RURBAN FINANCIAL CORP
Form 10-K
March 21, 2008

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

**(Mark One)**

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT of 1934**
**For the fiscal year ended December 31, 2007**
**OR**
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from ___________ to ____________**

**Commission File Number 0-13507**

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

| | |
|---|---|
| **Ohio** | **34-1395608** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **401 Clinton Street, Defiance, Ohio** | **43512** |
| (Address of principal executive offices) | (Zip Code) |

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 o No x

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

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

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

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

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

The aggregate market value of the common shares of the registrant held by non-affiliates computed by reference to the price at which the common shares were last sold as of the last business day of the registrant's most recently completed second fiscal quarter was $59,158,736.

The number of common shares of the registrant outstanding at March 12, 2008 was 4,941,933.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 17, 2008 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**RURBAN FINANCIAL CORP.**

**2007 ANNUAL REPORT ON FORM 10-K**

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# PART I

## Item 1. Business.

### 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. ("RDSI"), Diverse Computer Marketers, Inc. ("DCM"), Reliance Financial Services ("RFS"), Rurban Mortgage Company ("RMC"), 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.

### General Description of Holding Company Group

### State Bank

State Bank is an Ohio state-chartered bank. State Bank presently operates six branch offices in Defiance County, Ohio (five in the city of Defiance and one in Ney), two branch offices in adjacent Paulding County, Ohio (one each in Paulding and Oakwood), three branch offices in Fulton County, Ohio (one each in Delta, Lyons and Wauseon), two branch offices in Allen County, Ohio (two in the city of Lima), three branch offices in Wood County, Ohio (one each in Luckey, Walbridge and Perrysburg) and one office in adjacent Lucas County, Ohio, a Loan Production Office in Franklin County, and one branch office in Allen County, Indiana. At December 31, 2007, State Bank had 162 full-time equivalent employees.

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

RFS is a trust and financial services company and was merged into State Bank during 2007. RFS offers various trust and financial services, including asset management services for individuals and corporate employee benefit plans, as well as brokerage services through Raymond James Financial, Inc.

### RMC

RMC is an Ohio corporation and wholly-owned subsidiary of State Bank. RMC is a mortgage company; however, it ceased originating mortgage loans in the second quarter of 2000 and is presently inactive.

At December 31, 2007, 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, 2007, RFCBC

had no employees.

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RDSI

RDSI has been in operation since 1964 and became an Ohio corporation in June 1976. RDSI has two operating locations: one in Defiance, Ohio, and one in Holland, Michigan. At December 31, 2007, RDSI had 70 full-time equivalent employees.

RDSI delivers software systems to the banking industry which provide a broad range of data processing and item processing services in an outsourced environment utilizing Information Technology Inc. (ITI) software.

DCM

DCM was acquired in September of 2006. DCM is a Michigan corporation and a wholly-owned subsidiary of RDSI. DCM has one operating location: Lansing, Michigan. At December 31, 2007, DCM had 29 full-time equivalent employees.

DCM delivers item processing services to the banking industry in an outsourced environment utilizing BankWare software.

DCM was merged into RDSI effective December 31, 2007 and now operates as a division of RDSI doing business as “DCM”.

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 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

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

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

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

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

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

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 service and convenience to their customers.

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

## Supervision and Regulation

The following is a summary of certain statutes and regulations affecting the Company and its subsidiaries. The summary is qualified in its entirety by reference to such statutes and regulations.

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.

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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 Superintendent of Financial Institutions considers it necessary or appropriate, the Superintendent 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, 2007.

Dividends

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

Transactions with Affiliates, Directors, Executive Officers and Shareholders

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

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

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

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

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

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

A bank’s authority to extend credit to executive officers, directors and greater than 10% shareholders, as well as entities such persons control, is subject to Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O promulgated 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%, 4% is to be comprised of common shareholders’ equity (including retained earnings but excluding treasury stock), non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets (“Tier 1 capital”). The remainder (“Tier 2 capital”) may consist, among other things, of certain amounts of mandatory convertible debt securities, subordinated debt, preferred stock not qualifying as Tier 1 capital, an allowance for loan and lease losses and net unrealized gains, after applicable taxes, on available-for-sale equity securities with readily determinable fair values, all subject to limitations established by the guidelines. The Federal Reserve Board also imposes a minimum leverage ratio (Tier 1 capital to total assets) of 3% for bank holding companies and state member banks that meet certain specified conditions, including no operational, financial or supervisory deficiencies, and including having the highest regulatory rating. The minimum leverage ratio is 1%-2% higher for other bank holding companies and state member banks based on their particular circumstances and risk profiles and those experiencing or anticipating significant growth. Failure to meet applicable capital guidelines could subject a banking institution to a variety of enforcement remedies available to federal and state regulatory authorities, including the termination of deposit insurance by the FDIC.

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

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The Company and State Bank, at year end 2007, were categorized as “well capitalized”.

Deposit Insurance Assessments

In February of 2006, President Bush signed into law the Deposit Insurance Reform Act of 2005 and its companion bill, the Deposit Insurance Reform Conforming Amendments Act of 2005 (collectively, the “Deposit Insurance Reform Acts”), which provide for the Bank Insurance Fund (BIF) and the Savings Association Insurance Fund (SAIF) to be merged into a new Deposit Insurance Fund (DIF). The Deposit Insurance Reform Acts provide for several additional changes to the deposit insurance system, including the following:

- Increasing the deposit insurance limit for retirement accounts from $100,000 to $250,000;
- Adjusting the deposit insurance limits (currently $100,000 for most accounts) every five years based on an inflation index, with the first adjustment to be effective on January 1, 2011;
- Providing pass-through deposit insurance for the deposits of employee benefit plans (but prohibiting undercapitalized depository institutions from accepting employee benefit plan deposits);
- Allocating an aggregate of $4.7 billion of one-time credits to offset the premiums of depository institutions based on their assessment bases at the end of 1996;
- Establishing rules for awarding cash dividends to depository institutions, based on their relative contributions to the DIF and its predecessor funds, when the DIF reserve ratio reaches certain levels; and
- Revising the rules and procedures for risk-based premium assessments.

On January 1, 2007, final rules under the Deposit Insurance Reform Acts became effective. The final rules set a base assessment schedule for 2007 for DIF premiums. For banks with less than $10 billion in assets, the premium assessment rates are based on a combination of financial ratios and CAMELS component ratings. The final rules also provide a one-time credit to institutions to offset amounts owed for deposit insurance.

The Company does not expect that the Deposit Insurance Reform Acts will have a significant impact on the Company or its subsidiary banks in fiscal year 2007.

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.



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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 Regulation

The Company is subject to the jurisdiction of the Securities and Exchange Commission (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 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 NASDAQ rules and regulations applicable to listed companies.

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

As mandated by the Sarbanes-Oxley Act of 2002, the SEC has adopted rules and regulations governing, among other issues, corporate governance, auditing and accounting and executive compensation, and enhanced the timely disclosure of corporate information. The SEC has also approved corporate governance rules promulgated by The NASDAQ Stock Market, Inc. ("NASDAQ"). The Board of Directors of the Company has taken a series of actions to comply with the new 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 Executive 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".

Effect of Environmental Regulation

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

## Available Information

The Company will provide, without charge, to each shareholder, upon written request to Rurban Financial Corp., P.O. Box 467, Defiance, Ohio 43512, Attention: Valda Colbart, 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.

## 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-53 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:

| | 2007 | | | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|---|---|---|
| ($in thousands) | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate | Average Balance | Interest | Average Rate |
| **Assets:** | | | | | | | | | |
| Securities | | | | | | | | | |
| Taxable | $ 84,389 | $ 4,284 | 5.08% | $ 119,394 | $ 5,212 | 4.37% | $ 108,306 | $ 4,337 | 4.00% |
| Non-taxable (1) | 16,405 | 978 | 5.96% | 14,497 | 848 | 5.85% | 7,248 | 403 | 5.56% |
| Federal funds sold | 5,072 | 225 | 4.44% | 2,259 | 177 | 7.84% | 4,881 | 160 | 3.28% |
| Loans, net (2)(3) | 381,449 | 27,893 | 7.31% | 354,400 | 25,055 | 7.07% | 268,158 | 16,659 | 6.21% |
| Total earning assets | 487,315 | 33,380 | 6.85% | 490,550 | 31,292 | 6.38% | 388,593 | 21,559 | 5.55% |
| Cash and due from banks | 11,605 | | | 11,827 | | | 9,653 | | |
| Allowance for loan losses | (3,843) | | | (4,495) | | | (4,885) | | |
| Premises and equipment | 19,788 | | | 19,387 | | | 15,570 | | |
| Other assets | 41,707 | | | 36,825 | | | 24,435 | | |
| Total assets | $ 556,572 | | | $ 554,094 | | | $ 433,366 | | |
| **Liabilities** | | | | | | | | | |
| Deposits | | | | | | | | | |
| Savings and interest-bearing demand deposits | $ 138,314 | $ 2,714 | 1.96% | $ 127,179 | $ 1,656 | 1.30% | $ 102,453 | $ 716 | 0.70% |
| Time deposits | 231,605 | 10,882 | 4.70% | 228,193 | 9,366 | 4.10% | 167,140 | 4,935 | 2.95% |
| Short-term borrowings | 36,588 | 1,653 | 4.52% | 21,965 | 946 | 4.30% | 6,854 | 165 | 2.41% |
| Advances from FHLB | 19,329 | 1,037 | 5.36% | 41,353 | 2,106 | 5.09% | 46,376 | 2,040 | 4.40% |
| Junior subordinated debentures | 20,620 | 1,809 | 8.77% | 20,620 | 1,787 | 8.67% | 14,434 | 1,275 | 8.83% |
| Other borrowed funds | 1,641 | 127 | 7.74% | 939 | 75 | 7.98% | 2,247 | 237 | 10.55% |
| Total interest-bearing liabilities | 448,097 | 18,222 | 4.07% | 440,249 | 15,936 | 3.62% | 339,504 | 9,368 | 2.76% |
| Demand deposits | 42,848 | | | 47,176 | | | 36,675 | | |
| Other liabilities | 7,682 | | | 12,168 | | | 6,105 | | |
| Total liabilities | 498,627 | | | 499,593 | | | 382,284 | | |
| Shareholders' equity | 57,945 | | | 54,501 | | | 51,083 | | |
| Total liabilities and shareholders' equity | $ 556,572 | | | $ 554,094 | | | $ 433,367 | | |

| | | | |
|---|---|---|---|
| Net interest income (tax equivalent basis) | $ 15,158 | $ 15,356 | $ 12,191 |
| | | | |
| Net interest income as a percent of average interest-earning assets | 3.11% | 3.13% | 3.14% |

(1) Interest is computed on a tax equivalent basis using a 34% statutory tax rate. The tax equivalent adjustment was $333, $288 and $137 in 2007, 2006 and 2005, respectively.
(2) Nonaccruing loans and loans held for sale are included in the average balances.
(3) Interest is computed on a tax equivalent basis using a 34% statutory tax rate. The tax equivalent adjustment was $38 and $33 in 2007 and 2006 respectively.

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**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 2007, 2006 and 2005.

| | Total Variance 2007/2006 | Variance Attributable To Volume | Rate |
|---|---|---|---|
| | | (dollars in thousands) | |
| **Interest income** | | | |
| Securities | | | |
| Taxable | $ (928) | $ (1,688) | $ 760 |
| Non-taxable | 130 | 113 | 17 |
| Federal funds sold | 48 | 149 | (101) |
| Loans, net of unearned income and deferred loan fees | 2,838 | 1,958 | 880 |
| | 2,088 | 532 | 1,556 |
| | | | |
| **Interest expense** | | | |
| Deposits | | | |
| Savings and interest-bearing demand deposits | 1,058 | 156 | 902 |
| Time deposits | 1,516 | 142 | 1,374 |
| Short-term borrowings | 707 | 659 | 48 |
| Advances from FHLB | (1,069) | (1,176) | 107 |
| Trust preferred securities | 22 | - | 22 |
| Other borrowed funds | 52 | 54 | (2) |
| | 2,286 | (165) | 2,451 |
| | | | |
| **Net interest income** | $ (198) | $ 697 | $ (895) |

13.

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

| | Total Variance 2006/2005 | Variance Attributable To Volume | Rate |
|---|---|---|---|
| | (dollars in thousands) | | |
| **Interest income** | | | |
| Securities | | | |
| Taxable | $ 875 | $ 465 | $ 410 |
| Non-taxable | 445 | 423 | 22 |
| Federal funds sold | 17 | (119) | 136 |
| Loans, net of unearned income and deferred loan fees | 8,396 | 5,875 | 2,521 |
| | 9,733 | 6,644 | 3,089 |
| **Interest expense** | | | |
| Deposits | | | |
| Savings and interest-bearing demand deposits | 940 | 205 | 735 |
| Time deposits | 4,431 | 2,143 | 2,288 |
| Short-term borrowings | 781 | 575 | 206 |
| Advances from FHLB | 66 | (235) | 301 |
| Trust preferred securities | 512 | 537 | (25) |
| Other borrowed funds | (162) | (114) | (48) |
| | $ 6,568 | $ 3,111 | $ 3,457 |
| **Net interest income** | $ 3,165 | $ 3,533 | $ (368) |

14.

## 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**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | | (dollars in thousands) | |
| U.S. Treaury and government agencies | $ 40,189 | $ 58,123 | $ 89,671 |
| State and political subdivisions | 16,019 | 15,465 | 12,694 |
| Mortgage-backed securities | 36,380 | 28,770 | 35,660 |
| Other securities | 50 | 81 | 1,305 |
| Marketable equity securities | 23 | 23 | 23 |
| Total | $ 92,661 | $ 102,462 | $ 139,353 |

B. The maturity distribution and weighted average interest rates of securities available for sale at December 31, 2007 are set forth in the table below. The weighted average interest rates are based on coupon rates for securities purchased at par value and on effective interest rates considering amortization or accretion if the securities were purchased at a premium or discount.:

| | Maturing | | | |
|---|---|---|---|---|
| | Within One Year | After One Year but within Five Years | After Five Years but within Ten Years | After Ten Years |
| | | (dollars in thousands) | | |
| U.S. Treaury and government agencies | $ - | $ 1,153 | $ 39,036 | $ - |
| State and political subdivisions | 554 | 603 | 2,150 | 12,712 |
| Mortgage-backed securities | 176 | 3,178 | 3,229 | 29,797 |
| Other securities | - | 50 | - | - |
| Total | $ 730 | $ 4,984 | $ 44,415 | $ 42,509 |
| Marketable equity securities with no maturity | $ 23 | | | |
| Weighted average yield (1) | 2.61% | 4.68% | 4.90% | 5.13% |

(1) Yields are not presented on a tax-equivalent basis.

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, 2007.

## 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) | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Commercial and Agricultural | $ 253,202 | $ 225,827 | $ 187,667 | $ 188,532 | $ 188,532 |
| Real estate mortgage | 84,621 | 94,389 | 89,086 | 63,828 | 46,718 |
| Consumer loans to individuals | 51,358 | 49,314 | 48,877 | 31,949 | 37,310 |
| Leases | 330 | 857 | 1,661 | 5,128 | 11,775 |
| Total loans | $ 389,511 | $ 370,387 | $ 327,291 | $ 264,750 | $ 284,335 |
| Real estate mortgage loans held for resale | $ 1,650 | $ 390 | $ 224 | $ 113 | $ 219 |

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. As of December 31, 2007, commercial and agricultural loans made up approximately 65% of the loan portfolio and the loans are expected to be repaid from cash flow from operations of businesses. As of December 31, 2007, residential first mortgage loans made up approximately 21.7% of the loan portfolio and are collateralized by first mortgages on residential real estate. As of December 31, 2007, consumer loans to individuals made up approximately 13.3% of the loan portfolio and are primarily collateralized by consumer assets.

B. Maturities and Sensitivities of Loans to Changes in Interest Rates - The following table shows the amounts of commercial and agricultural loans outstanding as of December 31, 2007 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 and Agricultural |
|---|---|
| Within one year | $ 63,266 |
| After one year but within five years | 75,597 |
| After five years | 114,339 |
| Total commercial and agricultural loans | $ 253,202 |

**III. LOAN PORTFOLIO** (Continued)

**Commercial And Agricultural**

| | Interest Sensitivity | | |
|---|---|---|---|
| | Fixed Rate | Variable Rate | Total |
| | (dollars in thousands) | | |
| Due after one year but within five years | $ 22,681 | $ 52,916 | $ 75,597 |
| Due after five years | 11,086 | 103,253 | 114,339 |
| Total | $ 33,767 | $ 156,169 | $ 189,936 |

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.

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | (dollars in thousands) | | | | |
| (a) Loans accounted for on a non-accrual basis | $ 5,990 | $ 3,828 | $ 6,270 | $ 13,384 | $ 18,352 |
| (b) Accuring loans which are contractually past due 90 days or more as to interest or principal payments | - | - | 5 | 11 | - |
| (c) Loans not included in (a) which are "Troubled Debt Restructurings" as defined by Statement of Financial Accounting Standards No. 15 | 159 | 166 | 825 | 1,570 | 5,058 |
| Total non-performing loans | $ 6,149 | $ 3,994 | $ 7,100 | $ 14,965 | $ 23,410 |
| (d) Other loans defined as impaired | $ 593 | $ 82 | $ 3,283 | $ 4,671 | $ 9,099 |

| | 2007 (In thousands) |
|---|---|
| Cash basis interest income recognized on impaired loans outstanding at December 31, 2007 | $ 75 |
| Interest income actually recorded on impaired loans and included in net income for the period | 63 |
| 2007 unrecorded interest income on non-accrual loans | 351 |

17.

**III. LOAN PORTFOLIO** (Continued)

Management believes the allowance for loan losses at December 31, 2007 is 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, 2007, in addition to the $6,149,000 of loans reported under Item III.C.1. above (which amount includes all loans classified by management as doubtful or loss), there were approximately $1,416,000 in other outstanding loans where known information about possible credit problems of the borrowers caused management to have concerns as to the ability of such borrowers to comply with the present loan repayment terms (loans classified as substandard by management) and which may result in disclosure of such loans pursuant to Item III.C.1. at some future date. In regard to loans classified as substandard, management believes that such potential problem loans have been adequately evaluated in the allowance of loan losses.

