,406,256) | (8,045,766) |
| Proceeds from sales of premises, equipment and software | (63,188) | 57,567 | 2,327,708 |
| Proceeds from sale of foreclosed assets | 1,958,804 | 987,208 | 604,873 |
| Net cash paid to acquire The National Bank of Montpelier | — | — | (14,779,983) |
| Purchase of FHLB stock | — | (204,150) | — |
| Proceeds for the sale of FHLB stock | — | 700,000 | — |
| Net cash used in investing activities | \$(18,125,363) | \$(9,547,456) | \$(646,517) |

See Notes to Consolidated Financial Statements

Rurban Financial Corp.

Consolidated Statements of Cash Flows
Years Ended December 31

| | 2010 | 2009 | 2008 |
|---|------------------|---------------------|-------------------|
| Financing Activities | | | |
| Net increase in demand deposits, money market, interest checking and savings accounts | \$26,067,145 | \$32,730,724 | \$18,765,273 |
| Net decrease in certificates of deposit | (1,631,555) | (25,709,156) | (27,370,079) |
| Net increase (decrease) in securities sold under agreements to repurchase | (1,257,567) | 3,616,842 | 419,540 |
| Net increase (decrease) in federal funds purchased | (5,000,000) | 5,000,000 | — |
| Proceeds from Federal Home Loan Bank advances | — | 7,500,000 | 24,000,000 |
| Repayment of Federal Home Loan Bank advances | (12,459,160) | (8,880,344) | (11,353,145) |
| Proceeds from notes payable | 1,700,000 | 2,700,000 | 1,000,000 |
| Net change in short term line of credit | — | (1,000,000) | — |
| Repayment of notes payable | (556,305) | (553,224) | (922,457) |
| Purchase of treasury stock | — | (156,291) | (1,002,760) |
| Dividends paid | — | (1,752,493) | (1,676,723) |
| Net cash provided by financing activities | 6,862,558 | 13,496,058 | 1,859,649 |
| Increase (Decrease) in Cash and Cash Equivalents | 5,593,028 | (3,234,747) | 10,875,905 |
| Cash and Cash Equivalents, Beginning of Year | 24,824,785 | 28,059,532 | 17,183,627 |
| Cash and Cash Equivalents, End of Year | \$30,417,813 | \$24,824,785 | \$28,059,532 |
| Supplemental Cash Flows Information | | | |
| Interest paid | \$9,137,829 | \$12,050,867 | \$15,707,642 |
| Income taxes paid (refunded) | \$(1,054,236) | \$(71,000) | \$1,212,000 |
| Transfer of loans to foreclosed assets | \$5,149,182 | \$1,547,599 | \$2,292,731 |
| Net assets acquired in business combination | \$— | \$— | \$113,441,000 |
| Net liabilities assumed in business combination | \$— | \$— | \$88,211,000 |
| Sale and financing of foreclosed assets | \$2,249,532 | \$— | \$— |

See Notes to Consolidated Financial Statements

Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

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”), Rurbanc Data Services, Inc. dba RDSI Banking Systems (“RDSI”), Rurban Statutory Trust I (“RST I”), and Rurban Statutory Trust II (“RST II”). State Bank owns all the outstanding stock of Rurban Mortgage Company (“RMC”) and Rurban Investments, Inc. (“RII”). 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 Illinois, Indiana, Michigan, Ohio and Wisconsin. Reliance Financial Services (“RFS”) operating as a division of State Bank, 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, RMC, and RII. 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, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, loan servicing rights, valuation of deferred tax assets, other-than-temporary impairment (OTTI) and fair value of financial instruments.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2010 and 2009, cash equivalents consisted primarily of interest and non-interest bearing demand deposit balances held by correspondent banks.

Effective October 3, 2009, the FDIC’s insurance limits increased to \$250,000. The increase in federally insured limits was set to expire on December 31, 2013, however, the Wall Street Reform and Consumer Protection Act, signed on July 21, 2010, made this limit permanent. At December 31, 2010, the Bank’s interest-bearing cash accounts exceeded federally insured limits by approximately \$1,110,000.

Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

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.

For debt securities with fair value below carrying value when the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

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 non-interest income. Gains and losses on loan sales are recorded in non-interest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in non-interest income upon sale of the loan.

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. All interest accrued, but not collected for loans that are placed on non-accrual or charged-off, are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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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 non-collectability 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 collectability 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 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.

