

RURBAN FINANCIAL CORP  
Form 10-Q  
November 14, 2007  
Table of Contents

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-13507

**RURBAN FINANCIAL CORP.**

---

(Exact name of registrant as specified in its charter)

Ohio  
(State or other jurisdiction of  
incorporation or organization)

34-1395608  
(I.R.S. Employer Identification No.)

401 Clinton Street, Defiance, Ohio 43512  
(Address of principal executive offices)  
(Zip Code)

(419) 783-8950  
(Registrant's telephone number, including area code)

None

---

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. Large Accelerate Filer  Accelerated Filer  Non-Accelerated Filer

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

<b>Common Shares, without par value</b>	<b>4,987,933 shares</b>
<b>(class)</b>	<b>(Outstanding at November 13, 2007)</b>

---

---

Table of Contents

**RURBAN FINANCIAL CORP.**

**FORM 10-Q**

**TABLE OF CONTENTS**

**PART I - FINANCIAL INFORMATION**

<u>Item 1.</u>	<u>Financial Statements</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>

**PART II - OTHER INFORMATION**

<u>Item 1.</u>	<u>Legal Proceedings</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>
<u>Item 5.</u>	<u>Other Information</u>
<u>Item 6.</u>	<u>Exhibits</u>

Signatures

Table of Contents

**PART I - FINANCIAL INFORMATION**

**Item 1. Financial Statements**

The interim condensed consolidated financial statements of Rurban Financial Corp. (“Rurban” or the “Company”) are unaudited; however, the information contained herein reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of financial condition and results of operations for the interim periods presented. All adjustments reflected in these financial statements are of a normal recurring nature in accordance with Rule 10-01 of Regulation S-X. Results of operations for the nine months ended September 30, 2007 are not necessarily indicative of results for the complete year.

Table of Contents

**Rurban Financial Corp.**  
**Condensed Consolidated Balance Sheets**  
**September 30, 2007 and December 31, 2006**

	(Unaudited) September 30, 2007	December 31, 2006
<b>Assets</b>		
Cash and due from banks	\$ 12,859,263	\$ 13,381,791
Federal funds sold	—	9,100,000
Cash and cash equivalents	12,859,263	22,481,791
Interest-bearing deposits	—	150,000
Available-for-sale securities	102,759,847	102,462,075
Loans held for sale	—	390,100
Loans, net of unearned income	388,264,099	370,101,809
Allowance for loan losses	(3,936,545)	(3,717,377)
Premises and equipment	15,290,795	15,449,774
Purchased software	4,500,417	4,618,691
Federal Reserve and Federal Home Loan Bank stock	4,021,200	3,993,450
Foreclosed assets held for sale, net	64,805	82,397
Interest receivable	3,374,265	3,129,774
Goodwill	13,940,618	13,674,058
Core deposits and other intangibles	5,322,647	5,858,982
Cash value of life insurance	12,048,425	10,771,843
Other	7,164,456	6,559,886
<b>Total assets</b>	<b>\$ 565,674,291</b>	<b>\$ 556,007,253</b>

*See notes to condensed consolidated financial statements (unaudited)*

*Note: The balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date.*

Table of Contents

**Rurban Financial Corp.**  
**Condensed Consolidated Balance Sheets**  
**September 30, 2007 and December 31, 2006**

	(Unaudited) September 30, 2007	December 31, 2006
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits		
Demand	\$ 41,486,691	\$ 46,565,554
Savings, interest checking and money market	138,095,329	130,267,333
Time	233,570,398	237,722,558
Total deposits	413,152,418	414,555,445
Notes payable	1,025,992	2,589,207
Federal Home Loan Bank advances	19,000,000	21,000,000
Federal Funds Purchased	4,400,000	—
Retail repurchase agreements	42,566,025	32,270,900
Trust preferred securities	20,620,000	20,620,000
Interest payable	2,409,523	2,224,413
Other liabilities	3,995,977	5,792,135
Total liabilities	507,169,935	499,052,100
<b>Commitments and Contingent Liabilities</b>		
<b>Stockholders' Equity</b>		
Common stock, \$2.50 stated value; authorized 10,000,000 shares; issued 5,027,433 shares; outstanding Sept. 2007 - 4,999,433 shares, December 2006 - 5,027,433 shares		
	12,568,583	12,568,583
Additional paid-in capital	14,902,827	14,859,165
Retained earnings	31,805,145	30,407,298
Accumulated other comprehensive loss	(421,721)	(879,893)
Treasury Stock, at cost		
Common; Sept. 2007 - 28,000 shares, December 2006 - 0 shares	(350,480)	—
Total stockholders' equity	58,504,354	56,955,153
Total liabilities and stockholders' equity	\$ 565,674,291	\$ 556,007,253