**III.** **LOAN PORTFOLIO** (Continued)

3. Foreign Outstandings

None

4. Loan Concentrations

At December 31, 2007, loans outstanding related to agricultural operations or collateralized by agricultural real estate aggregated approximately $43,369,000, or 11.1 % of total loans.

D. Other Interest-Bearing Assets

There were no other interest-bearing assets as of December 31, 2007 which would be required to be disclosed under Item III.C.1 or Item III.C.2. if such assets were loans.

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**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:

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | | | (dollars in thousands) | | |
| **Loans** | | | | | |
| Loans outstanding at end of period | $ 389,269 | $ 370,102 | $ 327,048 | $ 264,481 | $ 284,104 |
| Average loans outstanding during period | $ 381,453 | $ 354,726 | $ 268,158 | $ 271,503 | $ 385,153 |
| **Allowance for loan losses** | | | | | |
| Balance at beginning of period | $ 3,717 | $ 4,700 | $ 4,899 | $ 10,181 | $ 17,694 |
| Balance, Exchange | | | 910 | | |
| Balance, Oakwood | | | | | |
| Loans charged-off | | | | | |
| Commercial and agricultural loans | (104) | (1,277) | (2,760) | (6,599) | (10,089) |
| Real estate mortgage | (81) | (100) | (133) | (12) | (195) |
| Leases | - | - | (208) | (70) | (225) |
| Consumer loans to individuals | (247) | (440) | (308) | (308) | (1,345) |
| | (432) | (1,817) | (3,409) | (6,989) | (11,854) |
| Recoveries of loans previously charged-off | | | | | |
| Commercial and agricultural loans | 85 | 419 | 1,566 | 1,835 | 2,497 |
| Real estate mortgage | 4 | 75 | 2 | 52 | 86 |
| Leases | - | - | 4 | 31 | 109 |
| Consumer loans to individuals | 95 | 162 | 145 | 188 | 447 |
| | 184 | 656 | 1,717 | 2,106 | 3,139 |
| Net loans charged-off | (248) | (1,160) | (1,692) | (4,883) | (8,715) |
| Provision for loan losses | 521 | 178 | 583 | (399) | 1,202 |
| Balance at end of period | $ 3,990 | $ 3,717 | $ 4,700 | $ 4,899 | $ 10,181 |
| Ratio of net charge-offs during the period to average loans outstanding during the period | 0.07% | 0.33% | 0.63% | 1.80% | 2.26% |

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.

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**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.

| (dollars in thousands) | Allocation of the Allowance for Loan Losses | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Allowance Amount | Percentage of Loans In Each Category to Total Loans | Allowance Amount | Percentage of Loans In Each Category to Total Loans | Allowance Amount | Percentage of Loans In Each Category to Total Loans | Allowance Amount | Percentage of Loans In Each Category to Total Loans | Allowance Amount | Percentage of Loans In Each Category to Total Loans |
| | December 31, 2007 | | December 31, 2006 | | December 31, 2005 | | December 31, 2004 | | December 31, 2003 | |
| Commercial and agricultural | $ 2,945 | 73.8% | $ 2,945 | 79.2% | $ 3,728 | 57.3% | $ 4,502 | 61.9% | $ 9,649 | 66.3% |
| Residential first mortgage | 590 | 14.8% | 317 | 8.5% | 291 | 27.2% | 141 | 24.1% | 75 | 16.4% |
| Consumer loans to individuals | 455 | 11.4% | 455 | 12.3% | 681 | 15.5% | 256 | 14.0% | 457 | 17.3% |
| | $ 3,990 | 100.0% | $ 3,717 | 100.0% | $ 4,700 | 100.0% | $ 4,899 | 100.0% | $ 10,181 | 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.

21.

**V. DEPOSITS**

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

| | 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|---|
| | Average Amount | Average Rate | Average Amount | Average Rate | Average Amount | Average Rate |
| | | | (dollars in thousands) | | | |
| Savings and interest-bearing demand deposits | $ 138,314 | 1.96% | $ 127,179 | 1.30% | $ 102,453 | 0.70% |
| Time deposits | 231,604 | 4.70% | 228,193 | 4.10% | 167,140 | 2.95% |
| Demand deposits (non-interest-bearing) | 42,849 | — | 47,176 | — | 36,675 | — |
| | $ 412,767 | | $ 402,548 | | $ 306,268 | |

Maturities of time certificates of deposit and other time deposits of $100,000 or more outstanding at December 31, 2007 are summarized as follows:

| | Amount (dollars in thousands) |
|---|---|
| Three months or less | $ 11,594 |
| Over three months and through six months | 17,216 |
| Over six months and through twelve months | 20,310 |
| Over twelve months | 8,231 |
| | |
| Total | $ 57,351 |

22.

**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:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| | | (dollars in thousands) | |
| Average total assets | $ 556,572 | $ 554,094 | $ 433,367 |
| Average shareholders' equity | $ 57,945 | $ 54,501 | $ 51,083 |
| Net income | $ 3,257 | $ 2,760 | $ 673 |
| Cash dividends declared | $ 1,303 | $ 1,056 | $ 914 |
| Return on average total assets | 0.59% | 0.50% | 0.16% |
| Return on average shareholders' equity | 5.62% | 5.06% | 1.32% |
| Dividend payout ratio (1) | 40.01 | 38.25 | 133.33 |
| Average shareholders' equity to average total assets | 10.41% | 9.84% | 11.79% |

(1) Cash dividends declared divided by net income.

**VII. SHORT-TERM BORROWINGS**

The Company did have short-term borrowings during 2005 but the average ending balance for the period did not exceed 30% or more of shareholders' equity.

The following information is reported for short-term borrowings for 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| | | (dollars in thousands) |
| Amount outstanding at end of year | $ 43,006 | $ 32,271 |
| Weighted average interest rate at end of year | 4.38% | 4.43% |
| Maximum amount outstanding at any month end | $ 46,966 | $ 32,584 |
| Average amount outstanding during the year | $ 36,588 | $ 21,965 |
| Weighted average interest rate during the year | 4.51% | 4.30% |

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 with in the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements include statements preceded by or that include the words or phases “anticipates,” “believes,” “plans,” “intends,” “expects,” “proje “estimates,” “should,” “may,” “would be,” “will allow,” “will likely result,” “will continue,” “will remain,” or similar expressi

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.

*Adverse Economic Conditions could adversely affect our financial condition results of operations.*

Our success depends significantly upon the general economic conditions in the local markets in which we operate, as well as the strength of the U.S. economy in general. Conditions such as inflation, recession, unemployment, money supply and other factors outside our control may adversely affect our asset quality, deposit levels and loan demand and, therefore, our financial condition and results of operations. Decreases in real estate values could adversely affect the value of property used as collateral for our real estate loans. In addition, adverse changes in the economy could adversely affect the ability of our borrowers to make timely repayments of their loans, which could have an adverse impact on our financial condition and results of operations. The substantial majority of our loans are to individuals and businesses in Northwestern Ohio. As a result, adverse economic in this market area, including the loss of certain significant employers, could reduce our growth and generally affect 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.

24.

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*We operate in an extremely competitive market, and our business will suffer if we are unable to compete effectively.*

In our market area, we encounter significant competition from other commercial banks, savings and loan associations, credit unions, mortgage banking firms, consumer finance companies and other financial institutions. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial service providers. If we fail to adequately address each of the competitive pressures in the banking industry, our financial condition and results of operations could be adversely affected.

*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.

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

Any changes to state and federal banking laws and regulations may negatively impact our ability to expand our services and to increase the value of our business. We are subject to extensive state and federal regulation, supervision, and legislation that govern almost all aspects of our operations. These laws may change from time to time and are mainly intended for the protection of consumers, depositors and the deposit insurance funds. In addition, our earnings are affected by the monetary policies of the Board of Governors of the Federal Reserve. These policies, which include regulating the national supply of bank reserves and bank credit, can have a major effect upon the source and cost of funds and the rates of return earned on loans and investments. The Federal Reserve influences the size and distribution of bank reserves through its open market operations and changes in cash reserve requirements against member bank deposits. Future changes in laws or regulations or their interpretation or enforcement could be materially adverse to our business and shareholders.

*Our business strategy includes significant growth plans. Our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.*

We intend to continue pursuing a profitable growth strategy. Our prospects must be considered in light of the risks, expenses and difficulties encountered by companies in significant growth stages of development. We cannot assure you that we will be able to expand our market presence in our existing markets or successfully enter new markets or that any such expansion will not adversely affect our business, future prospects, financial condition or results of operations or adversely affect our ability to successfully implement our business strategy. Also, if we grow more slowly than anticipated, our operating results could be materially affected.

Our ability to grow successfully will depend on a variety of factors including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas and our ability to manage our growth. While we believe we have the management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or growth will be successfully managed.

*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 can not 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. Although our financial earnings and financial condition have allowed us to declare and pay periodic cash dividends to our shareholders, there can be no assurance that our dividend policy or size of dividend distribution will continue in the future. Our failure to pay dividends on our common shares could have a material adverse effect on the market price of our common shares.

*RDSI relies on the continued functioning of its data center and the integrity of the data it processes.*

RDSI's data center is an integral part of its business. Damage to RDSI's data center due to acts of terrorism, fire, power loss, telecommunications failure and other disasters could have a material adverse effect on RDSI's business, operating results and financial condition. In addition, RDSI relies on the integrity of the data it processes. If this data is incorrect or somewhat tainted, client relations and confidence in RDSI's services could be impaired, which would harm RDSI's business.

*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 36 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.

## Item 1B. Unresolved Staff Comments

Not Applicable

## 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.

The following is a listing and brief description of the properties owned or leased by State Bank and used in its business:

1. State Bank's main office is owned and located at 401 Clinton Street, Defiance, Ohio. State Bank leases portions of this facility to the Company and the RFS division of State Bank. (Banking and Other)
2. State Bank owns a drive-thru branch office located at 510 Third Street, Defiance, Ohio. (Banking)
3. State Bank owns a full service branch office located at 150 West Main Street, Ney, Ohio. (Banking)
4. State Bank leases a parcel of land for a full service branch office (Owned) located at 1600 North Clinton Street, Defiance, Ohio, pursuant to a 15-year lease. (Banking)

5. State Bank owns a drive-thru branch office located at 1856 East Second Street, Defiance, Ohio. (Banking)

6. State Bank owns a full service branch office located at 220 North Main Street, Paulding, Ohio. (Banking)

7. State Bank owns a full service branch office located at 312 Main Street, Delta, Ohio. (Banking)

8. State Bank owns a full service branch office located at 133 E. Morenci Street, Lyons, Ohio. (Banking)

9. State Bank owns a full service branch office located at 515 Parkview, Wauseon, Ohio. (Banking)

10. State Bank leases a full service branch office located in the Chief Market Square supermarket at 705 Deatrick Street, Defiance, Ohio, pursuant to a 15-year lease. (Banking)

11. State Bank owns a full service branch office located at 218 North First Street, Oakwood, Ohio. (Banking)

12. State Bank owns a full service branch office located at 930 West Market Street, Lima, Ohio. (Banking)

13. State Bank owns a full service branch office located at 2903 Elida Road, Lima, Ohio. (Banking)

14. State Bank owns a full service branch office located at 12832 Coldwater Road, Fort Wayne, Indiana. (Banking)

15. State Bank owns a full service branch office located at 235 Main Street, Luckey, Ohio. (Banking)

16. State Bank owns a full service branch office located at 311 Main Street, Walbridge, Ohio. (Banking)

17. State Bank owns a full service branch office located at 610 East South Boundary, Perrysburg, Ohio. (Banking)

18. State Bank owns a full service branch office located at 6401 Monroe Street, Sylvania, Ohio. (Banking)

19. State Bank leases a loan production office located at 75 South High Street, #8, Dublin, Ohio. (Banking)

RDSI leases office space located at 7622 St Rt. 66, Defiance, Ohio, office space located at 2010 S. Jefferson Ave., Defiance, Ohio, office space located at 11952 James Street, Holland, Michigan and office space located at 105 East Holland Street, Archbold, Ohio.

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



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Item 3. Legal Proceedings.

There are no pending legal proceedings to which the Company or any of its subsidiaries is a party or to which any of their property is subject, except routine legal proceedings incidental to their business. None of such proceedings are considered by the Company to be material.

Item 4. Submission of Matters to a Vote of Security Holders.

Not applicable.

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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 21, 2008, 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) |
|---|---|---|
| Kenneth A. Joyce | 59 | President and Chief Executive Officer of the Company since 2002; Chairman, Chief Executive Officer and a Director of Rurbanc Data Services, Inc. ("RDSI") since 1997; Director of State Bank since 2002; Director of RFCBC since 2004; Chairman and Former Director of Reliance Financial Services (now a division of State Bank) ("RFS") since 2005; Member of RFS Investment Committee since March 2007; Director of The Exchange Bank ("Exchange Bank") from 2006 to March 2007; Chairman, CEO and Director of Rurban Operations Corp. ("ROC") from 2006 to March 2007; Member of RFS Investment Committee since March 2007; Chairman and Director of Diverse Computer Marketers, Inc. ("DCM") from 2006 to December 2007; Director of Promedica-Defiance Regional Medical Center and Promedica Physicians Group; Chairman of Promedica-Defiance Regional Medical Center Finance Committee; Chairman and Director of United Way (non-profit); Director of Kettenring Country Club. |
| Henry R. Thiemann | 61 | President of RDSI since September, 2007; President & Chief Executive Officer of RFCBC; Former President, Chief Executive Officer and Director of The Exchange Bank from 2006 to March 2007; Chief Operating Officer of the Company from May 2005 to December 2005; Executive Vice President and Chief Operating Officer of State Bank from 2002 to May 2005; President and Chief Executive Officer of RFCBC since 2004; Senior Vice President and Operations Manager of the Company from 1998 to 2001; Director of RFCBC since 2004; President and Director of RMC since August 1999; Former Director of ROC; Former Director of RFS. |
| Duane L. Sinn | 37 | Executive Vice President and Chief Financial Officer of the Company since December 2005; Senior Vice President and Financial Analysis Manager of State Bank from 2004 to December 2005; Senior Vice President and Controller of the Company from 2000 to 2004; Former Director of ROC; Former Director of RFS. |

| Name | Age | Position(s) Held with the Company and its Subsidiaries and Principal Occupation(s) |
|---|---|---|
| Mark A. Klein | 53 | President and Chief Executive Officer of State Bank since January 2006; 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; Director of State Bank since 2006; Member of RFS Investment Committee since March 2007; Former Director of ROC; Former Director of RFS. |

## 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 |
|---|---|---|---|
| 2007 | High | Low | Declared |
| First Quarter | $ 11.92 | $ 10.66 | $ .060 |
| Second Quarter | 12.82 | 11.71 | .060 |
| Third Quarter | 12.90 | 12.46 | .070 |
| Fourth Quarter | 13.25 | 10.25 | .070 |
| | | | |
| 2006 | High | Low | Declared |
| | | | |
| First Quarter | $ 13.00 | $ 11.16 | $ .050 |
| Second Quarter | 12.44 | 10.90 | .050 |
| Third Quarter | 12.00 | 10.82 | .050 |
| Fourth Quarter | 11.79 | 10.50 | .060 |

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

During the Fourth Quarter 2007, there were no sales of unregistered securities.

The approximate number of holders of the outstanding common shares of the Company, as of February 21, 2008, was 2,415.

Repurchases of Common Shares

The following table provides information regarding repurchases of the Company's common shares during the three months ended December 31, 2007:

| Period | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (2) |
|---|---|---|---|---|
| October 1 through October 31, 2007 | 5,731 | $ 12.80 | 5,500 | 216,500 |
| November 1 through November 30, 2007 | 12,642 | $ 12.72 | 11,000 | 205,500 |
| December 1 through December 31, 2007 | 4,995 | $ 12.45 | 4,000 | 201,500 |

(1) All of the repurchased shares, other than the shares repurchased as part of the publicly announced plan, were purchased in the open market by Reliance Financial Services, an indirect subsidiary of the Company, in its capacity as the administrator of the Company's Employee Stock Ownership and Savings Plan.

(2) On April 12, 2007 the Company announced that its Board of Directors had authorized a stock repurchase program pursuant to which the Company may purchase up to 250,000 common shares over the ensuing 15-month period.

Share Performance

*The following graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be deemed to be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.*

Provided below is a line graph comparing the yearly percentage change in the Company's cumulative total shareholder return on its common shares with an index for the NASDAQ Stock Market (U.S. Companies) comprised of all domestic common shares traded on the NASDAQ Global Market System and the NASDAQ Small-Cap Market and an index for NASDAQ Bank Stocks comprised of all depository institutions (SIC Code #602) and holding and other investment companies (SIC Code #671) that are traded on the NASDAQ Global Market System and the NASDAQ Small-Cap Market ("NASDAQ Bank Stocks") for the five-year period ended December 31, 2007.

| | Period Ending | | | | | |
|---|---|---|---|---|---|---|
| ***Index*** | **12/31/02** | **12/31/03** | **12/31/04** | **12/31/05** | **12/31/06** | **12/31/07** |
| Rurban Financial Corp. | 100.00 | 149.25 | 149.78 | 128.84 | 119.88 | 142.00 |
| NASDAQ Composite | 100.00 | 150.01 | 162.89 | 165.13 | 180.85 | 198.60 |
| NASDAQ Bank | 100.00 | 129.93 | 144.21 | 137.97 | 153.15 | 119.35 |

Source : SNL Financial LC, Charlottesville, VA (434) 977-1600

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Item 6. Selected Financial Data.