Long-lived Asset Impairment

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset's cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

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Fixed asset and software impairment of \$4,892,000 and \$0 was recognized during the years ended December 31, 2010 and 2009, respectively.

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. Goodwill impairment of \$4,681,000 and \$0 was recognized during the years ended December 31, 2010 and 2009, respectively.

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. Other intangibles impairment of \$1,592,000 and \$0 was recognized during the years ended December 31, 2010 and 2009, respectively.

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.

Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Share-Based Employee Compensation Plan

At December 31, 2010 and 2009, the Company had a share-based employee compensation plan, which is described more fully in Note 19.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before the maturity or the ability to unilaterally cause the holder to return specific assets.

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 the 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. On July 15, 2009, the Company announced an extension of the repurchase plan for an additional fifteen months. As of December 31, 2009, the Company had repurchased a total of 165,654 shares at an average cost of \$10.68 per share. There were no shares repurchased during 2010. On October 12, 2010, the stock repurchase plan expired.

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.

Rurban Financial Corp.
Notes to Consolidated Financial Statements
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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 2008 and 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect 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, 2010, was \$1,441,000.

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, 2010: | | | | |
| U.S. Treasury and Government agencies | \$43,572,741 | \$298,653 | \$(220,262) | \$43,651,132 |
| Mortgage-backed securities | 53,652,288 | 1,395,036 | (419,232) | 54,628,092 |
| State and political subdivisions | 31,552,709 | 895,794 | (150,724) | 32,297,779 |
| Money Market Mutual Fund | 2,162,055 | — | — | 2,162,055 |
| Equity securities | 23,000 | — | — | 23,000 |
| | \$130,962,793 | \$2,589,483 | \$(790,218) | \$132,762,058 |
| December 31, 2009: | | | | |
| U.S. Treasury and Government agencies | \$13,215,086 | \$5,359 | \$(276,796) | \$12,943,649 |
| Mortgage-backed securities | 50,877,903 | 1,792,894 | (424,519) | 52,246,278 |
| State and political subdivisions | 30,653,604 | 984,833 | (101,431) | 31,537,006 |
| Money Market Mutual Fund | 8,333,179 | — | — | 8,333,179 |
| Equity securities | 23,000 | — | — | 23,000 |
| | \$103,102,772 | \$2,783,086 | \$(802,746) | \$105,083,112 |

Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

The amortized cost and fair value of securities available for sale at December 31, 2010, 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 | \$ 5,041,419 | \$ 5,068,976 |
| Due after one year through five years | 4,853,241 | 5,004,430 |
| Due after five years through ten years | 27,112,162 | 27,631,283 |
| Due after ten years | 38,118,628 | 38,244,222 |
| | 75,125,450 | 75,948,911 |
| Mortgage-backed securities & equity securities | 55,837,343 | 56,813,147 |
| Totals | \$ 130,962,793 | \$ 132,762,058 |

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was \$30,412,621 at December 31, 2010, and \$24,104,265 at December 31, 2009. The securities delivered for repurchase agreements were \$58,621,708 at December 31, 2010 and \$55,504,340 at December 31, 2009.

Gross gains of \$451,475, \$961,013, and \$0, and gross losses of \$590, \$693, and \$0 resulting from sales of available-for-sale securities were realized for 2010, 2009, and 2008, respectively. The tax expense for net security gains for 2010, 2009, and 2008 were \$153,301, \$326,509, and \$0, 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, 2010 and 2009, were \$40,399,444 and \$20,140,212, which was approximately 30 percent and 19 percent 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 \$197,487 of this loss was recovered, which resulted in a \$130,000 after-tax gain. In 2010, an additional \$73,774 of this loss was recovered, which resulted in a \$49,000 after-tax gain.

Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Securities with unrealized losses at December 31, 2010, were 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 | \$— | \$— | \$11,483,130 | \$(220,262) | \$11,483,130 | \$(220,262) |
| Mortgage-backed securities | 1,164,431 | (99,297) | 20,281,713 | (319,935) | 21,446,144 | (419,232) |
| State and political subdivisions | 349,460 | (24,611) | 7,120,710 | (126,113) | 7,470,170 | (150,724) |
| | \$1,513,891 | \$(123,908) | \$38,885,553 | \$(666,310) | \$40,399,444 | \$(790,218) |

Securities with unrealized losses at December 31, 2009, were 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 | \$12,837,085 | \$(276,796) | \$— | \$— | \$12,837,085 | \$(276,796) |
| Mortgage-backed securities | 1,263,285 | (15,539) | 2,255,050 | (408,980) | 3,518,335 | (424,519) |
| State and political subdivisions | 2,792,842 | (56,693) | 991,950 | (44,737) | 3,784,792 | (101,431) |
| | \$16,893,212 | \$(349,028) | \$3,247,000 | \$(453,717) | \$20,140,212 | \$(802,746) |

The total unrealized losses on the mortgage-backed securities portfolio, all of which are residential mortgage-backs, is derived mainly from three private label senior tranche residential collateralized mortgage obligation (CMO) securities with a book value of \$2.0 million and a fair value of \$1.9 million. In addition to these three private label CMO's, the Company also holds two GSE CMO's, which have a book and fair value of \$261 thousand. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concern warrants such evaluation. When the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security. Management has determined there is no other-than-temporary-impairment on its CMO securities.

Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31 include:

| | 2010 | 2009 |
|--|----------------|----------------|
| Commercial | \$72,488,678 | \$84,642,860 |
| Commercial real estate | 177,889,619 | 179,909,135 |
| Agricultural | 40,762,147 | 41,485,301 |
| Residential real estate | 84,775,026 | 92,971,599 |
| Consumer | 51,710,239 | 53,655,238 |
| Leasing | 194,384 | 221,190 |
| Total loans | 427,820,093 | 452,885,323 |
| Less | | |
| Net deferred loan fees, premiums and discounts | (275,679) | (327,742) |
| Loans, net of unearned income | 427,544,414 | 452,557,581 |
| Allowance for loan losses | \$(6,715,397) | \$(7,030,178) |

The following table represents the contractual aging of the recorded investment in past due loans by class or loans as of December 31, 2010 (in thousands):

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

At December 31, 2010, 2009, and 2008, accruing loans delinquent 90 days or more totaled \$0. Non-accruing loans at December 31, 2010, 2009, and 2008 were \$12,283,000, \$18,543,000, and \$5,178,000, respectively.

Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 4 – Loans (Continued)

The following table presents the recorded investment in non-accrual loans by class as of December 31, 2010 (in thousands):

| | 2010 |
|------------------------|-----------------|
| Commercial | \$3,032 |
| Commercial Real Estate | 6,065 |
| Residential | 2,565 |
| Consumer | 621 |
| Total | \$12,283 |

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

1. One (1) Superior - Risk is negligible. Loans are to well-seasoned borrowers, displaying sound financial condition, consistent superior earnings performance, strong capitalization, and access to a range of financing alternatives.
 2. Two (2) Excellent - Risk is minimal. Borrower is well capitalized, operates in a stable industry, financial ratios exceed peers, and financial trends are positive.
 3. Three (3) Good - Risk is modest. Borrower has good overall financial condition and adequate capitalization to withstand temporary setbacks. Financial trends are positive, and there is clear ability to service debt from the primary source.
 4. Four (4) Average - Risk is acceptable. Borrowers in this category may be characterized by acceptable asset quality, but may face a degree of uncertainty due to new business, untried market, high degree of leverage, expansion, management change, or industry conditions.
 5. Four Monitored 4(m) = Monitored Pass Credits - Risk is increasing. Borrowers in this category may be characterized by an increasing amount of risk due to one or more of the following characteristics listed below. Additionally, these borrowers require a higher than normal amount of monitoring by the relationship manager and bank management. Borrowers who are placed in this category may also demonstrate the potential for an upgrade in the next 12 months given improvement in one or more of the factors listed below.
- § Declining trends in the earnings and cash flow of the company is evident by moderate to severe losses although debt service coverage remains within policy limits.

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

Rurban Financial Corp.
Notes to Consolidated Financial Statements
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Note 4 – Loans (Continued)

§ Absence of relevant or stale financial information.

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

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

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

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

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

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

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

§ Other deviations from prudent lending practices are present.

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

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

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

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

merger or acquisition, liquidation proceedings, capital injection, perfecting liens on additional collateral, or refinancing plans.

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

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

The following table represents the risk category of loans by class based on the most recent analysis performed as of December 31, 2010 (in thousands).