*See notes to condensed consolidated financial statements (unaudited)*

*Note: The balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date.*

Table of Contents

**Rurban Financial Corp.**  
**Condensed Consolidated Statements of Income (Unaudited)**  
**Three Months Ended**

	September 30, 2007	September 30, 2006
<b>Interest Income</b>		
<b>Loans</b>		
Taxable	\$ 7,072,488	\$ 6,641,379
Tax-exempt	16,668	18,326
<b>Securities</b>		
Taxable	1,041,177	1,306,979
Tax-exempt	169,719	141,943
Other	50,288	48,846
Total interest income	8,350,340	8,157,473
<b>Interest Expense</b>		
Deposits	3,497,275	3,017,993
Other borrowings	32,026	67,773
Retail repurchase agreements	435,216	182,007
Federal Home Loan Bank advances	268,289	667,749
Trust preferred securities	456,582	466,417
Total interest expense	4,689,389	4,401,939
<b>Net Interest Income</b>	3,660,951	3,755,534
<b>Provision for Loan Losses</b>	140,409	35,000
<b>Net Interest Income After Provision for Loan Losses</b>	3,520,543	3,720,534
<b>Non-interest Income</b>		
Data service fees	5,004,394	3,785,037
Trust fees	819,989	753,449
Customer service fees	588,447	542,518
Net gains on loan sales	73,581	283,123
Loan servicing fees	82,651	96,754
Net realized gain on sale of available-for-sale securities	—	—
Gain (loss) on sale of assets	11,862	25,914
Other	201,920	415,961
Total non-interest income	6,782,842	5,902,756

*See notes to condensed consolidated financial statements (unaudited)*

Table of Contents

**Rurban Financial Corp.**  
**Condensed Consolidated Statements of Income (Unaudited)**  
**Three Months Ended**

	<b>September 30, 2007</b>	<b>September 30, 2006</b>
<b>Non-interest Expense</b>		
Salaries and employee benefits	\$ 4,290,961	\$ 4,253,924
Net occupancy expense	514,742	468,855
Equipment expense	1,625,762	1,445,073
Data processing fees	102,292	146,703
Professional fees	461,844	481,132
Marketing expense	259,196	168,031
Printing and office supplies	130,363	126,765
Telephone and communications	446,465	467,692
Postage and delivery expense	392,211	142,957
State, local and other taxes	103,674	188,464
Employee expense	266,277	235,429
Other	512,663	389,631
Total non-interest expense	9,106,400	8,514,656
<b>Income Before Income Tax</b>	<b>1,196,985</b>	<b>1,108,634</b>
<b>Provision for Income Taxes</b>	<b>333,384</b>	<b>294,893</b>
<b>Net Income</b>	<b>\$ 863,601</b>	<b>\$ 813,741</b>
<b>Basic Earnings Per Share</b>	<b>\$ 0.17</b>	<b>\$ 0.16</b>
<b>Diluted Earnings Per Share</b>	<b>\$ 0.17</b>	<b>\$ 0.16</b>
<b>Dividends Declared Per Share</b>	<b>\$ 0.07</b>	<b>\$ 0.05</b>

*See notes to condensed consolidated financial statements (unaudited)*



Table of Contents

**Rurban Financial Corp.**  
**Condensed Consolidated Statements of Income (Unaudited)**  
**Nine Months Ended**

	September 30, 2007	September 30, 2006
<b>Interest Income</b>		
<b>Loans</b>		
Taxable	\$ 20,725,807	\$ 18,238,590
Tax-exempt	51,211	45,718
<b>Securities</b>		
Taxable	3,176,674	3,953,438
Tax-exempt	483,621	410,346
Other	163,894	99,158
Total interest income	24,601,207	22,747,250
<b>Interest Expense</b>		
Deposits	10,212,672	7,695,387
Other borrowings	140,644	120,220
Retail repurchase agreements	1,130,898	465,560
Federal Home Loan Bank advances	760,534	1,684,415
Trust preferred securities	1,352,093	1,331,615
Total interest expense	13,596,842	11,297,197
<b>Net Interest Income</b>	11,004,365	11,450,053
<b>Provision for Loan Losses</b>	378,643	337,321
<b>Net Interest Income After Provision for Loan Losses</b>	10,625,723	11,112,732
<b>Non-interest Income</b>		
Data service fees	14,467,788	10,312,757
Trust fees	2,512,251	2,361,127
Customer service fees	1,650,080	1,635,272
Net gains on loan sales	302,028	415,833
Net realized gains on sales of available-for-sale	367	—
Loan servicing fees	280,789	301,233
Gain (loss) on sale of assets	61,839	85,346
Other	754,144	1,067,739
Total non-interest income	20,029,284	16,179,307

*See notes to condensed consolidated financial statements (unaudited)*

Table of Contents

**Rurban Financial Corp.**  
**Condensed Consolidated Statements of Income (Unaudited)**  
**Nine Months Ended**

	September 30, 2007	September 30, 2006
<b>Non-interest Expense</b>		
Salaries and employee benefits	\$ 12,873,072	\$ 11,906,909
Net occupancy expense	1,547,800	1,334,722
Equipment expense	4,908,311	4,168,534
Data processing fees	372,716	402,661
Professional fees	1,640,250	1,525,399
Marketing expense	601,979	536,977
Printing and office supplies	509,817	453,110
Telephone and communications	1,329,359	1,277,707
Postage and delivery expense	1,168,563	397,217
State, local and other taxes	468,590	512,757
Employee expense	801,374	745,341
Other	1,250,192	1,283,228
Total non-interest expense	27,472,023	24,544,562
<b>Income Before Income Tax</b>	3,182,984	2,747,477
<b>Provision for Income Taxes</b>	831,885	697,668
<b>Net Income</b>	\$ 2,351,099	\$ 2,049,809
<b>Basic Earnings Per Share</b>	\$ 0.47	\$ 0.41
<b>Diluted Earnings Per Share</b>	\$ 0.47	\$ 0.41
<b>Dividends Declared Per Share</b>	\$ 0.19	\$ 0.15