**SUMMARY OF SELECTED FINANCIAL DATA**

**FINANCIAL HIGHLIGHTS**

(Dollars in thousands except per share data)

| | Year Ended December 31 | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| **EARNINGS** | | | | | |
| Interest income | $ 33,010 | $ 30,971 | $ 21,422 | $ 20,028 | $ 27,774 |
| Interest expense | 18,222 | 15,936 | 9,368 | 7,951 | 13,972 |
| Net interest income | 14,788 | 15,035 | 12,054 | 12,077 | 13,802 |
| Provision (credit) for loan losses | 521 | 178 | 583 | (399) | 1,202 |
| Noninterest income | 26,861 | 23,755 | 18,338 | 17,376 | 35,169 |
| Noninterest expense | 36,637 | 34,904 | 29,054 | 26,009 | 29,160 |
| Provision (credit) for income taxes | 1,234 | 948 | 81 | 1,109 | 6,303 |
| Net income (loss) | 3,257 | 2,760 | 673 | 2,734 | 12,305 |
| | | | | | |
| **PER SHARE DATA** | | | | | |
| Basic earnings | $ 0.65 | $ 0.55 | $ 0.15 | $ 0.60 | $ 2.71 |
| Diluted earnings | 0.65 | 0.55 | 0.15 | 0.60 | 2.70 |
| Cash dividends declared | 0.26 | 0.21 | 0.20 | N/A | N/A |
| | | | | | |
| **AVERAGE BALANCES** | | | | | |
| Average shareholders’ equity | $ 57,945 | $ 54,501 | $ 51,083 | $ 49,279 | $ 44,599 |
| Average total assets | 556,572 | 554,095 | 433,366 | 417,801 | 549,371 |
| | | | | | |
| **RATIOS** | | | | | |
| Return on average shareholders' equity | 5.62% | 5.06% | 1.32% | 5.55% | 27.59% |
| Return on average total assets | 0.59 | 0.50 | 0.16 | 0.65 | 2.24 |
| Cash dividend payout ratio (cash dividends divided by net income) | 40.01 | 38.25 | 133.33 | N/A | N/A |
| Average shareholders' equity to average total assets | 10.41 | 9.84 | 11.79 | 11.79 | 8.12 |
| | | | | | |
| **PERIOD END TOTALS** | | | | | |
| Total assets | $ 561,214 | $ 556,007 | $ 530,542 | $ 415,349 | $ 435,312 |
| Total investments and fed funds sold | 94,661 | 111,562 | 139,353 | 108,720 | 117,699 |
| Total loans and leases | 389,269 | 370,102 | 327,048 | 264,481 | 284,104 |
| Loans held for sale | 1,650 | 390 | 224 | 113 | 219 |
| Total deposits | 406,031 | 414,555 | 384,838 | 279,624 | 317,475 |
| Notes Payable | 922 | 2,589 | 939 | 3,080 | 10,328 |
| Advances from FHLB | 24,000 | 21,000 | 45,500 | 56,000 | 39,000 |
| Trust Preferred Securities | 20,620 | 20,620 | 20,620 | 10,310 | 10,000 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Shareholders' equity | | 59,325 | | 56,955 | | 54,451 | | 50,306 | | 48,383 |
| Shareholders' equity per share | $ | 11.92 | $ | 11.33 | $ | 10.83 | $ | 11.01 | $ | 10.60 |

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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, 2007.

**Critical Accounting Policies**

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The Company's significant accounting policies are described in detail in the notes to the Company's consolidated financial statements for the year ended December 31, 2007. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The Company's financial position and results of operations can be affected by these estimates and assumptions and are integral to the understanding of reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results, and they require management to make estimates that are difficult, subjective or complex.

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

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

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

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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 by SFAS 141. Goodwill is subject, at a minimum, to annual tests for impairment. Other intangible assets are amortized over their estimated useful lives using straight-line and accelerated methods, and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount. The initial goodwill and other intangibles recorded and subsequent impairment analysis requires management to make subjective judgments concerning estimates of how the acquired asset will perform in the future. Events and factors that may significantly affect the estimates include, among others, customer attrition, changes in revenue growth trends, specific industry conditions and changes in competition.

**Impact of Accounting Changes**

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets: an amendment of FASB Statement No. 140* (FAS 140 and FAS 156). FAS 140 establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. This Statement amends FAS 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. Adoption of this Statement is required as of the beginning of the first fiscal year that begins after September 15, 2006. On January 1, 2007, the Company adopted SFAS No. 156. The adoption of SFAS No. 156 did not have a material impact on the financial position and results of operations of the Company.

The Company or one of its subsidiaries files income tax returns in the U.S. federal and multiple-state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2004.

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

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

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

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

In September 2006, the FASB ratified a consensus opinion by the EITF on EITF Issue 06-5, [*Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance)*]. EITF Issue 06-5 requires policy holders to consider other amounts included in the contractual terms of an insurance policy, in addition to cash surrender value, for purposes of determining the amount that could be realized under the terms of the insurance contract. If it is probable that contractual terms would limit the amount that could be realized under the insurance contract, those contractual limitations should be considered when determining the realizable amounts. The amount that could be realized under the insurance contract should be determined on an individual policy (or certificate) level and should include any amount realized on the assumed surrender of the last individual policy or certificate in a group policy.

The Company holds several life insurance policies; however, the policies do not contain any provisions that would restrict or reduce the cash surrender value of the policies. The consensus in EITF Issue 06-5 is effective for fiscal years beginning after December 15, 2006. The application of this guidance did not have a material adverse effect on the Company's financial position or results
of operations.

**Acquisitions**

**Diverse Computer Marketers**

On September 2, 2006, Rurbanc Data Services, Inc ("RDSI"), the bank data processing subsidiary of Rurban Financial Corp. ("Rurban"), completed its acquisition of Diverse Computer Marketers, Inc., a Michigan corporation, and a related Indiana corporation, DCM Indiana, Inc. Rurban subsequently merged DCM Indiana, Inc. into Diverse Computer Marketers, Inc. ("DCM"). DCM now operates as a separate subsidiary of RDSI. As a result of this acquisition, the Company will have an opportunity to grow its item processing business.

Under the terms of the Stock Purchase Agreement, RDSI acquired all of the outstanding stock of the DCM Companies from their shareholders for an aggregate purchase price of $5.0 million. An additional $250,000 was payable to the shareholders contingent upon the continuation of profitable growth over the first year of combined operations. The final payment of $266,559 was made in 2007. The entire purchase price was paid in cash. The results of DCM's operations have been included in Rurban's consolidated statement of income from the date of acquisition.

The following tables summarize the estimated fair values of the net assets acquired and the computation of the purchase price and goodwill related to the acquisitions.

| | |
|---|---|
| Assets: | |
| Cash | $ 118,137 |
| Accounts receivable | 419,151 |
| Premises and equipment | 207,644 |
| Goodwill | 4,795,144 |
| Other intangibles | 2,652,000 |
| Other assets | 158,241 |
| Total Assets | 8,350,317 |
| | |
| Liabilities: | |
| Accounts payable | 1,188,289 |
| Borrowings | 1,284,427 |
| Other liabilities | 886,510 |
| Total Liabilities | 3,359,226 |
| | |
| Net assets acquired | $ 4,991,091 |

The signficant intangible assets acquired include the customer related intangible of $2,389,000, the Trademark of $180,000 and the non-compete agreements of $83,000, which have useful lives of 180, 36 and 36 months, respectively, and will be amortized using the straight-line method. The $4.8 million of goodwill was assigned entirely to the data processing unit and is not expected to be deductible for tax purposes. This analysis is based upon an initial third party opinion and is subject to change for up to twelve months.

Under terms of the Stock Purchase Agreement, and immediately prior to the closing, the disaster recovery services portion of the DCM business was spun-off. As DCM records did not include separate financial information for the disaster recovery services, historical financial information for the purchased portion of the business is not available. Therefore, pro forma information that discloses the results of operations as though the business combination had been completed at the beginning of the period is not included.

**EARNINGS SUMMARY**

Net income for 2007 was $3.3 million, or $0.65 per diluted share, compared with net income of $2.8 million, or $0.55 per diluted share, and net income of $673,000, or $0.15 per diluted share, reported for 2006 and 2005, respectively. Cash dividends per share were $0.26 in 2007, $0.21 in 2006 and $0.20 in 2005.

Rurban continued to make significant progress in 2007, as the Company continued its path of improving profitability. Rurban achieved four consecutive quarters of core earnings improvement. Revenue continued to grow and the company executed significant non-interest expense reductions within the Banking Group. The earnings improvement was driven by both the banking and data and item processing segments of Rurban. Many of the non-interest expense reductions were due to the company merging four separate charters into the lead bank, The State Bank and Trust Company. It also represents a new beginning for Rurban, where the Company can focus its energies on growth, efficiency and profitability. In the fourth quarter of 2006, the Company announced additional steps to complete its restructuring. The Company completed initiatives in 2007 to bring these final steps to closure, streamlining Rurban into a holding company with a single-chartered community bank and a dynamic data processing company. Net income for 2006 was impacted by asset quality combined with continued improvement in the revenue stream of RDSI. Also negatively impacting earnings in 2006 was the RFCBC loan sale and acquisition costs relating to the acquisitions that were necessary for the growth strategy to pave the way for future earnings.

**CHANGES IN FINANCIAL CONDITION**

Balance sheet growth over the past twelve months has been achieved exclusively through organic growth. Total loans increased 5.2%, or $19.2 million, over the course of 2007, funded largely by cash and the liquidation of investment securities. As a result of this restructure, assets grew only 1% year-over-year to $561.2 million.

**Significant Events of 2007**

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

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

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

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

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

**Significant Events of 2006**

During the fourth quarter of 2006, Rurban increased its quarterly dividend by 20%, to $0.06 per share.

Fourth quarter 2006 results include actions that resulted in after-tax charges/income of $474,000 for balance sheet restructuring, merger-related expenses of $187,000, recovery of WorldCom bond losses totaling $587,000, and a gain associated with the sale of the credit card portfolio of $488,000.

Rurban received regulatory approval to open a full-service banking center in Fort Wayne, Indiana, where it previously had a Loan Production Office. This full service branch opened on January 2, 2007.

Rurban announced the planned merger of Reliance Financial Services, N.A., Rurban's trust and investment subsidiary, and The Exchange Bank, its recently acquired community bank, into its lead bank, The State Bank and Trust Company, subject to regulatory approval. An after-tax charge of $187,000 for this merger was recorded during the fourth quarter as stated earlier.

On September 2, 2006, Rurbanc Data Services, Inc. ("RDSI"), the bank data processing subsidiary of Rurban Financial Corp. ("Rurban"), completed its acquisition of Diverse Computer Marketers, Inc.

**RESULTS OF OPERATIONS**

| | Year Ended December 31, | | | Year Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | % Change | 2006 | 2005 | % Change |
| | (dollars in thousands except per share data) | | | | | |
| Total Assets | $ 561,214 | $ 556,007 | +1% | $ 556,007 | $ 530,542 | +5% |
| Total Securities | 92,661 | 102,462 | -10% | 102,462 | 139,353 | -27% |
| Loans Held for Sale | 1,650 | 390 | N/A | 390 | 224 | N/A |
| Loans (Net) | 385,278 | 366,384 | +5% | 366,384 | 322,348 | +14% |
| Allowance for Loan Losses | 3,990 | 3,717 | +7% | 3,717 | 4,700 | -21% |
| Total Deposits | $ 406,031 | $ 414,555 | -2% | $ 414,555 | $ 384,838 | +8% |
| | | | | | | |
| Total Revenues | $ 41,648 | $ 38,790 | +7% | $ 38,790 | $ 30,392 | +28% |
| Net Interest Income | 14,787 | 15,034 | -2% | 15,034 | 12,054 | +25% |
| Loan Loss Provision (credit) | 521 | 178 | N/A | 178 | 583 | -70% |
| Noninterest Income | 26,861 | 23,755 | +13% | 23,755 | 18,338 | +13% |
| Non-interest Expense | 36,637 | 34,904 | +5% | 34,904 | 29,054 | +20% |
| Net Income | 3,257 | 2,760 | +18% | 2,760 | 673 | +310% |
| Basic Earnings per Share | $ 0.65 | $ 0.55 | N/A | $ 0.55 | $ 0.15 | N/A |
| Diluted Earnings per Share | $ 0.65 | $ 0.55 | N/A | $ 0.55 | $ 0.15 | N/A |

**Net Interest Income**

| | Year Ended December 31, | | | Year Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | % Change | 2006 | 2005 | % Change |
| | (dollars in thousands) | | | | | |
| Net Interest Income | $ 14,787 | $ 15,034 | -2% | $ 15,034 | $ 12,054 | +25% |

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

**Net interest income** was $15.0 million for 2006, an increase of 24.7% above the prior year, which resulted from a 26.2% growth in average earning assets offset by a one basis point decline in the annual net interest margin to 3.13%. The growth in earning assets was attributable to the acquisition of Exchange Bank. The decrease in the net interest margin was largely due to the flat to sometimes invested yield curve, the high mix of investments to earning assets and the increase in funding cost throughout 2006.

**Loan Loss Provision**

**The Provision for Loan Losses** of $521,000 was taken in 2007 compared to $178,000 taken for 2006; the $343,000 increase reflects a more normal accrual in 2007. 2006 includes a release of $140,000 reserve associated with the credit card portfolio, which has been sold with partial recourse to the bank.

**The Provision for Loan Losses** of $178,000 was taken in 2006 compared to $583,000 taken for 2005; the $405,000 decrease reflects the lower level of risk in the loan portfolio, in addition to the release of the $140,000 reserve associated with the credit card portfolio, which has been sold with partial recourse to the bank. The fourth quarter loan loss provision of $(159,000) represents a $772,000 decrease from the prior-year fourth quarter, and reflects the same factors as above. The fourth quarter of 2005 was impacted by a problem loan sale.

**Non-interest Income**

| | | Year Ended December 31, | | | Year Ended December 31, | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | % Change | 2006 | 2005 | % Change |
| | | | (dollars in thousands) | | | |
| Total Non-interest Income | $ 26,861 | $ 23,755 | +13% | $ 23,755 | $ 18,338 | +30% |
| - Data Service Fees | $ 19,382 | $ 15,011 | +29% | $ 15,011 | $ 12,708 | +18% |
| - Trust Fees | $ 3,385 | $ 3,192 | +6% | $ 3,192 | $ 3,134 | +2% |
| - Deposit Service Fees | $ 2,244 | $ 2,161 | +4% | $ 2,161 | $ 1,860 | +16% |
| - Gains on Sale of Loans | $ 574 | $ 1,249 | N/A | $ 1,249 | $ (437) | N/A |
| - Investment Securities Recoveries | $ 0 | $ 889 | N/A | $ 889 | $ - | N/A |
| - Gains (losses) on Sale of Securities | $ 2 | $ (495) | N/A | $ (495) | $ 25 | N/A |
| - Other | $ 1,274 | $ 1,748 | -27% | $ 1,748 | $ 1,048 | +67% |

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

**Total non-interest income** was $23.8 million for the year ended December 31, 2006, accounting for 61.2% of total 2006 revenue compared with 60.3% for the year earlier period. Excluding the one-time impact of a $495,000 charge taken to restructure the bond portfolio, an $889,000 recovery of WorldCom bond losses and a gain associated with the sale of the credit card portfolio of $740,000, 2006 total non-interest income was $22.6 million, up $4.2 million or 23.3% above the $18.3 million reported for the prior year. Over 63% of 2006 fee income was derived from RDSI, the data processing subsidiary, with smaller growth contributions from the Banking Group and Reliance. The increase in Deposit Service fees was due to the acquisition of Exchange Bank in 2006.

**Rurbanc Data Services, Inc. ("RDSI")**

| | Year Ended December 31, | | | Year Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | % Change | 2006 | 2005 | % Change |
| | (Dollars in thousands) | | | | | |
| Data Service Fees | $ 19,382 | $ 15,011 | +29% | $ 15,011 | $ 12,708 | +18% |

**Data service fees** increased $4.4 million or 29% to $19.4 million in 2007 from $15.0 million in 2006, and increased $2.3 million, or 18% from 2005 to 2006. Data processing fees contributed 72.2% of Rurban's recurring non-interest income for 2007. The majority of the increase was due to RDSI core growth, as well as a full year of fee income from DCM, which was acquired on September 2, 2006. RDSI now services over 117 community banks.

Earnings for the 2007 fiscal year were $2.5 million compared to $2.1 million for 2006, up $390,000, or 18.7%. The Company continues to see a solid pipeline of potential customers for both the data processing and item processing business lines entering 2008 as six additional banks are scheduled to be converted by June of 2008.

**RDSI and DCM provide** data processing and item processing services for 117 community banks in Arkansas, Florida, Illinois, Indiana, Michigan, Missouri, Nebraska, Nevada, Ohio and Wisconsin. RDSI and DCM differentiate themselves from their competition through the quality of their products and the excellence of their customer service. The applications utilized by RDSI are driven by world-class software. Customer service encompasses on-time delivery every morning and a discipline of responding to and resolving customer questions and issues within one hour. RDSI provides turnkey solutions for its clients through its partnerships with vendors experienced in a full array of banking products.

**Non-interest Expense**

| | Year Ended December 31, | | | Year Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | % Change | 2006 | 2005 | % Change |
| | (dollars in thousands) | | | | | |
| Total Non-interest Expense | $ 36,637 | $ 34,904 | +5% | $ 34,904 | $ 29,054 | +20% |
| - Salaries & Employee Benefits | $ 17,007 | $ 16,584 | +3% | $ 16,584 | $ 13,519 | +23% |
| - Professional Fees | $ 2,227 | $ 2,396 | -7% | $ 2,396 | $ 2,730 | -12% |
| - All Other | $ 17,403 | $ 15,924 | +9% | $ 15,924 | $ 12,805 | +24% |

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

**Non-interest expense** increased $5.8 million, or 20.0%, primarily from the additional expenses of $4.9 million and $1.2 million, respectively, contributed by The Exchange Bank and DCM, which were acquired on December 31, 2005 and September 2, 2006, respectively. Excluding one-time 2006 charges including $215,000 associated with the prepayment of approximately $9.0 million of higher-cost FHLB advances and merger-related charges of approximately $283,000, including a fourth quarter charge to merge the two community banks, 2006 recurring non-interest expense was $34.4 million, up 18.4% from $29.1 million reported for 2005.