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

Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2010 and 2009

Note 4 – Loans (Continued)

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010 (in thousands):

| | 2010 | At December 31, 2009 | 2008 |
|---|---------------|-------------------------|--------------|
| Year-end impaired loans with no allowance for loan losses allocated | \$ 3,839,735 | \$ 1,099,912 | \$ 1,706,246 |
| Year-end loans with allowance for loan losses allocated | \$ 5,639,348 | \$ 14,912,035 | \$ 865,710 |
| Total impaired loans | \$ 9,479,083 | \$ 16,011,947 | \$ 2,571,956 |
| Amount of allowance allocated | \$ 1,871,137 | \$ 3,041,967 | \$ 322,190 |
| Average of impaired loans during the year | \$ 12,680,704 | \$ 16,111,693 | \$ 2,158,106 |
| Interest income recognized during impairment | \$ 63,507 | \$ 564,931 | \$ 11,970 |
| Cash-basis interest income recognized | \$ 143,877 | \$ 596,565 | \$ 14,807 |

There are no future commitments to advance funds in connection with any impaired loans.

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

At December 31, 2010, State Bank had \$399,000 of residential mortgages, \$190,000 of commercial real estate loans and \$1,907,000 of commercial domestic loans that were modified in troubled debt restructurings and impaired. At December 31, 2009, State Bank had \$211,000 of residential mortgages, \$2,545,000 of commercial domestic loans, \$3,080,000 of commercial real estate loans and \$35,000 of consumer loans that were modified in troubled debt restructurings and impaired. In addition to these amounts, State Bank had troubled debt restructurings that were performing in accordance with their modified terms of \$452,000 of residential mortgage, \$581,000 of commercial real estate loans, \$68,000 of consumer loans, and \$6,000 of agricultural loans at December 31, 2010 and \$701,000 of residential mortgage, \$8,000 of commercial domestic loans, \$602,000 of commercial real estate loans and \$51,000 of consumer loans at December 31, 2009.

Rurban Financial Corp.
Notes to Consolidated Financial Statements
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Note 4- Loans (Continued)

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

The Allowance for Loan and Lease Losses (“ALLL”) has a direct impact on the provision expense. An increase in the ALLL is funded through recoveries and provision expense. The following tables summarize the activities in the ALLL. The first table breaks down the activity within ALLL and shows the contribution provided by both the recoveries and the provision along with the reduction of the allowance caused by charge-offs. The second table discloses how much of ALLL is attributed to each segment of the loan portfolio, and the extent to which loans are individually and collectively evaluated for impairment.

| | 2010 | 2009 | 2008 |
|--------------------------------------|--------------|-------------|-------------|
| Balance, beginning of year | \$7,030,178 | \$5,020,197 | \$3,990,455 |
| Balance, National Bank of Montpelier | — | — | 1,104,591 |
| Provision charged to expense | 10,587,603 | 5,738,098 | 689,567 |
| Recoveries | 431,335 | 147,265 | 157,790 |
| Losses charged off | (11,333,719) | (3,875,382) | (922,206) |
| Balance, end of year | \$6,715,397 | \$7,030,178 | \$5,020,197 |

Rurban Financial Corp.
Notes to Consolidated Financial Statements
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Note 4 – Loans (Continued)

Additional analysis related to the ALLL (in thousands) as of December 31, 2010 is as follows:

| | Business Loans | Commercial Real Estate | Agricultural Real Estate | Agricultural Mortgage | Residential First Consumer | Other | Unallocated | Total | |
|---|-------------------|------------------------------|--------------------------------|--------------------------|----------------------------------|--------|-------------|-------|----------|
| 2010 ALLOWANCE FOR LOAN AND LEASE LOSSES | | | | | | | | | |
| Beginning balance | \$ 2,604 | \$ 3,210 | \$ — | \$ 92 | \$ 715 | \$ 255 | \$ 154 | \$ — | \$ 7,030 |
| Charge Offs | (4,739) | (4,748) | — | — | (1,210) | (542) | (95) | — | (11,334) |
| Recoveries | 182 | 171 | 11 | — | 53 | — | 14 | — | 431 |
| Provision | 3,676 | 5,141 | (6) | (81) | 1,085 | 688 | 55 | 30 | 10,588 |
| Ending Balance | \$ 1,723 | \$ 3,774 | \$ 5 | \$ 11 | \$ 643 | \$ 401 | \$ 128 | \$ 30 | \$ 6,715 |
| Ending balance: individually evaluated for impairment | \$ 684 | \$ 1,157 | \$ — | \$ | | | | | |