*See notes to condensed consolidated financial statements (unaudited)*

Table of Contents

**RURBAN FINANCIAL CORP.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS'**  
**EQUITY (UNAUDITED)**

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Balance at beginning of period	\$ 57,349,495	\$ 54,026,126	\$ 56,955,153	\$ 54,450,648
Net Income	863,601	813,741	2,351,099	2,049,809
Other comprehensive income (loss):				
Net change in unrealized gains (losses)				
On securities available for sale, net	821,754	1,516,738	458,172	347,011
Total comprehensive income (loss)	1,685,355	2,330,479	2,809,271	2,396,820
Cash dividend	(349,960)	(251,372)	(953,252)	(754,113)
Purchase of treasury shares	(201,280)	—	(350,480)	—
Stock option expense	20,744	5,940	43,662	17,818
Balance at end of period	\$ 58,504,354	\$ 56,111,173	\$ 58,504,354	\$ 56,111,173

*See notes to condensed consolidated financial statements (unaudited)*

Table of Contents

**Rurban Financial Corp.**  
**Condensed Consolidated Statements of Cash Flows (Unaudited)**  
**Nine Months Ended**

	September 30, 2007	September 30, 2006
<b>Operating Activities</b>		
Net income	\$ 2,351,099	\$ 2,049,809
Items not requiring (providing) cash		
Depreciation and amortization	3,222,666	2,640,971
Provision for loan losses	378,643	337,321
Expense of stock option plan	43,662	17,818
Amortization of premiums and discounts on securities	36,137	170,767
Amortization of intangible assets	536,335	366,947
Deferred income taxes	682,352	(847,663)
FHLB Stock Dividends	(47,250)	(386,500)
Proceeds from sale of loans held for sale	12,902,818	15,207,292
Originations of loans held for sale	(12,210,691)	(14,849,559)
Gain from sale of loans	(302,028)	(415,833)
(Gain) loss on sale of foreclosed assets	15,244	(92,432)
(Gain) loss on sales of fixed assets	16,107	7,086
Changes in		
Interest receivable	(244,491)	(389,538)
Other assets	(783,511)	(223,486)
Interest payable and other liabilities	(2,529,428)	(1,005,408)
Net cash provided by operating activities	4,067,664	2,587,592
<b>Investing Activities</b>		
Purchases of available-for-sale securities	(29,399,315)	(13,783,842)
Proceeds from maturities of available-for-sale securities	27,350,999	10,417,559
Proceeds from sales of available-for-sale securities	2,408,608	15,240,716
Proceeds from sales of Fed Stock	19,500	—
Net change in interest bearing deposits	150,000	—
Net change in loans	(18,386,570)	(38,187,317)
Purchase of Bank Owned Life Insurance	(1,000,000)	—
Purchase of premises and equipment and software	(3,249,937)	(3,728,676)
Proceeds from sales of premises and equipment	257,928	38,741
Proceeds from sale of foreclosed assets	—	2,670,459
Cash paid to shareholders of Exchange Bank acquisition	—	(6,526,646)
Cash paid for Diverse Computer Marketers, Inc. acquisition	(266,560)	—
Net cash provided by (used in) investing activities	(22,115,347)	(38,662,583)

*See notes to condensed consolidated financial statements (unaudited)*

Table of Contents

**Rurban Financial Corp.**  
**Condensed Consolidated Statements of Cash Flows (Unaudited) (continued)**  
**Nine Months Ended**

	September 30, 2007	September 30, 2006
<b>Financing Activities</b>		
Net increase (decrease) in demand deposits, money market, interest checking and savings accounts	\$ 2,749,134	\$ 1,274,208
Net increase (decrease) in certificates of deposit	(4,152,160)	26,065,524
Net increase (decrease) in securities sold under agreements to repurchase	10,295,127	25,703,630
Net increase (decrease) in federal funds purchased	4,400,000	(3,800,000)
Proceeds from Notes Payable	—	2,500,000
Proceeds from Federal Home Loan Bank advances	9,000,000	27,900,000
Repayment of Federal Home Loan Bank advances	(11,000,000)	(34,900,000)
Repayment of notes payable	(1,563,214)	(2,231,884)
Purchase of treasury stock	(350,480)	—
Dividends paid	(953,252)	(754,113)
Net cash (used in) provided by financing activities	8,425,155	41,757,365
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(9,622,528)</b>	<b>5,682,374</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>22,481,791</b>	<b>12,650,839</b>
<b>Cash and Cash Equivalents, End of Period</b>	<b>\$ 12,859,263</b>	<b>\$ 18,333,213</b>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 13,411,731	\$ 10,561,921
Transfer of loans to foreclosed assets	\$ 82,397	\$ 459,923

*See notes to condensed consolidated financial statements (unaudited)*

Table of Contents**RURBAN FINANCIAL CORP.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****NOTE A—BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly present the financial position, results of operations and cash flows of the Company. Those adjustments consist only of normal recurring adjustments. Results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of results for the complete year.

The condensed consolidated balance sheet of the Company as of December 31, 2006 has been derived from the audited consolidated balance sheet of the Company as of that date.