Salaries and benefits accounted for $3.1 million, or 52.4%, of the $5.8 million year-over-year increase in non-interest expenses with the addition of 36 FTE employees, bringing the total to 317. Improvements in State Bank's operating expenses since the acquisition of the Lima branches in the second quarter of 2005 partially offset higher spending levels in other categories.

**FINANCIAL CONDITION**

**Investments**

The Company evaluates its securities portfolio for impairment throughout the year. An impairment is recorded against individual equity securities if their cost significantly exceeds their fair value for a substantial amount of time. An impairment is also recorded for investments in debt securities, unless the decrease in fair value is attributable to interest rates and management has the intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value.
Management believes that it has the ability and intent to retain the investments with a loss evidenced by the Company's liquidity position discussed later in the Liquidity section, and over the past three years, the Company has had net gains on the sale of securities and any losses were minimal.

**Loans**

| | Period Ended (dollars in thousands) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 12/31/07 | % of Total | 12/31/06 | % of Total | % Inc/(Dec) | 12/31/05 | % of Total | % Inc/(Dec) |
| Commercial | $ 83,049 | 21% | $ 71,641 | 19% | 16% | $ 79,359 | 24% | (10)% |
| Commercial R.E. | 126,785 | 33% | 109,503 | 30% | 16% | 68,072 | 21% | 61% |
| Agricultural | 43,369 | 11% | 44,683 | 12% | (3)% | 40,236 | 12% | 11% |
| Residential | 84,621 | 22% | 94,389 | 25% | (10)% | 89,086 | 27% | 6% |
| Consumer | 51,357 | 13% | 49,314 | 13% | 4% | 48,877 | 15% | 1% |
| Leases | 330 | 0% | 857 | 1% | (61)% | 1,661 | 1% | (48)% |
| Loans | $ 389,511 | | $ 370,387 | | 5% | $ 327,291 | | 13% |
| | | | | | | | | |
| Loans held for sale | 1,650 | | 390 | | | 224 | | |
| Total | $ 391,161 | | $ 370,777 | | | $ 327,515 | | |

**Loans** increased $19.2 million to $390 million at December 31, 2007. This growth was due to commercial loans increases as Residential and Consumer loan balances decreased slightly during 2007.

In 2006, loans increased $43 million to $370 million at December 31, 2006. This growth is all organic in nature since the Exchange Bank acquisition balances were included as of December 31, 2005.

45.

**Asset Quality**

| | Period Ended December 31, (dollars in millions) | | | | |
|---|---|---|---|---|---|
| | 12/31/07 | 12/31/06 | Change in Dollars/ Percentages | 12/31/05 | Change in Dollars/ percentages |
| Non-performing loans | $ 6.0 | $ 3.8 | $ 2.2 | $ 6.3 | $ -2.5 |
| Non-performing assets | $ 6.2 | $ 3.9 | $ 2.3 | $ 8.9 | $ -5.0 |
| Non-performing assets/total Assets | 1.10% | 0.70% | 40% | 1.67% | -0.97% |
| Net charge-offs | $ 0.2 | $ 1.2 | $ -1.0 | $ 1.7 | $ -0.5 |
| Net charge-offs/total loans | 0.07% | 0.31% | -0.24% | 0.52% | -0.21% |
| Loan loss provision (credit) | $ .5 | $ .2 | $ 0.3 | $ .6 | $ -0.4 |
| Allowance for loan losses | $ 3.9 | $ 3.7 | $ 0.2 | $ 4.7 | $ -1.0 |
| Allowance/loans | 1.03% | 1.00% | .03% | 1.44% | -0.44% |
| Allowance/non-performing Loans | 65% | 97% | -32% | 75% | +22% |
| Allowance/non-performing Assets | 65% | 95% | -30% | 53% | +42% |

**A Provision for Loan Losses** of $521,000 was taken in 2007 compared to $178,000 taken for 2006. The 2006 provision was reduced by the release of $140,000 provision associated with the credit card portfolio sold at the end of 2006. The fourth quarter loan loss provision of $142,000 represents a normal accrual for the company given our loan growth and net charge-offs of $89,000, or .09%, of average loans.

**Non-performing assets** (loans + OREO + OAO) were $6.2 million, or 1.10 %, of total assets at December 31, 2007, an increase of $2.3 million from a year-ago. This increase, which originated in the second quarter of 2007, is due to three commercial loan relationships that are being worked out with minimal, if any, expected loss.

**CAPITAL RESOURCES**

**Stockholders' equity** at December 31, 2007, was $59.3 million, equivalent to 10.6% of total assets. On a tangible basis, the ratio was 7.1%. The total risk-based capital ratio was 16.0% at December 31, 2007, well in excess of the "well-capitalized" regulatory threshold of 10%.

**Total consolidated regulatory (risk-based) capital** was $64.2 million at December 31, 2007, and $62.0 million at December 31, 2006. As of December 31, 2007, $19.7 million of the $20 million of trust preferred securities qualified as Tier 1 capital.

**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 $4.4 million over the next year. These purchases are expected to be funded by cash on hand and from cash generated from current operations.

**LIQUIDITY**

**Liquidity relates primarily** to the Company's ability to fund loan demand, meet deposit customers' withdrawal requirements and provide for operating expenses. Assets used to satisfy these needs consist of cash and due from banks, federal funds sold, interest earning deposits in other financial institutions, securities available for sale and loans held for sale. These assets are commonly referred to as liquid assets. Liquid assets were $111.5 million at December 31, 2007 compared to $125.5 million at December 31, 2006. During 2007, the company continued to liquidate investments and use the funding to grow the loan portfolio. Rurban restructured its balance sheet during the fourth quarter of 2006 to improve its net interest margin going forward, by selling $17.5 million of investment securities, or approximately 13% of its investment portfolio, with an average yield of 3.89%. Approximately $12 million of the proceeds were used to repay higher-cost, non-core funding, namely, long-term advances from the Federal Home Loan Bank and other borrowings that had a cost in excess of 5.25%. The remaining proceeds of approximately $5.5 million were used to fund the bank's growing commercial loan portfolio. The Company views this level of liquidity as appropriate.

**The Company's commercial real estate and residential first mortgage portfolio** of $211.4 million at December 31, 2007, and residential first mortgage portfolio of $94.4 million at December 31, 2006, which can and has been readily used to collateralize borrowings, is an additional source of liquidity. Management believes the Company's current liquidity level, without these borrowings, is sufficient to meet its liquidity needs. At December 31, 2007, all eligible commercial real estate and first mortgage loans were pledged under an FHLB blanket lien.

**The cash flow statements** for the periods presented provide an indication of the Company's sources and uses of cash as well as an indication of the ability of the Company to maintain an adequate level of liquidity. A discussion of the cash flow statements for 2007, 2006 and 2005 follows.

**The Company experienced** positive cash flows from operating activities in 2007, 2006 and 2005. Net cash from operating activities was $5.9 million, $4.7 million and $4.2 million for the years ended December 31, 2007, 2006 and 2005, respectively.

**Cash flow from investing activities** was a use of cash of $12.8 million and $21.0 million for December 31, 2007 and 2006 respectively, and net funds provided of $28.9 million for the year ended December 31, 2005. The changes in net cash from investing activities for 2007 include the purchase of bank owned life insurance of $1.0 million and purchases of premises and equipment of $3.7 million. The changes in net cash from investing activities for 2006 include the cash paid to the shareholders of Exchange Bank that totaled $6.5 million and cash paid to the shareholders of DCM that totaled $4.9 million. In 2007, 2006 and 2005, the Company received $3.5 million, $33.3 million and $5.2 million, respectively, from sales of securities available for sale, while proceeds from repayments, maturities and calls of securities were $37.2 million, $19.5 million and $17.1 million in 2007, 2006 and 2005, respectively.

**Net cash flow from financing activities** was $1.6 million, $26.1 million, and $(31.1) million for the years ended December 31, 2007, 2006 and 2005, respectively. The net cash increase was primarily due to an increase in securities sold under agreement to repurchase of $10.7 million $26.2 million and $2.0 for December 31, 2007, 2006 and 2005 respectively. Other significant changes for 2007, 2006 and 2005 include $3.0 million, $(24.5) million and $(14.0) million in net borrowings from the FHLB. Additionally $(8.5) million, $29.7 million and $(23.1) million of the change is attributable to the change in deposits. Also, in 2005, the Company received proceeds of $10.3 million from the trust preferred issuance.

**Off-Balance-Sheet Borrowing Arrangements:**

Significant additional off-balance-sheet liquidity is available in the form of FHLB advances, unused federal funds lines from correspondent banks, and the national certificate of deposit market. Management expects the risk of changes in off-balance-sheet arrangements to be immaterial to earnings.

Approximately $139.8 million commercial real estate and residential first mortgage loans of the Company's $211.4 million portfolio qualify to collateralize FHLB borrowings and have been pledged to meet FHLB collateralization requirements as of December 31, 2007. Based on the current collateralization requirements of the FHLB, approximately $21.4 million of additional borrowing capacity existed at December 31, 2007.

At December 31, 2007, the Company had $20.9 million in federal funds lines. As of December 31, 2006, the Company had $21.8 million in federal funds lines. There were no Federal funds borrowed at December 31, 2007 and 2006. The Company also had $9.8 million in unpledged securities that may be used to pledge for additional borrowings.

**TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

| | Payment due by period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 year** | **1 – 3 years** | **3 – 5 Years** | **More than 5 years** |
| Long-Term Debt Obligations | $ 24,000,000 | $ 2,000,000 | $ 16,500,000 | $ 5,500,000 | $ - |
| Other Debt Obligations | 21,542,457 | 340,288 | 582,169 | - | 20,620,000 |
| Capital Lease Obligations | - | - | - | - | - |
| Operating Lease Obligations | 2,433,393 | 411,551 | 675,147 | 513,283 | 833,412 |
| Purchase Obligations | - | - | - | - | - |
| Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP | 223,480,842 | 183,913,727 | 34,587,157 | 4,363,903 | 616,055 |
| Total | $ 271,456,692 | $ 186,665,566 | $ 52,344,473 | $ 10,377,186 | $ 22,069,467 |

The Company's contractual obligations as of December 31, 2007 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 $24.0 million. Other debt obligations are comprised of Trust Preferred securities of $20.6 million and Notes Payable of $922,000. The operating lease obligation is a lease on the RDSI-South building, of $99,600 per year, the RDSI-North building of $162,000 a year and the DCM-Lansing facility of $89,400 per year. Other long-term liabilities include time deposits of $223.5 million.

**ASSET LIABILITY MANAGEMENT**

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

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

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

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

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

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

**Quantitative Market Risk Disclosure.** The following table provides information about the Company's financial instruments used for purposes other than trading that are sensitive to changes in interest rates as of December 31, 2007. It does not present when these items may actually reprice. For loans receivable, securities, and liabilities with contractual maturities, the table presents principal cash flows and related weighted-average interest rates by contractual maturities as well as the historical impact of interest rate fluctuations on the prepayment of loans and mortgage backed securities. For core deposits (demand deposits, interest-bearing checking, savings, and money market deposits) that have no contractual maturity, the table presents principal cash flows and applicable related weighted-average interest rates based upon the Company's historical experience, management's judgment and statistical analysis, as applicable, concerning their most likely withdrawal behaviors. The current historical interest rates for core deposits have been assumed to apply for future periods in this table as the actual interest rates that will need to be paid to maintain these deposits are not currently known. Weighted average variable rates are based upon contractual rates existing at the reporting date.

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

| | 2008 | 2009 | 2010 | 2011 | 2012 | Thereafter | Total |
|---|---|---|---|---|---|---|---|
| **Rate-sensitive assets:** | | | | | | | |
| Variable rate loans | $ 56,126 | $ 8,708 | $ 3,386 | $ 1,804 | $ 1,100 | $ 1,661 | $ 72,785 |
| Average interest rate | 7.78% | 7.46% | 7.46% | 7.39% | 7.35% | 7.41% | 7.70% |
| Adjustable rate loans | $ 28,267 | $ 26,477 | $ 21,171 | $ 17,274 | $ 14,117 | $ 70,909 | $ 178,215 |
| Average interest rate | 7.00% | 6.94% | 6.94% | 6.89% | 7.00% | 7.04% | 6.99% |
| Fixed rate loans | $ 44,051 | $ 25,687 | $ 17,053 | $ 14,858 | $ 9,799 | $ 28,470 | $ 139,918 |
| Average interest rate | 6.81% | 6.68% | 6.56% | 6.59% | 6.27% | 5.24% | 6.38% |
| Total loans | $ 128,444 | $ 60,872 | $ 41,610 | $ 33,936 | $ 25,016 | $ 101,040 | $ 390,918 |
| Average interest rate | 7.28% | 6.91% | 6.83% | 6.78% | 6.73% | 6.54% | 6.90% |
| Fixed rate investment securities | $ 44,124 | $ 7,674 | $ 3,800 | $ 3,242 | $ 1,764 | $ 29,654 | $ 90,258 |
| Average interest rate | 5.24% | 4.62% | 5.03% | 5.18% | 5.61% | 4.81% | 5.04% |
| Variable rate investment securities | $ 2,339 | $ 1,026 | $ 262 | $ 169 | $ 132 | $ 2,497 | $ 6,425 |
| Average interest rate | 5.60% | 5.32% | 5.59% | 5.58% | 5.25% | 4.88% | 5.26% |
| Federal Funds Sold & Other | $ 2,000 | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 2,000 |
| Average interest rate | 2.99% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 2.99% |
| Total rate sensitive assets | $ 176,907 | $ 69,572 | $ 45,672 | $ 37,347 | $ 26,912 | $ 133,191 | $ 489,601 |
| Average interest rate | 6.70% | 6.63% | 6.67% | 6.64% | 6.65% | 6.12% | 6.52% |
| **Rate sensitive liabilities:** | | | | | | | |
| Demand - non interest-bearing | $ 8,313 | $ 8,314 | $ 8,314 | $ 8,314 | $ 8,286 | $ 0 | $ 41,541 |
| Demand - interest bearing | $ 10,884 | $ 10,884 | $ 10,884 | $ 10,884 | $ 10,771 | $ 0 | $ 54,307 |
| Average interest rate | 1.13% | 1.13% | 1.13% | 1.13% | 1.13% | 0.00% | 1.13% |
| Money market accounts | $ 12,300 | $ 12,300 | $ 12,300 | $ 12,300 | $ 12,180 | $ 0 | $ 61,380 |
| Average interest rate | 2.81% | 2.81% | 2.81% | 2.81% | 2.81% | 0.00% | 2.81% |
| Savings | $ 5,075 | $ 4,968 | $ 4,968 | $ 4,968 | $ 5,341 | $ 0 | $ 25,320 |
| Average interest rate | 0.27% | 0.27% | 0.27% | 0.27% | 0.27% | 0.00% | 0.27% |
| Certificates of deposit | $ 185,011 | $ 26,248 | $ 6,864 | $ 1,977 | $ 2,391 | $ 992 | $ 223,483 |
| Average interest rate | 4.23% | 4.20% | 3.48% | 5.02% | 4.15% | 2.65% | 4.20% |
| Fixed rate FHLB advances | $ 2,000 | $ 5,500 | $ 11,000 | $ 5,500 | $ 0 | $ 0 | $ 24,000 |
| Average interest rate | 5.22% | 4.48% | 5.38% | 5.11% | 0.00% | 0.00% | 5.10% |
| Fixed rate Notes Payable | $ 0 | $ 0 | $ 0 | $ 0 | $ 0 | $ 10,310 | $ 10,310 |
| Average interest rate | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 10.60% | 10.60% |
| Variable rate Notes Payable | $ 0 | $ 0 | $ 0 | $ 922 | $ 0 | $ 10,310 | $ 11,232 |
| Average interest rate | 0.00% | 0.00% | 0.00% | 7.75% | 0.00% | 6.49% | 6.59% |
| Fed Funds Purchased & Repos | $ 8,006 | $ 0 | $ 0 | $ 15,000 | $ 20,000 | $ 0 | $ 43,006 |
| Average interest rate | 2.86% | 0.00% | 0.00% | 4.77% | 4.74% | 0.00% | 4.40% |
| Total rate sensitive liabilities | $ 231,589 | $ 68,214 | $ 54,330 | $ 59,865 | $ 58,969 | $ 21,612 | $ 494,579 |
| Average interest rate | 3.73% | 2.68% | 2.41% | 2.75% | 2.59% | 8.27% | 3.38% |

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

| Comparison of 2007 to 2006: | First Year | Years 2 – 5 | Thereafter | Total |
|---|---|---|---|---|
| Total rate-sensitive assets: | | | | |
| At December 31, 2007 | $ 176,907 | $ 179,502 | $ 133,191 | $ 489,601 |
| At December 31, 2006 | 195,015 | 170,804 | 120,379 | 486,198 |
| Increase (decrease) | $ (18,108) | $ 8,698 | $ 12,812 | $ 3,403 |
| | | | | |
| Total rate-sensitive liabilities: | | | | |
| At December 31, 2007 | $ 231,589 | $ 241,378 | $ 21,612 | $ 494,579 |
| At December 31, 2006 | 232,446 | 237,240 | 21,349 | 491,035 |
| Increase (decrease) | $ (857) | $ 4,138 | $ 263 | $ 3,544 |

**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. In 2006, the Company’s liquidation of a portion of the investment securities and its ability to obtain below market funding through repurchase agreements helped balance deposit expenses in the midst of four interest rate increases. The Company continued to reposition its balance sheet in 2007 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 noninterest expense, which tends to rise during periods of general inflation.

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

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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 36 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, 2007 and December 31, 2006, the related Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows for each of the years in the three-year period ended December 31, 2007, the related Notes to Consolidated Financial Statements and the Report of Independent Registered Public Accounting Firm, appear on pages F-1 through F-53 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

Evaluation of Disclosure Controls and Procedures

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

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

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

- the Company's disclosure controls and procedures were effective as of the end of the fiscal year covered by this Annual Report on Form 10-K.

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-0 of this Annual Report on Form 10-K.

Changes in Internal Controls Over Financial Reporting

No changes were made 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, 2007, 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 and Executive Officers of the Registrant and Corporate Governance.

**Directors and Executive Officers**

The information required by Item 401 of SEC Regulation S-K concerning the directors of the Company is incorporated herein by reference from the disclosure included in the Company's definitive Proxy Statement relating to the Annual Meeting of Shareholders to be held on April 17, 2008 (the "2008 Proxy Statement"), under the caption "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 2008 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 Executive Governance and Nominating Committee. A copy of these charters is 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: Investor Relations, 401 Clinton Street, Defiance, OH 43512.

**Director Nominating Procedures**

The information required by Item 407(c)(3) of SEC Regulation S-K is incorporated herein by reference from the disclosure to be included under the caption “CORPORATE GOVERNANCE – Nominating Procedures” in the Company’s 2008 Proxy Statement.

**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 to be included under the caption “MEETINGS AND COMMITTEES OF THE BOARD - Committees of the Board – Audit Committee” in the Company’s 2008 Proxy Statement.

Item 11. Executive Compensation.

The information required by Item 402 of SEC Regulation S-K is incorporated herein by reference to the information contained in the Company’s 2008 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 2008 Proxy Statement under the caption “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT”.

The information required by Item 201(d) of SEC Regulation S-K is incorporated herein by reference to the information contained in the Company’s 2008 Proxy Statement under the caption “Proposal No. 2–Approval of Rurban Financial Corp. 2007 Stock Incentive Plan – Equity Compensation Plan Information.”

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 2008 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 2008 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 2008 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 the 2007 Fiscal Year”.

# 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 59 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.

The exhibits listed on the "INDEX TO EXHIBITS" beginning on page 113 of this Annual Report on Form 10-K are filed with this Annual Report on Form 10-K or incorporated herein by reference.

## 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.

| | | |
|---|---|---|
| Date: March 21, 2008 | By: | /s/ Duane L. Sinn<br>Duane L. Sinn, Executive Vice President and Chief Financial Officer |

**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, 2007, hereby constitutes and appoints Kenneth A. Joyce and Duane L. Sinn, 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/ Kenneth A, Joyce<br>Kenneth A. Joyce | March 21, 2008 | President, Chief Executive Officer, and Director |
| /s/ Duane L. Sinn<br>Duane L. Sinn | March 21, 2008 | Executive Vice President and Chief Financial Officer |
| /s/ Thomas A. Buis<br>Thomas A. Buis | March 21, 2008 | Director |

| | | |
|---|---|---|
| /s/ Thomas M. Callan<br>Thomas M. Callan | March 21, 2008 | Director |
| /s/ John R. Compo<br>John R. Compo | March 21, 2008 | Director |
| /s/ John Fahl<br>John Fahl | March 21, 2008 | Director |
| /s/ Robert A. Fawcett, Jr.<br>Robert A. Fawcett, Jr. | March 21, 2008 | Director |
| /s/ Richard L. Hardgrove<br>Richard L. Hardgrove | March 21, 2008 | Director |
| /s/ Rita A. Kissner<br>Rita A. Kissner | March 21, 2008 | Director |
| /s/ Thomas L. Sauer<br>Thomas L. Sauer | March 21, 2008 | Director |
| /s/ Steven D. VanDemark<br>Steven D. VanDemark | March 21, 2008 | Director |
| /s/ J. Michael Walz, D.D.S.<br>J. Michael Walz, D.D.S | March 21, 2008 | Director |

Date: March 21, 2008



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**Rurban Financial Corp.**
**December 31, 2006 and 2005**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**


| | |
|---|---|
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**Management's Report on Internal Control Over Financial Reporting**

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

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

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

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

With the supervision and participation of our President and Chief Executive Officer, and our Chief Financial Officer, management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2007, 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, 2007, the Corporation's internal control over financial reporting is effective.

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

RURBAN FINANCIAL CORP.

Kenneth A. Joyce
President and Chief Executive Officer

Duane L. Sinn
Chief Financial Officer

February 14, 2008

**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, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007. 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, 2007 and 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

Cincinnati, Ohio
February 14, 2008

**Rurban Financial Corp.**
**Consolidated Balance Sheets**
**December 31**

**Assets**

| | | 2007 | | 2006 |
|---|---|---|---|---|
| Cash and due from banks | $ | 15,183,627 | $ | 13,381,791 |
| Federal funds sold | | 2,000,000 | | 9,100,000 |
| Cash and cash equivalents | | 17,183,627 | | 22,481,791 |
| Interest-bearing deposits | | - | | 150,000 |
| Available-for-sale securities | | 92,661,386 | | 102,462,075 |
| Loans held for sale | | 1,649,758 | | 390,100 |
| Loans, net of unearned income | | 389,268,744 | | 370,101,809 |
| Allowance for loan losses | | (3,990,455) | | (3,717,377) |
| Premises and equipment | | 15,128,754 | | 15,449,774 |
| Federal Reserve and Federal Home Loan Bank stock, at cost | | 4,021,200 | | 3,993,450 |
| Foreclosed assets held for sale, net | | 124,131 | | 82,397 |
| Interest receivable | | 3,008,968 | | 3,129,774 |
| Goodwill | | 13,940,618 | | 13,674,058 |
| Core deposits and other intangibles | | 5,135,228 | | 5,858,982 |
| Purchased software | | 4,282,563 | | 4,618,691 |
| Cash value of life insurance | | 12,160,581 | | 10,771,843 |
| Other | | 6,638,895 | | 6,559,886 |
| Total assets | $ | 561,213,998 | $ | 556,007,253 |

*See Notes to Consolidated Financial Statements*

**Rurban Financial Corp.**
**Consolidated Balance Sheets**
**December 31**

**Liabilities and Stockholders' Equity**

| | 2007 | 2006 |
|---|---|---|
| **Liabilities** | | |
| Deposits | | |
| Demand | $ 41,541,297 | $ 46,565,554 |
| Savings, interest checking and money market | 141,009,043 | 130,267,333 |
| Time | 223,480,842 | 237,722,558 |
| Total deposits | 406,031,182 | 414,555,445 |
| Short-term borrowings | 43,006,438 | 32,270,900 |
| Notes payable | 922,457 | 2,589,207 |
| Federal Home Loan Bank advances | 24,000,000 | 21,000,000 |
| Trust preferred securities | 20,620,000 | 20,620,000 |
| Interest payable | 2,532,914 | 2,224,413 |
| Deferred income taxes | 1,310,602 | 1,610,462 |
| Other liabilities | 3,465,171 | 4,181,673 |
| Total liabilities | 501,888,764 | 499,052,100 |
| | | |
| **Commitments and Contingent Liabilities** | | |
| | | |
| **Stockholders' Equity** | | |
| Common stock, $2.50 stated value; authorized 10,000,000 shares; 5,027,433 shares outstanding | 12,568,583 | 12,568,583 |
| Additional paid-in capital | 14,923,571 | 14,859,165 |
| Retained earnings | 32,361,106 | 30,407,298 |
| Accumulated other comprehensive income (loss) | 82,235 | (879,893) |
| Treasury Stock, at cost Common; 2007 - 48,500 shares, 2006 - 0 shares | (610,260) | - |
| Total stockholders' equity | 59,325,235 | 56,955,153 |
| Total liabilities and stockholders' equity | $ 561,213,998 | $ 556,007,253 |

**Rurban Financial Corp.**
**Consolidated Statements of Income**
**Years Ended December 31**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Interest Income** | | | |
| Loans | | | |
| Taxable | $ 27,782,068 | $ 24,958,988 | $ 16,593,703 |
| Tax-exempt | 73,451 | 63,356 | 64,609 |
| Securities | | | |
| Taxable | 4,283,508 | 5,211,672 | 4,337,477 |
| Tax-exempt | 645,451 | 559,518 | 265,959 |
| Other | 225,151 | 176,884 | 160,240 |
| Total interest income | 33,009,629 | 30,970,418 | 21,421,988 |
| **Interest Expense** | | | |
| Deposits | 13,595,896 | 11,022,161 | 5,651,372 |
| Notes payable | 126,812 | 74,904 | 334,713 |
| Repurchase Agreements | 1,615,016 | 848,277 | - |
| Federal funds purchased | 39,047 | 97,226 | 67,300 |
| Federal Home Loan Bank advances | 1,037,026 | 2,106,385 | 2,039,851 |
| Trust preferred securities | 1,808,520 | 1,787,023 | 1,275,168 |
| Total interest expense | 18,222,317 | 15,935,976 | 9,368,404 |
| | | | |
| **Net Interest Income** | 14,787,312 | 15,034,442 | 12,053,584 |
| | | | |
| **Provision for Loan Losses** | 521,306 | 177,838 | 583,402 |
| | | | |
| **Net Interest Income After Provision for Loan Losses** | 14,266,006 | 14,856,604 | 11,470,182 |
| | | | |
| **Non-interest Income** | | | |
| Data service fees | 19,382,115 | 15,011,143 | 12,708,407 |
| Trust fees | 3,385,320 | 3,192,025 | 3,133,550 |
| Customer service fees | 2,243,745 | 2,161,153 | 1,859,547 |
| Net gains (losses) on loan sales | 574,000 | 1,310,536 | (436,971) |
| Net realized gains on sales of available-for-sale securities | 1,998 | (494,885) | 25,300 |
| Investment securities recoveries | - | 889,454 | - |
| Loan servicing fees | 227,017 | 358,321 | 306,929 |
| Gain on sale of assets | 29,477 | 94,198 | - |
| Other | 1,017,727 | 1,233,376 | 741,340 |
| Total non-interest income | $ 26,861,399 | $ 23,755,321 | $ 18,338,102 |

*See Notes to Consolidated Financial Statements*

**Rurban Financial Corp.**
**Consolidated Statements of Income**
**Years Ended December 31**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Non-interest Expense** | | | |
| Salaries and employee benefits | $ 17,007,314 | $ 16,584,146 | $ 13,518,749 |
| Net occupancy expense | 1,994,299 | 1,840,864 | 1,214,169 |
| Equipment expense | 6,586,623 | 5,850,281 | 5,148,458 |
| Data processing fees | 469,808 | 562,265 | 411,465 |
| Professional fees | 2,226,577 | 2,395,863 | 2,730,337 |
| Marketing expense | 820,528 | 669,764 | 445,656 |
| Printing and office supplies | 661,760 | 619,100 | 524,473 |
| Telephone and communications | 1,781,277 | 1,705,261 | 1,549,449 |
| Postage and delivery expense | 1,545,340 | 735,210 | 313,379 |
| Insurance expense | 140,651 | 171,363 | 218,484 |
| Employee expense | 1,083,056 | 978,832 | 994,735 |
| State, local and other taxes | 584,031 | 674,280 | 572,456 |
| FHLB prepayment penalties | - | 214,886 | - |
| Other | 1,735,346 | 1,901,452 | 1,412,030 |
| Total non-interest expense | 36,636,610 | 34,903,567 | 29,053,840 |
| | | | |
| **Income Before Income Tax** | 4,490,795 | 3,708,358 | 754,444 |
| | | | |
| **Provision for Income Taxes** | 1,234,160 | 948,116 | 81,353 |
| | | | |
| **Net Income** | $ 3,256,635 | $ 2,760,242 | $ 673,091 |
| | | | |
| **Basic Earnings Per Share** | $ 0.65 | $ 0.55 | $ 0.15 |
| | | | |
| **Diluted Earnings Per Share** | $ 0.65 | $ 0.55 | $ 0.15 |

**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, 2005** | $ 11,439,255 | $ 11,003,642 | $ 28,943,736 | $ (803,189) | $ (277,649) | $ 50,305,795 |
| Comprehensive Income | | | | | | |
| Net Income | | | 673,091 | | | 673,091 |
| Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect | | | | (852,673) | | (852,673) |
| Total comprehensive income | | | | | | (179,582) |
| Dividends on common stock, $0.20 per share | | | (914,010) | | | (914,010) |
| Stock options exercised (2,929 treasury shares) | | (4,158) | | | 40,753 | 36,595 |
| Treasure stock retired (4,358 treasury shares) | (10,962) | (225,934) | | | 236,896 | - |
| Exchange acquisition | 1,140,290 | 4,061,560 | | | | 5,201,850 |
| **Balance, December 31, 2005** | 12,568,583 | 14,835,110 | 28,702,817 | (1,655,862) | - | 54,450,648 |
| Comprehensive Income | | | | | | |
| Net Income | | | 2,760,242 | | | 2,760,242 |
| Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect | | | | 775,969 | | 775,969 |
| Total comprehensive income | | | | | | 3,536,211 |
| Dividends on common stock, $0.21 per share | | | (1,055,761) | | | (1,055,761) |
| Expense of stock option plan | | 24,055 | | | | 24,055 |
| **Balance, December 31, 2006** | 12,568,583 | 14,859,165 | 30,407,298 | (879,893) | - | 56,955,153 |
| Comprehensive Income | | | | | | |
| Net Income | | | 3,256,635 | | | 3,256,635 |
| Change in unrealized gain (loss) on securities | | | | 962,128 | | 962,128 |

| | | | | | | |
|---|---|---|---|---|---|---|
| available for sale, net of reclassification adjustment and tax effect | | | | | | |
| Total comprehensive income | | | | | | 4,218,763 |
| Dividends on common stock, $0.26 per share | | | (1,302,827) | | | (1,302,827) |
| Expense of stock option plan | | 64,406 | | | | 64,406 |
| Shares repurchased under stock repurchase plan | | | | | (610,260) | (610,260) |
| **Balance, December 31, 2007** | $ 12,568,583 | $ 14,923,571 | $ 32,361,106 | $ 82,235 | $ (610,260) | $ 59,325,235 |

*See Notes to Consolidated Financial Statements*

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

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income | $ 3,256,635 | $ 2,760,242 | $ 673,091 |
| Items not requiring (providing) cash | | | |
| Depreciation and amortization | 3,969,922 | 3,544,965 | 3,108,693 |
| Provision (credit) for loan losses | 521,306 | 177,838 | 583,402 |
| Expense of stock option plan | 64,406 | 24,055 | - |
| Amortization of premiums and discounts on securities | 48,799 | 206,096 | 218,221 |
| Amortization of intangible assets | 723,754 | 535,351 | 131,826 |
| Deferred income taxes | (795,035) | (460,305) | 384,337 |
| FHLB Stock Dividends | (47,250) | (385,950) | (116,800) |
| Proceeds from sale of loans held for sale | 18,032,822 | 11,328,770 | 5,481,329 |
| Originations of loans held for sale | (18,718,482) | (11,326,566) | (6,029,400) |
| (Gain) loss from sale of loans | (574,000) | (1,249,148) | 436,971 |
| (Gain) loss on sale of foreclosed assets | - | (113,729) | 214,642 |
| (Gain) loss on sales of fixed assets | (29,396) | 19,530 | 18,817 |
| Net realized gains (losses) on available-for-sale securities | - | 494,885 | (25,300) |
| Changes in | | | |
| Interest receivable | 120,806 | (119,419) | (513,229) |
| Other assets | (254,227) | 296,344 | (1,241,089) |
| Interest payable and other liabilities | (408,466) | (1,081,796) | 899,500 |
| | | | |
| Net cash provided by operating activities | 5,911,594 | 4,651,163 | 4,225,011 |
| **Investing Activities** | | | |
| Net change in interest-bearing deposits | 150,000 | - | - |
| Purchases of available-for-sale securities | (29,501,721) | (15,375,196) | (38,373,878) |
| Proceeds from maturities of available-for-sale securities | 37,247,138 | 19,506,403 | 17,107,354 |
| Proceeds from sales of available-for-sale securities | 3,464,242 | 33,263,994 | 5,154,173 |
| Proceeds from sale of credit card portfolio and non-performing loans | - | 5,760,603 | - |
| Net change in loans | (19,653,367) | (49,367,497) | (4,562,982) |
| Purchase of premises and equipment | (3,701,669) | (9,042,264) | (2,975,180) |
| Proceeds from sales of premises and equipment | 401,241 | 2,880,497 | 93,216 |
| Purchase bank owned life insurance | (1,000,000) | - | - |
| Proceeds from sale of foreclosed assets | - | 2,811,928 | 1,565,223 |
| Cash paid to shareholders of Exchange Bank Acquisition | - | (6,526,646) | - |
| Cash paid to shareholders of Diverse Computer Marketers, Inc. Acquisition | (266,560) | (4,872,961) | - |
| Proceeds from sale of Federal Reserve stock | 19,500 | - | - |
| Proceeds from assumption of net liabilities in business acquisition | - | - | 50,928,950 |
| Net cash provided by (used in) investing activities | (12,841,196) | (20,961,139) | 28,936,876 |

*See Notes to Consolidated Financial Statements*

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

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Financing Activities** | | | |
| Net increase (decrease) in demand deposits, money market, interest checking and savings accounts | $ 5,717,453 | $ 553,021 | $ (6,940,715) |
| Net increase (decrease) in certificates of deposit | (14,241,716) | 29,164,512 | (16,360,869) |
| Net increase in securities sold under agreements to repurchase | 10,735,538 | 26,190,480 | 2,021,269 |
| Net decrease in federal funds purchased | — | (4,600,000) | (2,900,000) |
| Proceeds from Federal Home Loan Bank advances | 14,000,000 | 47,900,000 | 20,500,000 |
| Repayment of Federal Home Loan Bank advances | (11,000,000) | (72,400,000) | (34,500,000) |
| Proceeds from notes payable | — | 2,700,000 | — |
| Proceeds from trust preferred | — | — | 10,310,000 |
| Repayment of notes payable | (1,666,750) | (2,311,326) | (2,381,084) |
| Proceeds from stock options exercised | — | — | 36,595 |
| Purchase of treasury stock | (610,260) | — | — |
| Dividends paid | (1,302,827) | (1,055,759) | (914,010) |
| Net cash (used in) provided by financing activities | 1,631,438 | 26,140,928 | (31,128,814) |
| **Increase (Decrease) in Cash and Cash Equivalents** | (5,298,164) | 9,830,952 | 2,033,073 |
| **Cash and Cash Equivalents, Beginning of Year** | 22,481,791 | 12,650,839 | 10,617,766 |
| **Cash and Cash Equivalents, End of Year** | $ 17,183,627 | $ 22,481,791 | $ 12,650,839 |
| **Supplemental Cash Flows Information** | | | |
| Interest paid | $ 17,913,818 | $ 15,084,607 | $ 8,989,474 |
| Income taxes paid - net of refunds | $ (2,430,000) | $ (948,000) | $ (1,021,302) |
| Common stock and payable issued for net assets in Acquisition | $ — | $ — | $ 11,826,130 |
| Transfer of loans to foreclosed assets | $ 320,600 | $ 556,677 | $ 3,247,539 |

*See Notes to Consolidated Financial Statements*

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

**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. ("RDSI"), Rurban Statutory Trust I ("RST I"), and Rurban Statutory Trust II ("RST II"). State Bank owns all of the outstanding stock of Reliance Financial Services ("RFS"), and Rurban Mortgage Company ("RMC"). State Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in northwest Ohio and Northeast Indiana. State Bank is subject to competition from other financial institutions. State Bank is regulated by certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. RFCBC operates as a loan subsidiary that continues to administer a classified loan. RDSI owns all the outstanding shares of Diverse Computer Marketing ("DCM"), and provides data and item processing services to community banks in Arkansas, Florida, Illinois, Indiana, Michigan, Missouri, Nebraska, Nevada, Ohio and Wisconsin. RFS offers a diversified array of trust and financial services to customers nationwide. RST I and RST II are trusts which were organized in 2000 and 2005, respectively, to manage the Company's trust preferred securities.