For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

**NOTE B—EARNINGS PER SHARE**

Earnings per share (EPS) have been computed based on the weighted average number of shares outstanding during the periods presented. For the periods ended September 30, 2007 and 2006, stock options totaling 247,352 and 287,217 common shares, respectively, were not considered in computing EPS as they were anti-dilutive. The number of shares used in the computation of basic and diluted earnings per share were:

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
Basic earnings per share	5,003,433	5,027,433	5,018,567	5,027,433
Diluted earnings per share	5,008,334	5,027,704	5,021,939	5,030,084

**NOTE C - LOANS, RISK ELEMENTS AND ALLOWANCE FOR LOAN LOSSES**

Total loans on the balance sheet are comprised of the following classifications at:

	September 30, 2007	December 31, 2006
Commercial	\$ 79,667,905	\$ 71,640,907
Commercial real estate	123,433,841	109,503,312
Agricultural	46,709,478	44,682,699
Residential real estate	86,730,067	94,389,118
Consumer	51,525,413	49,314,080
Lease financing	458,502	856,808
Total loans	388,525,206	370,386,924
Less		
Net deferred loan fees, premiums and discounts	(261,107)	(285,115)

Edgar Filing: RURBAN FINANCIAL CORP - Form 10-Q

Loans, net of unearned income	\$	388,264,099	\$	370,101,809
Allowance for loan losses	\$	(3,936,545)	\$	(3,717,377)

-13-

---

Table of Contents

The following is a summary of the activity in the allowance for loan losses account for the three and Nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Balance, beginning of period	\$ 3,824,445	\$ 4,438,139	\$ 3,717,377	\$ 4,699,827
Provision charged to expense	140,408	35,000	378,643	337,321
Recoveries	40,222	267,422	140,712	565,065
Loans charged off	(68,530)	(218,650)	(300,187)	(1,080,302)
Balance, end of period	\$ 3,936,545	\$ 4,521,911	\$ 3,936,545	\$ 4,521,911

The following schedule summarizes nonaccrual, past due and impaired loans at:

	September 30, 2007	December 31, 2006
Non-accrual loans	\$ 6,361,000	\$ 3,828,000
Accruing loans which are contractually past due 90 days or more as to interest or principal payments	—	—
Total non-performing loans	\$ 6,361,000	\$ 3,828,000

Individual loans determined to be impaired were as follows:

	September 30, 2007	December 31, 2006
Loans with no allowance for loan losses allocated	\$ 843,000	\$ 608,000
Loans with allowance for loan losses allocated	1,906,000	1,514,000
Total impaired loans	\$ 2,749,000	\$ 2,122,000
Amount of allowance allocated	\$ 272,000	\$ 225,000

**NOTE D - REGULATORY MATTERS**

The Company and The State Bank and Trust Company (“State Bank”) are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by



Table of Contents

regulators. If undertaken, these actions could have a direct material adverse 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 in the regulations), and of Tier I capital to average assets (as defined in the regulations). As of September 30, 2007 and December 31, 2006, the Company and State Bank exceeded all "well-capitalized" requirements to which they were subject.

As of December 31, 2006, the most recent notification to the regulators categorized State Bank as well-capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, State Bank must maintain capital ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed State Bank's categorization as well capitalized.

The Company's consolidated, and State Bank's actual, capital amounts (in millions) and ratios, as of September 30, 2007 and December 31, 2006, are also presented in the following table. On March 24, 2007, Exchange Bank was merged with and into the lead bank, State Bank.

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of September 30, 2007</b>						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 64.2	15.8%	\$ 32.5	8.0%	—	N/A
State Bank	48.7	12.4	31.5	8.0	39.3	10.0
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	59.9	14.8	16.2	4.0	—	N/A
State Bank	44.8	11.4	15.7	4.0	23.6	6.0
Tier I Capital (to Average Assets)						
Consolidated	59.9	10.8	22.2	4.0	—	N/A
State Bank	44.8	8.4	21.4	4.0	26.8	5.0
<b>As of December 31, 2006</b>						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 62.0	16.0%	\$ 30.9	8.0%	—	N/A
State Bank	38.9	12.2	25.4	8.0	31.8	10.0
Exchange Bank	7.8	13.2	4.8	8.0	6.0	10.0

Tier I Capital (to Risk-Weighted Assets)						
Consolidated	57.6	14.9	15.5	4.0	—	N/A
State Bank	35.9	11.3	12.7	4.0	19.1	6.0
Exchange Bank	7.1	11.9	2.4	4.0	3.6	6.0
Tier I Capital (to Average Assets)						
Consolidated	57.6	10.5	22.0	4.0	—	N/A
State Bank	35.9	7.9	18.2	4.0	22.8	5.0
Exchange Bank	7.1	8.7	3.3	4.0	4.1	5.0

Table of Contents

**NOTE E - CONTINGENT LIABILITIES**

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.

**NOTE F - NEW ACCOUNTING PRONOUNCEMENTS**

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

The 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.

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

Table of Contents

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. We are currently evaluating the potential impact of adopting SFAS No. 159 on our consolidated financial statements.

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. We are currently evaluating the potential impact of adopting FAS 157 on our financial statements.

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.

**NOTE G - COMMITMENTS AND CREDIT RISK**

As of September 30, 2007, loan commitments and unused lines of credit totaled \$71,470,000, standby letters of credit totaled \$367,000 and no commercial letters of credit were outstanding.

**NOTE H - SEGMENT INFORMATION**

The reportable segments are determined by the products and services offered, primarily distinguished between banking and data processing operations. On March 24, 2007, The Exchange Bank and Reliance Financial Services, N.A. were merged with and into the lead bank, The State Bank and Trust Company. Due to this merger, the segment reporting as of September 30, 2006 has been restated.



Table of Contents**NOTE H - SEGMENT INFORMATION (Continued)**

As of and for the nine months ended September 30, 2007

Income statement information:	Data			Total Segments	Intersegment Elimination	Consolidated Totals
	Banking	Processing	Other			
Net interest income (expense)	\$ 12,574,116	\$ (220,225)	\$ (1,349,526)	\$ 11,004,365		\$ 11,004,365
Non-interest income - external customers	5,503,066	14,467,788	58,430	20,029,284		20,029,284
Non-interest income - other segments	539,276	1,188,208	992,321	2,719,805	(2,719,805)	—
Total revenue	18,616,458	15,435,771	(298,775)	33,753,454	(2,719,805)	31,033,649
Non-interest expense	15,431,283	12,670,567	2,089,977	30,191,827	(2,719,805)	27,472,022
Significant non-cash items:						
Depreciation and amortization	751,206	2,379,089	92,371	3,222,666	—	3,222,666
Provision for loan losses	378,643	—	—	378,643	—	378,643
Income tax expense (benefit)	730,451	940,170	(838,736)	831,885	—	831,885
Segment profit (loss)	\$ 2,076,081	\$ 1,825,034	\$ (1,550,016)	\$ 2,351,099	\$ —	\$ 2,351,099
Balance sheet information:						
Total assets	\$ 546,412,401	\$ 19,684,894	\$ 7,700,083	\$ 573,797,378	\$ (8,123,087)	\$ 565,674,291
Goodwill and intangibles	11,812,295	7,450,970	—	19,263,265	—	19,263,265
Premises and equipment expenditures	1,009,075	2,103,791	137,071	3,249,937	—	3,249,937



Table of Contents**NOTE H — SEGMENT INFORMATION (Continued)**

As of and for the nine months ended September 30, 2006

Income statement information:	Data			Total Segments	Intersegment Elimination	Consolidated Totals
	Banking	Processing	Other			
Net interest income (expense)	\$ 12,944,038	\$ (164,635)	\$ (1,329,350)	\$ 11,450,053		\$ 11,450,053
Non-interest income - external customers	5,797,646	10,312,757	68,904	16,179,307		16,179,307
Non-interest income - other segments	77,168	1,206,824	759,480	2,043,472	(2,043,472)	—
Total revenue	18,818,852	11,354,946	(500,966)	29,672,832	(2,043,472)	27,629,360
Non-interest expense	15,610,960	9,117,085	1,859,989	26,588,034	(2,043,472)	24,544,562
Significant non-cash items:						
Depreciation and amortization	752,292	1,839,814	48,865	2,640,971	—	2,640,971
Provision for loan losses	337,321	—	—	337,321	—	337,321
Income tax expense (benefit)	749,869	760,874	(813,075)	697,668	—	697,668
Segment profit (loss)	\$ 2,120,702	\$ 1,476,987	\$ (1,547,880)	\$ 2,049,809	\$ —	\$ 2,049,809
Balance sheet information:						
Total assets	\$ 553,810,212	\$ 19,981,151	\$ 8,623,336	\$ 582,414,699	\$ (12,427,586)	\$ 569,987,113
Goodwill and intangibles	12,270,962	7,273,716	—	19,544,678	—	19,544,678
Premises and equipment expenditures	415,137	2,519,955	83,804	3,018,896	—	3,018,896





Table of Contents**NOTE H — SEGMENT INFORMATION (Continued)**

As of and for the three months ended September 30, 2007

Income statement information:	Data			Total	Intersegment	Consolidated
	Banking	Processing	Other	Segments	Elimination	Totals
Net interest income (expense)	\$ 4,169,772	\$ (53,123)	\$ (455,698)	\$ 3,660,951		\$ 3,660,951
Non-interest income - external customers	1,756,535	5,004,394	21,913	6,782,842		6,782,842
Non-interest income - other segments	12,328	380,968	333,880	727,176	(727,176)	—
Total revenue	5,938,635	5,332,239	(99,905)	11,170,969	(727,176)	10,443,793
Non-interest expense	4,873,670	4,333,698	626,207	9,833,575	(727,176)	9,106,399
Significant non-cash items:						
Depreciation and amortization	254,631	971,425	34,307	1,260,363	—	1,260,363
Provision for loan losses	140,409	—	—	140,409	—	140,409
Income tax expense (benefit)	250,325	339,505	(256,446)	333,384	—	333,384
Segment profit (loss)	\$ 674,231	\$ 659,036	\$ (469,666)	\$ 863,601	\$ —	\$ 863,601
Balance sheet information:						
Total assets	\$ 546,412,401	\$ 19,684,894	\$ 7,700,083	\$ 573,797,378	\$ (8,123,087)	\$ 565,674,291
Goodwill and intangibles	11,812,295	7,450,970	—	19,263,265	—	19,263,265
Premises and equipment expenditures	9,045	711,536	75,880	796,461	—	796,461



Table of Contents**NOTE H — SEGMENT INFORMATION (Continued)**

As of and for the three months ended September 30, 2006

Income statement information:	Data			Total	Intersegment	Consolidated
	Banking	Processing	Other	Segments	Elimination	Totals
Net interest income (expense)	\$ 4,280,347	\$ (67,045)	\$ (457,768)	\$ 3,755,534		\$ 3,755,534
Non-interest income - external customers	2,090,996	3,785,037	26,723	5,902,756		5,902,756
Non-interest income - other segments	24,771	366,823	211,127	602,721	(602,721)	—
Total revenue	6,396,114	4,084,815	(219,918)	10,261,011	(602,721)	9,658,290
Non-interest expense	5,143,829	3,361,095	612,453	9,117,377	(602,721)	8,514,656
Significant non-cash items:						
Depreciation and amortization	270,365	653,730	(867)	923,228	—	923,228
Provision for loan losses	35,000	—	—	35,000	—	35,000
Income tax expense (benefit)	335,409	246,066	(286,582)	294,893	—	294,893
Segment profit (loss)	\$ 881,876	\$ 477,654	\$ (545,789)	\$ 813,741	\$ —	\$ 813,741
Balance sheet information:						
Total assets	\$ 553,810,212	\$ 19,981,151	\$ 8,623,336	\$ 582,414,699	\$ (12,427,586)	\$ 569,987,113
Goodwill and intangibles	12,270,962	7,273,716	—	19,544,678	—	19,544,678
Premises and equipment expenditures	4,849	303,676	7,774	316,299	—	316,299



Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Cautionary Statement Regarding Forward-Looking Information**

Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that are provided to assist in the understanding of anticipated future financial performance. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance. Examples of forward-looking statements include: (a) projections of income or expense, earnings per share, the payments or non-payments of dividends, capital structure and other financial items; (b) statements of plans and objectives of the Company or our management or Board of Directors, including those relating to products or services; (c) statements of future economic performance; and (d) statements of assumptions underlying such statements. Words such as "believes," "anticipates," "expects," "intends," "targeted," and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying those statements. Forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation, changes in interest rates, changes in the competitive environment, and changes in banking regulations or other regulatory or legislative requirements affecting bank holding companies. Additional detailed information concerning a number of important factors which could cause actual results to differ materially from the forward-looking statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations is available in the Company's filings with the Securities and Exchange Commission, under the Securities Exchange Act of 1934, including the disclosure under the heading "Item 1A. Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Undue reliance should not be placed on the forward-looking statements, which speak only as of the date hereof. Except as may be required by law, the Company undertakes no obligation to update any forward-looking statement to reflect unanticipated events or circumstances after the date on which the statement is made.

**Overview of Rurban**

Rurban is a bank holding company registered with the Federal Reserve Board. Rurban's wholly-owned subsidiary, The State Bank and Trust Company ("State Bank"), is engaged in commercial banking. Rurban's subsidiary, Rurbanc Data Services, Inc. ("RDSI"), provides computerized data processing services to community banks and businesses. On March 24, 2007, The Exchange Bank and Reliance Financial Services, N.A. ("Reliance") were merged with and into the lead bank, State Bank. Reliance's trust and investment operations are now conducted through a division of State Bank, doing business under the name Reliance Financial Services.

Rurban Statutory Trust I ("RST") was established in August 2000. In September 2000, RST completed 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 of the Company with terms substantially similar to the Capital Securities. The sole assets of RST are the junior subordinated debentures, and the back-up obligations, in the

Table of Contents

aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST under the Capital Securities.

Rurban Statutory Trust II (“RST II”) was established in August 2005. In September 2005, RST II completed 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 of the Company with terms substantially similar to the Capital Securities. The sole assets of RST II are 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.

RFCBC, Inc. (“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.

Diverse Computer Marketers, Inc (“DCM”), a wholly-owned subsidiary of RDSI, provides item processing services to over 50 financial institutions throughout the Midwest.

**Critical Accounting Policies**

Note 1 to the Notes to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2006 describes the significant accounting policies used in the development and presentation of the Company’s financial statements. 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 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

Table of Contents

for current trends, for each homogeneous category or group of loans. The allowance for credit losses relating to impaired loans is based on the 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. To the extent that actual results differ from management's estimates, additional loan loss provisions may be required that could adversely impact earnings for future periods.

**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 or 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. A decrease in earnings resulting from these or other factors could lead to an impairment of goodwill that could adversely impact earnings of future periods.

**Impact of Accounting Changes**

None

**Three Months Ended September 30, 2007 compared to Three Months Ended September 30, 2006**

**Net Income:** Net income for the third quarter of 2007 was \$864,000, or \$0.17 per diluted share, compared to \$814,000, or \$0.16 per diluted share, for the third quarter of 2006. This quarterly increase in net income was driven by an \$880,000 increase in non-interest income offset by an increase of \$105,000 in provision expense, a reduction of \$95,000 in net interest income along with a \$592,000 increase in non-interest expense. The primary driver of the increase in non-interest income is data processing fees generated from the acquisition of DCM. The \$592,000 increase in non-interest expense is likewise due to the acquisition of DCM. The acquisition of DCM was completed in September of 2006.

**Net Interest Income:** Net interest income was \$3.7 million, down \$95,000 or 2.5 percent, from the 2006 third quarter. Average earning assets decreased \$17.8 million or 3.5 percent over the 12-month



Table of Contents

period. The decrease in earning assets is a result of the balance sheet restructuring that the Company completed at the end of 2006. Loan growth over the past twelve months was \$23.9 million, or 6.6 percent, reaching \$388.3 million at September 30, 2007; this growth was entirely organic. Nearly 65 percent of State Bank's loan portfolio is commercial, and virtually all of the Bank's growth was derived from this sector. Loan growth was again encouraging during the third quarter of 2007, increasing \$6.6 million, or 6.9 percent annualized, from the second quarter of 2007. As of September 30, 2007, loans were \$18.2 million higher than year-end, with commercial loan growth leading the way. Year-over-year, the net interest margin decreased 14 basis points from 3.10 percent for the third quarter 2006 to 2.96 percent for the third quarter 2007. The 2.96 percent represents a 23 basis point decrease from the linked quarter of 3.19 percent. This year-over-year decrease is the result of a 35 basis point increase in the cost of funds from one year ago.