***Principles of Consolidation***

The consolidated financial statements include the accounts of the Company, State Bank, RFCBC, RDSI and RMC. Exchange Bank's balance sheet was consolidated at December 31, 2005, but not the income statement as a result of closing this acquisition at the close of business December 31, 2005. 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.

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties.

***Cash Equivalents***

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents except for short-term U.S. Treasury securities which are classified as available-for-sale securities.

***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.

Held-to-maturity securities, which include any security for which the Company has the positive intent and ability to hold until maturity, are carried at historical cost adjusted for amortization of premiums and accretion of discounts.

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

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

***Mortgage Loans Held for Sale***

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

***Loans***

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

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

***Allowance for Loan Losses***

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

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

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

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

***Premises and Equipment***

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

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

***Federal Reserve and Federal Home Loan Bank Stock***

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

***Foreclosed Assets Held for Sale***

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

***Goodwill***

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

***Intangible Assets***

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

***Stock Options***

At December 31, 2007, the Company has a stock-based employee compensation plan, which is described more fully in Note 18. Prior to 2006, the Company accounted for this plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. Accordingly, in 2005 and 2004, no stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock at the grant date.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment*. The Company selected the modified prospective application. Accordingly, after January 1, 2006, the Company began expensing the fair value of stock options granted, modified, repurchased or cancelled. In accordance with Statement No. 123 and related interpretations, no compensation expense was recognized.

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

The following table illustrates the effect on 2005 net income and earnings per share if the Company had applied the fair value provisions of FASB Statement No. 123, *Accounting for Stock-based Compensation*, to stock-based employee compensation. In April 2005, the Company accelerated certain stock options to be immediately vested. In accordance with Statement No. 123 and related interpretations, no compensation expense was recognized.

| | | 2005 |
|---|---|---|
| Net income, as reported | $ | 673,091 |
| Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes | | (655,615) |
| | | |
| Pro forma net income | $ | 17,476 |
| Earnings per share: | | |
| Basic – as reported | $ | 0.15 |
| Basic – pro forma | $ | 0.00 |
| Diluted – as reported | $ | 0.15 |
| Diluted – pro forma | $ | 0.00 |

***Income Taxes***

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

***Treasury Shares***

Treasury stock is stated at cost. Cost is determined by first-in, first-out method. On April 12, 2007, Rurban initiated a stock repurchase program, authorizing the repurchase of up to 250,000 shares or approximately five percent of the Company's outstanding shares. As of year end the company repurchased 48,500 shares at an average cost of $12.58.

***Earnings Per Share***

Earnings per share have been computed based upon the weighted-average common shares outstanding during each year. Unearned ESOP shares which have not vested have been excluded from the computation of average shares outstanding.

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

***Reclassifications***

Certain reclassifications have been made to the 2005 and 2006 financial statements to conform to the 2007 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, 2007, was $1,344,000.

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

**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, 2007: | | | | |
| U.S. Treasury and government Agencies | $ 40,133,111 | $ 76,292 | $ (20,040) | $ 40,189,363 |
| Mortgage-backed securities | 36,339,539 | 370,134 | (330,074) | 36,379,599 |
| State and political subdivision | 15,991,138 | 91,752 | (64,211) | 16,018,679 |
| Equity securities | 23,000 | - | - | 23,000 |
| Other securities | 50,000 | 745 | - | 50,745 |
| | $ 92,536,788 | $ 538,923 | $ (414,325) | $ 92,661,386 |
| December 31, 2006: | | | | |
| U.S. Treasury and government Agencies | $ 59,021,221 | $ - | $ (898,591) | $ 58,122,630 |
| Mortgage-backed securities | 29,169,513 | 48,022 | (447,351) | 28,770,184 |
| State and political subdivision | 15,500,312 | 47,316 | (82,680) | 15,464,948 |
| Equity securities | 23,000 | - | - | 23,000 |
| Other securities | 81,200 | 113 | - | 81,313 |
| | $ 103,795,246 | $ 95,451 | $ (1,428,622) | $ 102,462,075 |

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

The amortized cost and fair value of securities available for sale at December 31, 2007, 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 | $ 557,490 | $ 554,396 |
| Due after one year through five years | 1,791,007 | 1,806,566 |
| Due after five years through ten years | 41,137,626 | 41,185,753 |
| Due after ten years | 12,688,126 | 12,712,072 |
| | 56,174,249 | 56,258,787 |
| | | |
| Mortgage-backed securities and equity securities | 36,362,539 | 36,402,599 |
| Totals | $ 92,536,788 | $ 92,661,386 |

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $44,634,646 at December 31, 2007, and $61,186,085 at December 31, 2006. The securities delivered for repurchase agreements were $38,184,453 at December 31, 2007, and $27,437,603 for 2006.

Gross gains of $1,998, $7,928, and $34,050 and gross losses of $0, $502,813, and $8,750 resulting from sales of available-for-sale securities were realized for 2007, 2006 and 2005, respectively. The tax expense for net security gains (losses) for 2007, 2006, and 2005 was $679, $(168,000), and $9,000, respectively.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2007 and 2006, was $20,200,650 and $92,111,343 which is approximately 22% and 90% 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.

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

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

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **Available-for-Sale Securities:** | | | | | | |
| U.S. Treasury and government agencies | $ 0 | $ 0 | $ 3,979,960 | $ (20,040) | $ 3,979,960 | $ (20,040) |
| Mortgage-backed securities | 1,508,150 | (7,235) | 9,203,980 | (322,839) | 10,712,130 | (330,074) |
| State and political subdivisions | 1,728,883 | (10,378) | 3,779,677 | (53,833) | 5,508,560 | (64,211) |
| | $ 3,237,033 | $ (17,613) | $ 16,963,617 | $ (396,712) | $ 20,200,650 | $ (414,325) |

Securities with unrealized losses at December 31, 2006, are as follows:

| | Less than 12 Months | | 12 Months or Longer | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **Available-for-Sale Securities:** | | | | | | |
| U.S. Treasury and government agencies | $ 6,482,190 | $ (16,767) | $ 51,240,439 | $ (881,824) | $ 57,722,629 | $ (898,591) |
| Mortgage-backed securities | 5,689,252 | (56,739) | 18,064,045 | (390,612) | 23,753,297 | (447,351) |
| State and political subdivisions | 6,975,811 | (27,974) | 3,659,606 | (54,706) | 10,635,417 | (82,680) |
| | $ 19,147,253 | $ (101,480) | $ 72,964,090 | $ (1,327,142) | $ 92,111,343 | $ (1,428,622) |

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

**Note 4: Loans and Allowance for Loan Losses**

Categories of loans at December 31 include:

| | 2007 | 2006 |
|---|---|---|
| Commercial | $ 83,048,522 | $ 71,640,907 |
| Commercial real estate | 126,784,483 | 109,503,312 |
| Agricultural | 43,369,266 | 44,682,699 |
| Residential real estate | 84,620,992 | 94,389,118 |
| Consumer | 51,357,419 | 49,314,080 |
| Leasing | 330,000 | 856,808 |
| Total loans | 389,510,682 | 370,386,924 |
| Less | | |
| Net deferred loan fees, premiums and discounts | (241,938) | (285,115) |
| Loans, net of unearned income | $ 389,268,744 | $ 370,101,809 |
| Allowance for loan losses | $ (3,990,455) | $ (3,717,377) |

Activity in the allowance for loan losses was as follows:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Balance, beginning of year | $ 3,717,377 | $ 4,699,827 | $ 4,899,063 |
| Balance, Exchange Bank | - | - | 910,004 |
| Provision charged to expense | 521,306 | 177,838 | 583,402 |
| Recoveries | 183,987 | 656,963 | 1,716,815 |
| Losses charged off | (432,215) | (1,817,251) | (3,409,457) |
| Balance, end of year | $ 3,990,455 | $ 3,717,377 | $ 4,699,827 |

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

Individual loans determined to be impaired were as follows:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Year-end impaired loans with no allowance for loan losses allocated | $ 1,786,931 | $ 607,469 | $ 1,676,128 |
| Year-end loans with allowance for loan losses allocated | $ 1,897,903 | $ 1,514,169 | $ 4,460,129 |
| Total impaired loans | $ 3,684,834 | $ 2,121,638 | $ 6,136,257 |
| Amount of allowance allocated | $ 332,805 | $ 224,630 | $ 1,992,807 |
| | | | |
| Average of impaired loans during the year | $ 2,805,689 | $ 4,177,213 | $ 10,036,150 |
| Interest income recognized during impairment | $ 63,425 | $ 46,917 | $ 223,782 |
| | | | |
| Cash-basis interest income recognized | $ 74,940 | $ 50,779 | $ 232,008 |

At December 31, 2007, 2006, and 2005 accruing loans delinquent 90 days or more totaled $0, $0, and $5,200 respectively. Non-accruing loans at December 31, 2007, 2006, and 2005 were $5,990,000, $3,828,000, and $6,270,000 respectively.

**Note 5: Premises and Equipment**

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

| | 2007 | 2006 |
|---|---|---|
| Land | $ 1,720,883 | $ 1,544,883 |
| Buildings and improvements | 12,327,515 | 9,925,293 |
| Equipment | 11,878,202 | 11,259,960 |
| Construction in progress | 447,295 | 2,567,079 |
| | 26,373,895 | 25,297,215 |
| | | |
| Less accumulated depreciation | (11,245,141) | (9,847,441) |
| | | |
| Net premises and equipment | $ 15,128,754 | $ 15,449,774 |

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

**Note 6: Goodwill**

The changes in the carrying amount of goodwill for the years ended December 31, 2007, 2006 and 2005 were:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Balance as of January 1 | $ 13,674,058 | $ 8,917,373 | $ 2,144,304 |
| Adjustment (2007) and goodwill acquired during the year (2006) – Data Processing | 266,559 | 4,795,149 | - |
| Adjustment (2006) and goodwill acquired during the year (2005)– Banking | - | (38,464) | 6,773,069 |
| Balance as of December 31 | $ 13,940,618 | $ 13,674,058 | $ 8,917,373 |

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

**Note 7: Other Intangible Assets**

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2007 and 2006 were:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Core deposit intangible | $ 4,039,615 | (1,340,276) | $ 4,039,615 | $ (888,544) |
| Customer relationship intangible | 200,627 | (87,493) | 200,627 | (76,405) |
| Banking intangibles | 4,240,242 | (1,427,769) | 4,240,242 | (964,949) |
| | | | | |
| Customer relationship intangible | 2,389,000 | (212,356) | 2,389,000 | (53,089) |
| Trademark intangible | 180,000 | (80,000) | 180,000 | (6,000) |
| Non-compete intangible | 83,000 | (36,889) | 83,000 | (9,222) |
| Data Processing intangibles | 2,652,000 | (329,245) | 2,652,000 | (68,311) |
| | | | | |
| Purchased software - Banking | 645,778 | (447,930) | 217,940 | (166,435) |
| Purchased software – Data Processing | 9,928,769 | (6,010,019) | 9,073,965 | (4,679,663) |
| Purchased software - Other | 350,010 | (184,045) | 379,422 | (206,538) |
| Purchased software | 10,924,557 | (6,641,994) | 9,671,327 | (5,052,636) |
| Total | $ 17,816,799 | (8,399,008) | $ 16,563,569 | $ (6,085,896) |

Amortization expense for core deposits and other for the years ended December 31, 2007, 2006 and 2005, was $723,754, $535,351 and $131,825, respectively. Amortization expense for purchased software for the years ended December 31, 2007, 2006 and 2005 was $1,339,276, $1,329,580 and $1,234,279, respectively Estimated amortization expense for each of the following five years is:

| | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| Core deposit intangible | $ 397,436 | $ 397,436 | $ 397,436 | $ 397,436 | $ 397,436 |
| Customer relationship intangible | 49,930 | 42,337 | 36,884 | 31,069 | 26,758 |
| Banking intangibles | 447,366 | 439,773 | 434,320 | 428,505 | 424,194 |
| | | | | | |
| Customer Relationship intangible | 159,267 | 159,267 | 159,267 | 159,267 | 159,267 |
| Trademark intangible | 60,000 | 40,000 | - | - | - |
| Non-compete intangible | 27,667 | 40,000 | - | - | - |
| Data Processing intangibles | 246,934 | 239,267 | 159,267 | 159,267 | 159,267 |
| | | | | | |
| Purchased software – Banking | 82,665 | 69,033 | 39,915 | 159 | - |
| Purchased Software – Data Processing | 1,164,433 | 1,015,682 | 870,160 | 228,996 | 153,561 |
| Purchased Software – Other | 80,127 | 43,519 | 29,609 | 3,851 | - |
| Purchased Software | 1,327,225 | 1,128,234 | 939,684 | 233,006 | 153,561 |
| Total | $ 2,021,525 | $ 1,807,274 | $ 1,533,271 | $ 820,778 | $ 737,022 |

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**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

**Note 8: Interest-Bearing Time Deposits**

Interest-bearing time deposits in denominations of $100,000 or more were $57,351,000 on December 31, 2007, and $75,847,000 on December 31, 2006. Certificates of deposit obtained from brokers totaled approximately $3,975,000 and $14,992,000 at December 31, 2007 and 2006, respectively.

At December 31, 2007, the scheduled maturities of time deposits were as follows:

| | |
|---|---|
| 2008 | $ 183,913,727 |
| 2009 | 28,303,638 |
| 2010 | 6,283,519 |
| 2011 | 1,977,491 |
| 2012 | 2,386,412 |
| Thereafter | 616,055 |
| | |
| Total | $ 223,480,842 |

Of the $3,975,000 in brokered deposits held at December 31, 2007, $2,670,000 mature within the next year.

**Note 9: Short-Term Borrowings**

| | | 2007 | | 2006 |
|---|---|---|---|---|
| Securities sold under repurchase agreements - retail | $ | 8,006,438 | $ | 7,270,900 |
| Securities sold under repurchase agreements - broker | | 35,000,000 | | 25,000,000 |
| Total short-term borrowings | $ | 43,006,438 | $ | 32,270,900 |

At December 31, 2007, The Bank had $20.9 million in federal funds lines, of which none were drawn upon. At December 31, 2006, The Bank had $21.8 million in federal funds lines, of which none was drawn on.

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The Bank has retail repurchase agreements to facilitate cash management transactions with commercial customers. These obligations are secured by agency securities and such collateral is held by the Federal Home Loan Bank. At December 31, 2007, retail repurchase agreements totaled $8,006,438. The maximum amount of outstanding agreements at any month end during 2007 and 2006 totaled $8,941,000 and $7,400,000, respectively, and the monthly average of such agreements totaled $7,268,000 and $6,471,000, respectively. The agreements at December 31, 2007 and 2006 mature within one month.

The Bank also has repurchase agreements with brokerage firms who are in possession of the underlying securities. The securities are returned to The Bank on the repurchase date. The maximum amount of outstanding agreements at any month end during 2007 and 2006 totaled $35,000,000 and $25,000,000, respectively, and the monthly average of such agreements totaled $28,452,000 and $14,064,000, respectively. These repurchase agreements mature between 2011 and 2012 and at December 31, 2007, totaled $35,000,000 with a weighted average interest rate at year-end of 4.75%.

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
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**Note 10: Notes Payable**

Notes payable at December 31, include:

| | 2007 | 2006 |
|---|---|---|
| Revolving Demand Note payable in the amount of $500,000, secured by all business assets of RDSI, monthly payments of interest at prime plus .5% | $ - | $ 200,000 |
| Note payable in the amount of $2,500,000, secured by all inventory, equipment and receivables of RDSI, monthly payments of $41,042 together with interest at a variable rate equal to the 5 Year Treasury Index plus 2.85%, maturing August 23, 2011 | $ 922,457 | 2,389,207 |
| | $ 922,457 | $ 2,589,207 |

**Rurban Financial Corp.**
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Aggregate annual maturities of notes payable at December 31, 2007, are:

| | | Debt |
|---|---|---|
| 2008 | $ | 340,288 |
| 2009 | | 368,475 |
| 2010 | | 213,694 |
| Total | $ | 922,457 |

**Note 11: Federal Home Loan Bank Advances**

The Federal Home Loan Bank advances were secured by mortgage loans and commercial real estate loans totaling $139,808,148 at December 31, 2007. Advances, at interest rates from 3.84 to 6.25 percent, are subject to restrictions or penalties in the event of prepayment.