**Provision for Loan Losses:** The provision for loan losses was \$140,000 in the third quarter of 2007 compared to a \$35,000 provision for the third quarter of 2006. The Company experienced minimal losses in the 2007 third quarter, which is reflected in net charge-offs of \$28,000 compared to \$54,000 of net recoveries in the 2006 third quarter. For the third quarter ended September 30, 2007, net charge-offs as a percentage of average loans was 0.03 percent annualized. At quarter end, consolidated non-performing assets, including those of RFCBC (the loan workout subsidiary), were \$6.4 million, or 1.14 percent of total assets compared with \$6.1 million, or 1.07 percent of total assets for the prior-year third quarter. The increase in non-performing assets in the third quarter compared to the second quarter of 2007 was attributable to three commercial credits. The company believes that they are adequately reserved for potential resultant losses, if any. The following asset quality ratios as of the end of their respective periods demonstrate the trends in Asset Quality:

(\$ in Thousands)	September 30, 2007	June 30, 2007	September 30, 2006
Net charge-offs	\$28	\$90	\$(54)
Non-performing loans	6,361	5,913	5,636
OREO / OAO	71	84	490
Non-performing assets	6,432	5,997	6,126
Non-performing assets / Total assets	1.14%	1.09%	1.07%
Allowance for loan losses / Total loans	1.01%	1.00%	1.24%
Allowance for loan losses / Non-performing assets	61.2%	63.8%	73.8%

**Non-interest Income:** Non-interest income was \$6.8 million for the third quarter of 2007 compared with \$5.9 million for the prior-year third quarter, an increase of \$880,000, or 14.9 percent. The increase was primarily driven by data processing fees, as they increased \$1.2 million. DCM, which was acquired by RDSI in September of 2006, provided \$758,000 of this increase. Rurban's data processing subsidiary accounts for approximately \$5.0 million, or 73.8 percent of non-interest income. Excluding the \$758,000 in DCM revenue, non-interest income increased \$461,000, or 13.6 percent and was driven by organic growth within RDSI. Trust Fees, the second largest component of non-interest income, increased \$67,000 or 8.8%. Trust Fees account for approximately \$820,000, or 12.1% of non-interest income.



Table of Contents

**Non-interest Expense:** Non-interest expense was \$9.1 million for the third quarter of 2007, up \$592,000, or 7.0 percent, from the year-earlier quarter. Included in the third quarter 2007 operating results are \$1.1 million of DCM operating expense. The acquisition of DCM took place in September 2006, so consequently there was only one month of expenses for DCM in the third quarter, 2006. Excluding the DCM acquisition, non-interest expense decreased by \$795,000 reflecting the expense reductions identified and taken in the beginning of 2007. In comparison to the second quarter, operating expenses were virtually unchanged, increasing \$41,000, or 0.5 percent. Salaries and benefit expense increased marginally as a result of the growth being experienced at RDSI and DCM.

**Nine Months Ended September 30, 2007 compared to Nine Months Ended September 30, 2006**

**Net Income:** Rurban Financial Corp. had net income of \$2.4 million or \$0.47 per diluted share for the nine months ended September 30, 2007 compared to \$2.0 million or \$0.41 per diluted share for the nine months ended September 30, 2006. This represents a \$301,000, or 14.7 percent, increase in comparison of the nine-month periods. Significant changes from period to period include a decrease in net interest income of \$446,000, a \$3.8 million increase in non-interest income and a \$2.9 million increase in non-interest expense. The increase in non-interest income and non-interest expense is primarily due to the September 2006 acquisition of DCM, which provided \$3.0 million of income and \$2.9 million of expense.

**Net Interest Income:** For the nine months ended September 30, 2007, net interest income was \$11.0 million, a decrease of \$487,000, or 4.4 percent, from the nine-month period ended September 30, 2006. This decrease is primarily the result of a 35 basis point decrease in the year over year net interest margin. The banking industry as a whole has experienced margin compression throughout the past year. The Companies earning assets have decreased \$16.0 million over the past twelve months. The strategic decision to restructure the balance sheet is benefiting the company as the net interest margin has improvement during 2007. As mentioned previously, the loan portfolio continues to grow and the liquidity provided by the reduction in investment securities has been used to fund this growth. Rurban continues to monitor opportunities to improve the margin through funding loans with lower yielding investments.

**Provision for Loan Losses:** The provision for loan losses was \$379,000 for the nine months ended September 30, 2007 compared to \$337,000 for the nine months ended September 30, 2006.

**Non-interest Income:** Non-interest income was \$20.0 million for the nine months ended September 30, 2007 compared with \$16.2 million for the nine months ended September 30, 2006. Data Processing accounted for \$4.2 million of the increase with DCM accounting for \$3.0 million and RDSI contributing approximately \$1.2 million. Excluding DCM's contribution, non-interest income for the period increased \$850,000, or 5.4 percent. Management continues to focus on fee income opportunities within the SBA and FSA programs. Trust fee income also increased from \$2.3 million to \$2.5 million, as total trust assets managed reached a record high of \$389 million.

**Non-interest Expense:** For the nine months ended September 30, 2007, total non-interest expense was \$27.5 million compared with \$24.5 million for the nine months ended September 30, 2006. This represents a \$2.9 million, or 11.9 percent, increase period over period. Of the overall increase, salaries and benefits accounted for \$966,000, equipment expenses increased \$740,000, postage and delivery expenses increased \$771,000 and professional fees were up \$115,000. Again, the acquisition of DCM had a major role in the increases, as they accounted for \$2.9 million of expenses that were not in the September 30, 2006 totals.