Aggregate annual maturities of Federal Home Loan Bank advances at December 31, 2007, are:

| | | Debt |
|---|---|---|
| 2008 | $ | 2,000,000 |
| 2009 | | 5,500,000 |
| 2010 | | 11,000,000 |
| 2011 | | 5,500,000 |
| Total | $ | 24,000,000 |

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
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**Note 12: Trust Preferred Securities**

On September 15, 2005, RST II, a wholly owned subsidiary of the Company, closed a pooled private offering of 10,000 Capital Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures with terms similar to the Capital Securities. The sole assets of RST II are the junior subordinated debentures of the Company and payments thereunder. The junior subordinated debentures and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST II under the Capital Securities. Distributions on the Capital Securities are payable quarterly at an interest rate that changes quarterly and is based on the 3-month LIBOR and are included in interest expense in the consolidated financial statements. These securities are considered Tier 1 capital (with certain limitations applicable) under current regulatory guidelines. As of December 31, 2007 and 2006, the outstanding principal balance of the Capital Securities was $10,000,000.

On September 7, 2000, RST I, a wholly owned subsidiary of the Company, closed a pooled private offering of 10,000 Capital Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures with terms similar to the Capital Securities. The sole assets of RST I are the junior subordinated debentures of the Company and payments thereunder. The junior subordinated debentures and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST I under the Capital Securities. Distributions on the Capital Securities are payable semi-annually at the annual rate of 10.6% and are included in interest expense in the consolidated financial statements. These securities are considered Tier 1 capital (with certain limitations applicable) under current regulatory guidelines. As of December 31, 2007 and 2006, the outstanding principal balance of the Capital Securities was $10,000,000.

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

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**Note 13: Income Taxes**

The provision for income taxes includes these components:

| | For The Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2007 | 2007 |
| Taxes currently payable (refundable) | $ 2,029,195 | $ 1,408,421 | $ (302,984) |
| Deferred income taxes | (795,035) | (460,305) | 384,337 |
| Income tax expense | $ 1,234,160 | $ 948,116 | $ 81,353 |

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

| | For The Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2007 | 2007 |
| Computed at the statutory rate (34%) | $ 1,526,870 | $ 1,260,842 | $ 256,511 |
| Increase (decrease) resulting from | | | |
| Tax exempt interest | (211,646) | (184,640) | (103,015) |
| Other | (81,064) | (128,086) | (72,143) |
| Actual tax expense | $ 1,234,160 | $ 948,116 | $ 81,353 |

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**Notes to Consolidated Financial Statements**
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The tax effects of temporary differences related to deferred taxes shown on the balance sheets are:

| | At December 31, 2007 | At December 31, 2006 |
|---|---|---|
| Deferred tax assets | | |
| Allowance for loan losses | $ 1,244,891 | $ 1,121,589 |
| Accrued compensation and benefits | 318,748 | 279,153 |
| Net deferred loan fees | 100,670 | 100,932 |
| Unrealized losses on available-for-sale securities | - | 452,812 |
| Mark to market adjustments | 42,363 | - |
| Purchase accounting adjustments | 164,796 | 188,644 |
| NOL carry over | 751,000 | 751,000 |
| Other | 48,997 | 3,166 |
| | 2,671,465 | 2,897,296 |
| Deferred tax liabilities | | |
| Depreciation | (973,163) | (974,157) |
| Mortgage servicing rights | (135,319) | (71,078) |
| Unrealized gains on available-for-sale securities | (42,363) | - |
| Mark to market adjustment | - | (452,812) |
| Purchase accounting adjustments | (2,226,793) | (2,350,013) |
| Prepaids | (182,115) | (185,760) |
| FHLB stock dividends | (422,314) | (422,314) |
| Other | - | (51,624) |
| | (3,982,067) | (4,507,758) |
| Net deferred tax liability | $ (1,310,602) | $ (1,610,462) |

The NOL carry over begins to expire in 2024.

**Note 14: Other Comprehensive Loss**

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

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Unrealized gains (losses) on securities available for sale | $ 1,459,768 | $ 680,825 | $ (1,266,627) |
| Reclassification for realized amount included in income | (1,998) | 494,885 | (25,300) |
| Other comprehensive income (loss), before tax effect | 1,457,770 | 1,175,710 | (1,291,927) |
| Tax expense (benefit) | 495,642 | 399,741 | (439,254) |
| | | | |
| Other comprehensive income (loss) | $ 962,128 | $ 775,969 | $ (852,673) |

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

**Note 15: Regulatory Matters**

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and State Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007, that the Company and State Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2007, the most recent notification to the regulators categorized the State Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, State Bank must maintain capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed State Bank's status as well-capitalized.

The Company's consolidated, and State Bank's actual, capital amounts (in millions) and ratios, as of December 31, 2007 and 2006, are also presented in the following table. On March 24, 2007, Exchange Bank was merged with and into the lead bank, State Bank.

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
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The Company and State Bank's actual capital amounts (in millions) and ratios are also presented in the following table.

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| As of December 31, 2007 | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated | $ 64.2 | 15.9% | $ 32.2 | 8.0% | $ - | N/A |
| State Bank | 49.5 | 12.7 | 31.3 | 8.0 | 39.1 | 10.0% |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated | 59.9 | 14.9 | 16.1 | 4.0 | - | N/A |
| State Bank | 45.5 | 11.6 | 15.6 | 4.0 | 23.5 | 6.0 |
| Tier I Capital (to Average Assets) | | | | | | |
| Consolidated | 59.9 | 11.0 | 21.9 | 4.0 | - | N/A |
| State Bank | 45.5 | 8.4 | 21.8 | 4.0 | 27.3 | 5.0 |
| As of December 31, 2006 | | | | | | |
| Total Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated | $ 62.0 | 16.0% | $ 30.9 | 8.0% | $ - | N/A |
| State Bank | 46.8 | 12.4 | 30.2 | 8.0 | 37.8 | 10.0% |
| Tier I Capital (to Risk-Weighted Assets) | | | | | | |
| Consolidated | 57.6 | 14.9 | 15.5 | 4.0 | - | N/A |
| State Bank | 43.0 | 11.4 | 15.1 | 4.0 | 22.7 | 6.0 |
| Tier I Capital (to Average Assets) | | | | | | |
| Consolidated | 57.6 | 10.5 | 22.0 | 4.0 | - | N/A |
| State Bank | 43.0 | 7.8 | 22.0 | 4.0 | 27.5 | 5.0 |

Dividends paid by Rurban are mainly provided for by dividends from its subsidiaries. However, certain restrictions exist regarding the ability of State Bank to transfer funds to Rurban in the form of cash dividends, loans or advances. Regulatory approval is required in order to pay dividends in excess of State Bank's earnings retained for the current year plus retained net profits since January 1, 2005.

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As of December 31, 2007, approximately $5.1 million was available for distribution to Rurban as dividends without prior regulatory approval. The 2006 table was consolidated for The State Bank and Trust Company and The Exchange Bank.

**Note 16: Related Party Transactions**

Certain directors, executive officers and principal shareholders of the Company, including associates of such persons, are loan customers. A summary of the related party loan activity, for loans aggregating $60,000 or more to any one related party, follows for the years ended December 31, 2007 and 2006:

| | 2007 | 2006 |
|---|---|---|
| Balance, January 1 | $ 3,454,000 | $ 2,394,000 |
| New Loans | 3,751,000 | 5,936,000 |
| Repayments | (3,009,000) | (4,997,000) |
| Other changes | 1,805,000 | 121,000 |
| Balance, December 31 | $ 6,001,000 | $ 3,454,000 |

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

Deposits from related parties held at December 31, 2007 and 2006 totaled $977,000 and $1,840,000, respectively.

**Note 17: Employee Benefits**

The Company has retirement savings 401(k) plans covering substantially all employees. Employees contributing up to 6% of their compensation receive a Company match of 50% of the employee’s contribution. Employee contributions are vested immediately and the Company’s matching contributions are fully vested after three years of employment. Employer contributions charged to expense for 2007, 2006 and 2005 were $272,750, $307,000, and $257,600 respectively.

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Also, the Company has deferred compensation agreements with certain active and retired officers. The agreements provide monthly payments for up to 15 years that equal 15% to 25% of average compensation prior to retirement or death. The charge to expense for the current agreements was $166,000, $199,000, and $240,000 for 2007, 2006 and 2005, respectively. In 2006 and 2005, previously accrued benefits under the agreements in the amount of $166,000 and $346,000, respectively, were reversed and credited to expense as a result of termination or resignation of certain officers. Such charges reflect the straight-line accrual over the period until full eligibility of the present value of benefits due each participant on the full eligibility date, using a 6% discount factor.

Life insurance plans are provided for certain executive officers on a split-dollar basis. The Company is the owner of the split-dollar policies. The officers are entitled to a sum equal to two times either the employee's annual salary at death, if actively employed, or final annual salary, if retired, less $50,000, not to exceed the employee's portion of the death benefit. The Company is entitled to the portion of the death proceeds which equates to the cash surrender value less any loans on the policy and unpaid interest or cash withdrawals previously incurred by the Company. The employees have the right to designate a beneficiary(s) to receive their share of the proceeds payable upon death. The cash surrender value of these life insurance policies and life insurance policies related to the Company's supplemental retirement plan totaled approximately $2,011,589 at December 31, 2007, and $1,955,902 at December 31, 2006.

Additional life insurance is provided to certain officers through a bank-owned life insurance policy ("BOLI"). By way of a separate split-dollar agreement, the policy interests are divided between the bank and the insured's beneficiary. The bank owns the policy cash value and a portion of the policy net death benefit, over and above the cash value assigned to the insured's beneficiary. During 2007 the bank elected to add $1 million in additional BOLI on two key executive officers. The cash surrender value of all life insurance policies totaled approximately $10,148,992 at December 31, 2007, and $8,815,940 at December 31, 2006.

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

Compensation expense is recorded equal to the fair market value of the stock when contributions, which are determined annually by the Board of Directors of the Company, are made to the ESOP. Allocated shares in the ESOP for each of the three years ended December 31, 2007, 2006 and 2005, were 462,850, 497,955, and 556,607, respectively.

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

ESOP expense for the years ended December 31, 2007, 2006 and 2005 was $565,644, $531,000, and $445,000, respectively.

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**Notes to Consolidated Financial Statements**
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**Note 18: Stock Option Plan**

In March, 2007, the Company's single share-based compensation plan expired. The compensation cost that has been charged against income for that plan was $64,406, $24,055, and $0 for 2007, 2006, and 2005, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $21,898, $8,179, and $0 for 2007, 2006 and 2005, respectively.

The Company's Stock Option Plan (the Plan), which is shareholder approved, permits the grant of share options to its employees for up to 441,000 shares of common stock. The Plan expired in March, 2007. The Company believes that such awards better align the interests of its employees with those of its shareholders. Option awards are generally granted with an exercise price equal to the market price of the Company's stock at the date of grant; those option awards generally vest based on 5 years of continuous service and have 10-year contractual terms.

The fair value of each option award is estimated on the date of grant using a binomial option valuation model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company's stock and other factors. The Company uses historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Expected volatility | 27.0% | 18.5% | 23.7-27.7% |
| Weighted-average volatility | 27.01% | 18.5% | 26.7% |
| Expected dividends | 2.0% | 1.7% | 0-1.5% |
| Expected term (in years) | 10 | 10 | 10 |
| Risk-free rate | 4.72% | 2.3% | 4.5-4.5% |

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A summary of option activity under the Plan as of December 31, 2007 and changes during the year then ended, is presented below:

| | 2007 | | | |
|---|---|---|---|---|
| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value |
| Outstanding, beginning of year | 325,274 | $ 13.41 | | |
| Granted | 114,640 | 11.48 | | |
| Exercised | - | - | | |
| Forfeited | 26,861 | 13.53 | | |
| Expired | 71,074 | 12.87 | | |
| Outstanding, end of year | 341,979 | $ 12.86 | 6.63 | $ 179,217 |
| | | | | |
| Exercisable, end of year | 212,089 | $ 13.67 | 5.18 | $ 51,325 |

The weighted-average grant-date fair value of options granted during the years 2007, 2006 and 2005 was $3.02, $2.34 and $4.32, respectively. The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005, was $0, $0 and $2,017, respectively.

As of December 31, 2007, there was $323,425 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.08 years

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**Note 19: Earnings Per Share**

Earnings per share (EPS) is computed as follows:

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

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

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

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

| | Year Ended December 31, 2005 | | |
|---|---|---|---|
| | Income | Weighted-Average Shares | Per Share Amount |
| Basic earnings per share | | | |
| Net income available to common shareholders | $ 673,091 | 4,571,348 | $ 0.15 |
| Effect of dilutive securities | | | |
| Stock options | - | 13,058 | |
| Diluted earnings per share | | | |
| Income available to common shareholders and assumed conversions | $ 673,091 | 4,584,406 | $ 0.15 |

Options to purchase 215,066 common shares at $13.30 to $16.78 per share were outstanding at December 31, 2005, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares.

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## Note 20: Leases

The Company's subsidiaries, The State Bank and Trust Company, RDSI, and DCM, have several noncancellable operating leases for business use that expire over the next ten years. These leases generally contain renewal options for periods of five years and require the lessee to pay all executory costs such as taxes, maintenance and insurance. Aggregate rental expense for these leases was $535,361, $307,393, and $249,504 for the years ended December 31, 2007, 2006 and 2005, respectively.

Future minimum lease payments under operating leases are:

| | |
|---|---|
| 2008 | $ 411,551 |
| 2009 | 367,947 |
| 2010 | 307,200 |
| 2011 | 303,083 |
| 2012 | 210,200 |
| Thereafter | 833,412 |
| Total minimum lease payments | $ 2,433,393 |

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**Note 21: Disclosures about Fair Value of Financial Instruments**

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

| | December 31, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets | | | | |
| Cash and cash equivalents | $ 17,183,627 | $ 17,184,000 | $ 22,481,791 | $ 22,482,000 |
| Interest-bearing deposits | - | - | 150,000 | 150,000 |
| Available-for-sale securities | 92,661,386 | 92,661,000 | 102,462,075 | 102,462,000 |
| Loans including loans held for sale, net | 386,928,047 | 388,253,000 | 366,774,532 | 364,490,000 |
| Stock in FRB and FHLB | 4,021,200 | 4,021,000 | 3,993,450 | 3,993,000 |
| Accrued interest receivable | 3,008,968 | 3,009,000 | 3,129,774 | 3,130,000 |
| | | | | |
| Financial liabilities | | | | |
| Deposits | $ 406,031,182 | $ 406,240,000 | $ 414,555,445 | $ 413,990,000 |
| Securities sold under agreements to repurchase | 43,006,438 | 43,110,000 | 32,270,900 | 31,674,000 |
| Note payable | 922,457 | 922,000 | 2,589,207 | 2,589,000 |
| FHLB advances | 24,000,000 | 24,823,000 | 21,000,000 | 20,982,000 |
| Trust preferred securities | 20,620,000 | 20,503,000 | 20,620,000 | 21,257,000 |
| Accrued interest payable | 2,532,914 | 2,533,000 | 2,224,413 | 2,224,000 |

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2007 and 2006. The estimated fair value for cash and cash equivalents, interest-bearing deposits, FRB and FHLB stock, accrued interest receivable, demand deposits, savings accounts, interest checking accounts, certain money market deposits, short-term borrowings and interest payable is considered to approximate cost. The estimated fair value for securities is based on quoted market values for the individual securities or for equivalent securities. The estimated fair value for loans receivable, including loans held for sale, net, is based on estimates of the rate State Bank would charge for similar loans at December 31, 2007 and 2006 applied for the time period until the loans are assumed to re-price or be paid.

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The estimated fair value for fixed-maturity time deposits as well as borrowings is based on estimates of the rate State Bank paid on such liabilities at December 31, 2007 and 2006, applied for the time period until maturity. The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The estimated fair value for other financial instruments and off-balance sheet loan commitments approximate cost at December 31, 2007 and 2006 and are not considered significant to this presentation.

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**Notes to Consolidated Financial Statements**
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**Note 22: Commitments and Credit Risk**

State Bank grants commercial, agribusiness, consumer and residential loans to customers. Although State Bank has a diversified loan portfolio, agricultural loans comprised approximately 11% and 12% of the portfolio as of December 31, 2007 and 2006, respectively.

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

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

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

| | 2007 | 2006 |
|---|---|---|
| Loan commitments and unused lines of credit | $ 76,445,000 | $ 71,545,000 |
| Standby letters of credit | - | 582,000 |
| Commercial letters of credit | 377,000 | - |
| Total | $ 76,822,000 | $ 72,127,000 |

And from time to time certain due from bank accounts are in excess of federally insured limits

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**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

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

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

**Note 23: Future Change in Accounting Principle**

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets: an amendment of FASB Statement No. 140* (FAS 140 and FAS 156). FAS 140 establishes, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. This Statement amends FAS 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. This Statement permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. Adoption of this Statement is required as of the beginning of the first fiscal year that begins after September 15, 2006. On January 1, 2007 the Company adopted SFAS No. 156. The adoption of SFAS No. 156 did not have a material impact on the financial position and results of operations of the Company.

The Company or one of its subsidiaries files income tax returns in the U.S. federal and multiple-state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years before 2004.

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

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits us to choose to measure certain financial assets and liabilities at fair value that are not currently required to be measured at fair value (i.e. the Fair Value Option). Election of the Fair Value Option is made on an instrument-by-instrument basis and is irrevocable. At the adoption date, unrealized gains and losses on financial assets and liabilities for which the Fair Value Option has been elected would be reported as a cumulative adjustment to beginning retained earnings. If we elect the Fair Value Option for certain financial assets and liabilities, we will report unrealized gains and losses due to changes in their fair value in earnings at each subsequent reporting date. SFAS No. 159 is effective as of January 1, 2008. Management has evaluated the potential impact of adopting SFAS No. 159 on our consolidated financial statements and found it will have no material impact to the financial position and results of operations of the Company.

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

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

In September 2006, the FASB ratified a consensus opinion by the EITF on EITF Issue 06-5, Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance). The issue requires policy holders to consider other amounts included in the contractual terms of an insurance policy, in addition to cash surrender value, for purposes of determining the amount that could be realized under the terms of the insurance contract. If it is probable that contractual terms would limit the amount that could be realized under the insurance contract, those contractual limitations should be considered when determining the realizable amounts. The amount that could be realized under the insurance contract should be determined on an individual policy (or certificate) level and should include any amount realized on the assumed surrender of the last individual policy or certificate in a group policy.

The Company holds several life insurance policies, however, the policies do not contain any provisions that would restrict or reduce the cash surrender value of the policies. The consensus in EITF Issue 06-5 is effective for fiscal years beginning after December 15, 2006. The application of this guidance did not have a material adverse effect on the Company's financial position or results of operations.

At its March 2007 meeting, the EITF reached a final consensus on Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements.* A consensus was reached that an employer should recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement in accordance with either FASB Statement No. 106 or APB Opinion No. 12, as appropriate, if the employer has agreed to maintain a life insurance policy during the employee's retirement or provide the employee with a death benefit based on the substantive agreement with the employee. A consensus also was reached that an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement. The consensuses are effective for fiscal years beginning after December 15, 2007, including interim periods within those fiscal years, with early application permitted. The Company has endorsement split-dollar life insurance policies. The implementation of EITF 06-10 will not have a material impact on the financial position and results of operations of the Company.

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

**Note 24: Condensed Financial Information (Parent Company Only)**

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

**Condensed Balance Sheets**

| | 2007 | 2006 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 5,089,342 | $ 7,102,859 |
| Investment in common stock of banking subsidiaries | 58,521,717 | 56,448,620 |
| Investment in nonbanking subsidiaries | 16,004,390 | 13,846,560 |
| Other assets | 1,972,079 | 2,103,164 |
| Total assets | $ 81,587,528 | $ 79,501,203 |
| **Liabilities** | | |
| Trust preferred securities | $ 20,000,000 | $ 20,000,000 |
| Borrowings from non-banking subsidiaries | 620,000 | 620,000 |
| Other liabilities | 1,642,294 | 1,926,050 |
| Total liabilities | 22,262,294 | 22,546,050 |
| **Stockholders' Equity** | 59,325,234 | 56,955,153 |
| Total liabilities and stockholders' equity | $ 81,587,528 | $ 79,501,203 |

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

**Condensed Statements of Income**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Income** | | | |
| Interest Income | $ 4,324 | $ 3,099 | $ 2,126 |
| Dividends from subsidiaries | | | |
| Banking Subsidiaries | 1,200,000 | 6,400,000 | 7,153,134 |
| Nonbanking subsidiaries | 300,000 | - | 1,513,000 |
| Total | 1,500,000 | 6,400,000 | 8,666,134 |
| Other income | 1,353,760 | 1,491,158 | 1,091,721 |
| Total income | 2,858,084 | 7,894,257 | 9,759,981 |
| **Expenses** | | | |
| Interest expense | 1,808,520 | 1,787,023 | 1,364,168 |
| Other expense | 2,831,749 | 2,683,109 | 2,514,712 |
| Total expenses | 4,640,269 | 4,470,132 | 3,878,880 |
| **Income before income tax and equity in undistributed income of subsidiaries** | (1,782,185) | 3,424,125 | 5,881,101 |
| **Income tax** | (1,115,943) | (1,011,797) | (946,911) |
| **Income before equity in undistributed income of subsidiaries** | (666,242) | 4,435,922 | 6,828,012 |
| **Equity in undistributed (excess distributed) income of subsidiaries** | | | |
| **Banking subsidiaries** | 1,710,405 | (3,797,432) | (6,383,468) |
| **Nonbanking subsidiaries** | 2,212,472 | 2,121,752 | 228,547 |
| **Total** | 3,922,877 | (1,675,680) | (6,154,921) |
| **Net income** | $ 3,256,635 | $ 2,760,242 | $ 673,091 |

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

**Condensed Statements of Cash Flows**

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Operating Activities** | | | |
| Net income | $ 3,256,635 | $ 2,760,242 | $ 673,091 |
| Items not requiring (providing) cash | | | |
| Equity in (undistributed) excess distributed net income of subsidiaries | (3,268,799) | 2,204,917 | 6,192,398 |
| Expense of stock option plan | 64,406 | 24,055 | - |
| Other assets | 131,085 | (49,256) | (15,230) |
| Other liabilities | (283,757) | (6,032,292) | 629,444 |
| Net cash provided by (used in) operating activities | (100,430) | (1,092,334) | 7,479,703 |
| | | | |
| **Investing Activities** | | | |
| Investment in RST II | - | - | (310,000) |
| Investment in RDSI | - | (5,500,000) | - |
| Investment in ROC | - | (600,000) | - |
| Repayment of policy loan | - | - | (1,014,523) |
| Proceeds from liabilities assumed in business acquisition | - | - | 3,029 |
| Net cash used in investing activities | - | (6,100,000) | (1,321,494) |
| | | | |
| **Financing Activities** | | | |
| Cash dividends paid | (1,302,827) | (1,055,761) | (914,010) |
| Payment of registration costs and other acquisition costs | - | - | (326,615) |
| Repayment of note payable | - | (240,000) | - |
| Proceeds from subordinated debenture | - | - | 10,310,000 |
| Proceeds from exercise of stock options | - | - | 36,595 |
| Purchase of treasury stock | (610,260) | - | - |
| Net cash provided by (used in) financing activities | (1,913,087) | (1,295,761) | 9,105,970 |
| | | | |
| **Net Change in Cash and Cash Equivalents** | (2,013,517) | (8,488,095) | 15,264,179 |
| | | | |
| **Cash and Cash Equivalents at Beginning of Year** | 7,102,859 | 15,590,954 | 326,775 |
| | | | |
| **Cash and Cash Equivalents at End of Year** | $ 5,089,342 | $ 7,102,859 | $ 15,590,954 |
| **Supplemental cash flow information** | | | |
| Common stock and payable issued for net assets in acquisition | $ - | $ - | $ 11,826,130 |

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
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**Note 25: Segment Information**

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

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

The accounting policies used are the same as those described in the summary of significant accounting policies. Segment performance is evaluated using net interest income, other revenue, operating expense and net income. Goodwill is allocated. Income taxes and indirect expenses are allocated on revenue. Transactions among segments are made at fair value. The Company allocates certain expenses to other segments. Information reported internally for performance assessment follows. Reclassifications have been made to the 2005 and 2006 tables to conform to the 2007 table, which include the consolidation of The State Bank and Trust Company, RFCBC and RFS into Banking, RDSI and DCM into Data Processing, and Rurban Financial Corp. into Other.

| 2007 | Banking | Data Processing | Other | Total Segments | Intersegment Elimination | Consolidated Totals |
|---|---|---|---|---|---|---|
| **Income Statement Information:** | | | | | | |
| Net interest income (expense) | $ 16,859,523 | $ (268,014) | $ (1,804,197) | $ 14,787,312 | $ — | $ 14,787,312 |
| Other revenue-external customers | 7,434,979 | 19,347,947 | 78,473 | 26,861,399 | — | 26,861,399 |
| Other revenue-other segments | 551,681 | 1,539,854 | 1,314,861 | 3,406,396 | (3,406,396) | — |
| Net interest income and other revenue | 24,846,183 | 20,619,787 | (410,863) | 45,055,107 | (3,406,396) | 41,648,711 |
| Noninterest expense | 20,338,289 | 16,872,968 | 2,831,749 | 40,043,006 | (3,406,396) | 36,636,610 |
| Significant noncash items: | | | | | | |
| Depreciation and amortization | 999,594 | 2,837,758 | 132,570 | 3,969,922 | — | 3,969,922 |
| Provision for loan losses | 521,306 | — | — | 521,306 | — | 521,306 |
| Income tax expense | 1,076,183 | 1,273,919 | (1,115,942) | 1,234,160 | — | 1,234,160 |
| Segment profit | $ 2,910,405 | $ 2,472,900 | $ (2,126,670) | $ 3,256,635 | $ — | $ 3,256,635 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance sheet information:** | | | | | | | | | | |
| Total assets | $ | 541,717,871 | $ | 20,419,865 | $ | 81,439,870 | $ | 643,577,606 | $ | (82,363,608) | $ 561,213,998 |
| Goodwill and intangibles | | 11,691,382 | | 7,384,464 | | — | | 19,075,846 | | — | 19,075,846 |
| Premises and equipment expenditures | $ | 3,599,534 | $ | 2,303,330 | $ | 137,071 | $ | 6,039,935 | | — | $ 6,039,935 |

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**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

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

| 2005 | Banking | Data Processing | Other | Total Segments | Intersegment Elimination | Consolidated Totals |
|---|---|---|---|---|---|---|
| **Income Statement Information:** | | | | | | |
| Net interest income (expense) | $ 13,650,366 | $ (234,741) | $ (1,362,041) | $ 12,053,584 | $ — | $ 12,053,584 |
| Other revenue-external customers | 5,556,794 | 12,708,407 | 72,901 | 18,338,102 | — | 18,338,102 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other revenue-other segments | 910,827 | 1,354,001 | 870,005 | 3,134,833 | (3,134,833) | — |
| Net interest income and other revenue | 20,117,987 | 13,827,667 | (419,135) | 33,526,519 | (3,134,833) | 30,391,686 |
| Non-interest expense | 18,682,524 | 11,164,340 | 2,341,809 | 32,188,673 | (3,134,833) | 29,053,840 |
| Significant noncash items: | | | | | | |
| Depreciation and amortization | 731,976 | 2,315,621 | 61,096 | 3,108,693 | — | 3,108,693 |
| Provision for loan losses | 583,402 | — | — | 583,402 | — | 583,402 |
| Income tax expense | 82,395 | 945,869 | (946,911) | 81,353 | — | 81,353 |
| Segment profit | $ 769,666 | $ 1,717,458 | $ (1,814,033) | $ 673,091 | — | $ 673,091 |
| **Balance sheet information:** | | | | | | |
| Total assets | $ 521,117,797 | $ 10,204,699 | $ 82,155,101 | $ 613,477,597 | $ (82,935,321) | $ 530,542,276 |
| Goodwill and intangibles | 12,659,706 | — | — | 12,659,706 | — | 12,659,706 |
| Premises and equipment expenditures | $ 688,124 | $ 2,252,592 | $ 157,818 | $ 3,098,534 | — | $ 3,098,534 |

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**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

**NOTE 26: Quarterly Financial Information (Unaudited)**

The following tables summarize selected quarterly results of operations for 2007 and 2006.

| **December 31, 2007** | **March** | **June** | **September** | **December** |
|---|---|---|---|---|
| Interest income | $ 8,016,828 | $ 8,234,039 | $ 8,350,340 | $ 8,408,422 |
| Interest expense | 4,423,552 | 4,483,901 | 4,689,389 | 4,625,477 |
| Net interest income | 3,593,276 | 3,750,158 | 3,660,591 | 3,783,287 |
| Provision for loan losses | 92,640 | 145,594 | 140,409 | 142,663 |
| Noninterest income | 6,738,742 | 6,507,700 | 6,782,842 | 6,832,115 |
| Noninterest expense | 9,300,253 | 9,065,370 | 9,106,400 | 9,164,587 |
| Income tax expense | 236,672 | 261,829 | 333,384 | 402,275 |
| Net income | 702,453 | 785,045 | 863,601 | 905,536 |
| | | | | |
| Earnings per share | | | | |
| Basis | 0.14 | 0.16 | 0.17 | 0.18 |
| Diluted | 0.14 | 0.16 | 0.17 | 0.18 |
| | | | | |
| Dividends per share | 0.06 | 0.06 | 0.07 | 0.07 |

| **December 31, 2006** | **March** | **June** | **September** | **December** |
|---|---|---|---|---|
| Interest income | $ 7,047,089 | $ 7,542,688 | $ 8,157,473 | $ 8,223,168 |
| Interest expense | 3,183,033 | 3,712,225 | 4,401,939 | 4,638,779 |
| Net interest income | 3,864,056 | 3,830,463 | 3,755,534 | 3,584,389 |
| Provision for loan losses | 246,000 | 56,321 | 35,000 | (159,483) |
| Noninterest income | 5,008,299 | 5,268,252 | 5,902,756 | 7,576,014 |
| Noninterest expense | 7,950,031 | 8,079,875 | 8,514,656 | 10,359,005 |
| Income tax expense | 153,779 | 248,996 | 294,893 | 250,448 |
| Net income | 522,545 | 713,523 | 813,741 | 710,433 |
| | | | | |
| Earnings per share | | | | |
| Basis | 0.10 | 0.14 | 0.16 | 0.14 |
| Diluted | 0.10 | 0.14 | 0.16 | 0.14 |
| | | | | |
| Dividends per share | 0.05 | 0.05 | 0.05 | 0.06 |

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

During the fourth quarter of 2006, the Company restructured its balance sheet and recorded losses of $718,000, recorded losses of $283,000 associated with the merger, recorded income of $890,000 on the recovery of bond losses and sold the credit card portfolio for a gain of $740,000. The merger charges relate to the Company's plan at the time to merge its Banking Group, consisting of The State Bank and Trust Company, The Exchange Bank, Rurban Operations Company and Reliance Financials Services, N.A., into The State Bank and Trust Company charter. The Company completed the merger on March 24, 2007.

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
**December 31, 2007 and 2006**

**NOTE 27: BUSINESS ACQUISITIONS**

**Diverse Computer Markketers**

On September 2, 2006, Rurbanc Data Services, Inc ("RDSI"), the bank data processing subsidiary of Rurban Financial Corp. ("Rurban"), completed its acquisition of Diverse Computer Marketers, Inc., a Michigan corporation, and a related Indiana corporation, DCM Indiana, Inc. Rurban subsequently merged DCM Indiana, Inc. into Diverse Computer Marketers, Inc. ("DCM"). DCM now operates as a separate subsidiary of RDSI. As a result of this acquisition, the Company will have an opportunity to grow its item processing business.

Under the terms of the Stock Purchase Agreement, RDSI acquired all of the outstanding stock of the DCM Companies from their shareholders for an aggregate purchase price of $5.0 million. An additional $250,000 was payable to the shareholders contingent upon the continuation of profitable growth over the first year of combined operations. The final payment of $266,559 was made in 2007. The entire purchase price was paid in cash. The results of DCM's operations have been included in Rurban's consolidated statement of income from the date of acquisition.

The following tables summarize the estimated fair values of the net assets acquired and the computation of the purchase price and goodwill related to the acquisitions.

| | | |
|---|---|---|
| Assets: | | |
| Cash | $ | 118,137 |
| Accounts receivable | | 419,151 |
| Premises and equipment | | 207,644 |
| Goodwill | | 4,795,144 |
| Other intangibles | | 2,652,000 |
| Other assets | | 158,241 |
| Total Assets | | 8,350,317 |
| | | |
| Liabilities: | | |
| Accounts payable | | 1,188,289 |
| Borrowings | | 1,284,427 |
| Other liabilities | | 886,510 |
| Total Liabilities | | 3,359,226 |
| | | |
| Net assets acquired | $ | 4,991,091 |

**Rurban Financial Corp.**
**Notes to Consolidated Financial Statements**
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The signficant intangible assets acquired include the customer related intangible of $2,389,000, the Trademark of $180,000 and the non-compete agreements of $83,000, which have useful lives of 180, 36 and 36 months, respectively, and will be amortized using the straight-line method. The $4.8 million of goodwill was assigned entirely to the data processing unit and is not expected to be deductible for tax purposes. This analysis is based upon an initial third party opinion and is subject to change for up to twelve months.

Under terms of the Stock Purchase Agreement, and immediately prior to the closing, the disaster recovery services portion of the DCM business was spun-off. As DCM records did not include separate financial information for the disaster recovery services, historical financial information for the purchased portion of the business is not available. Therefore, pro forma information that discloses the results of operations as though the business combination had been completed at the beginning of the period is not included.

**RURBAN FINANCIAL CORP.**

**ANNUAL REPORT ON FORM 10-K**
**FOR FISCAL YEAR ENDED DECEMBER 31, 2007**

INDEX TO EXHIBITS

| Exhibit No. | Description | Location |
|---|---|---|
| 2.1 | Stock Purchase Agreement, dated as of May 19, 2006, by and among Rurbanc Data Services, Inc., Lance Thompson and Robert Church | Incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed May 24, 2006 (File No. 0-13507). |
| 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). |
| 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(d) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (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). |
| 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). |

| Exhibit No. | Description | Location |
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| 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. |
| 10.1* | Rurban Financial Corp. Stock Option Plan | Incorporated herein by reference to Exhibit 10(u) 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. 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). |
| 10.3* | Form of Non-Qualified Stock Option Agreement with Five-Year Vesting under Rurban Financial Corp. 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. 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. 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. 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. 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). |

| Exhibit No. | Description | Location |
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| 10.8* | 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). |
| 10.9* | 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). |
| 10.10* | Employment Agreement, executed March 6, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Kenneth A. Joyce | Incorporated herein by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507). |
| 10.11* | First Amendment to Employment Agreement, executed May 19, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Kenneth A. Joyce | Incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (File No. 0-13507). |
| 10.12* | Supplemental Executive Retirement Plan Agreement, executed March 13, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Kenneth A. Joyce | Incorporated herein by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507). |
| 10.13* | Schedule identifying other substantially identical Supplemental Executive Retirement Plan Agreements with executive officers of Rurban Financial Corp. and its subsidiaries | Incorporated herein by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507). |
| 10.14* | First Amendment to Supplemental Executive Retirement Plan Agreement, executed May 16, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Kenneth A. Joyce | Incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (File No. 0-13507). |
| 10.15* | Schedule identifying other substantially identical First Amendments to Supplemental Executive Retirement Plan Agreements with executive officers of Rurban Financial Corp. and its subsidiaries | Incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (File No. 0-13507). |

| Exhibit No. | Description | Location |
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| 10.16* | Change in Control Agreement, executed March 9, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Duane L. Sinn | Incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507). |
| 10.17* | Schedule identifying other substantially identical Change in Control Agreements with executive officers of Rurban Financial Corp. and its subsidiaries | Incorporated herein by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507). |
| 10.18* | First Amendment to Change in Control Agreement, executed May 17, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Duane L. Sinn | Incorporated herein by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (File No. 0-13507). |
| 10.19* | Schedule identifying other substantially identical First Amendments to Change in Control Agreements with executive officers of Rurban Financial Corp. and its subsidiaries | Incorporated herein by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (File No. 0-13507). |
| 10.20* | Non-Qualified Deferred Compensation Plan effective as of January 1, 2007 | Incorprated 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.