Table of Contents

**Changes in Financial Condition**

**September 30, 2007 vs. December 31, 2006**

At September 30, 2007, total assets were \$565.7 million, representing an increase of \$9.7 million or 1.7 percent, from December 31, 2006. The increase was primarily attributable to an increase in total loans of \$18.2 million, or 4.9 percent during the nine month period. A decrease in cash and cash equivalents of \$9.6 million, primarily a decrease in fed funds sold of \$9.1 million offset the loan increase. The fed funds were used to fund the loan growth and in turn have improved the net interest margin, as the fed funds have been reinvested in higher yielding loans.

Year- over-year, average assets increased \$2.0 million, or 0.4 percent. Loan growth over the past twelve months was approximately \$23.9 million, or 6.6 percent, reaching \$388.3 million at September 30, 2007; this growth was entirely organic. Virtually all of the growth in the Bank's loan portfolio over this period was derived from the commercial sector. After a steady but slow first quarter resulting from both competitive factors and the priority given to merger activities, loan growth continued to be strong during the third quarter of 2007, growing at an annualized rate of 6.6 percent.

At September 30, 2007, liabilities totaled \$507.2 million, an increase of \$8.1 million since December 31, 2006. Of this increase, significant changes included fed funds borrowed, which increased \$4.4 million; retail repurchase agreements, which increased \$10.3 million (31.9 percent). These increases were offset by decreases in notes payable, which decreased \$1.6 million (60.4 percent); and other liabilities, which decreased \$1.8 million (31.0 percent). Deposit balances decreased \$1.4 million. Of the \$1.4 million decrease in total deposits, time deposits decreased \$4.2 million and demand deposits decreased \$5.1 million during the period, while savings, interest checking and money market deposits increased \$7.8 million. The decrease in time deposits was due to excess liquidity which allowed management to run off higher cost municipal deposits.

From December 31, 2006 to September 30, 2007, total shareholders' equity increased \$1.5 million, or 2.7 percent, to \$58.5 million. Of this increase, retained earnings increased \$1.4 million, which is the result of \$2.4 million in net income less \$953,000 in cash dividends to shareholders. Additional paid-in-capital increased \$44,000 as the result of stock option expense incurred during the year. Accumulated other comprehensive loss increased \$458,000 as the result of an increase in market value of the available-for-sale securities portfolio. The stock repurchase plan also reduced capital by \$350,000 during 2007 as 28,000 shares have been repurchased YTD.

Table of ContentsCapital Resources

At September 30, 2007, actual capital levels (in millions) and minimum required levels were as follows:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)						
Consolidated	\$ 64.2	15.8%	\$ 32.5	8.0%	-	N/A
State Bank	48.7	12.4	31.5	8.0	39.3	10.0

Both the Company and State Bank were categorized as well capitalized at September 30, 2007.

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 \$115.6 million at September 30, 2007 compared to \$125.5 million at December 31, 2006.

The Company's residential first mortgage portfolio of \$86.7 million at September 30, 2007 and \$94.4 million at December 31, 2006, which can and has been used to collateralize borrowings, is an additional source of liquidity. At September 30, 2007, all eligible one-to-four family residential and commercial real estate loans were pledged under a Federal Home Loan Bank ("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 the nine months ended September 30, 2007 and 2006 follows.

The Company experienced positive cash flows from operating activities for the nine months ended September 30, 2007 and 2006. Net cash provided from operating activities was \$4.1 million and \$2.6 million, respectively, for the nine months ended September 30, 2007 and 2006.

Net cash flow from investing activities was \$(22.1) million and \$(38.7) million for the nine months ended September 30, 2007 and 2006, respectively. The changes in net cash from investing activities at September 30, 2007 included loan growth of \$18.4 million, available-for-sale securities purchases totaling \$29.4 million and purchases of premises equipment and software totaling \$3.2 million. These cash payments were offset by \$27.4 million in proceeds from maturities of available-for-sale securities. The changes in net cash from investing activities at September 30, 2006 included loan growth of \$38.2 million, payment to the shareholders of Exchange Bancshares, Inc., which merged with the Company

Table of Contents

effective December 31, 2005, of \$6.5 million and available-for-sale security purchases totaling \$13.8 million. This was partially offset by proceeds from maturities and proceeds from the sales of available-for-sale securities totaling \$10.4 million and \$15.2 million, respectively.

Net cash flow from financing activities was \$8.4 million and \$41.8 million for the nine month periods ended September 30, 2007 and 2006, respectively. The 2007 financing activities included a \$10.3 million increase in repurchase agreements, and a \$4.4 million increase in fed funds borrowed. Demand deposits, money market, interest checking and savings accounts increased by a \$2.7 million, offset by a decrease in certificates of deposit of \$4.2 million. The net cash provided by financing activities at September 30, 2006 was primarily due to an increase in total deposits of \$27.3 million, an increase in repurchase agreements of \$25.7 million, an increase in notes payable of \$2.5 million, partially offset by a decrease in fed funds purchases of \$3.8 million and net Federal Home Loan Bank advances of \$7.0 million.

**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.

Approximately \$71.6 million of the Company's \$86.7 million residential first mortgage loan portfolio qualifies to collateralize FHLB borrowings and was pledged to meet FHLB collateralization requirements as of September 30, 2007. Based on the current collateralization requirements of the FHLB, approximately \$28.7 million of additional borrowing capacity existed at September 30, 2007.

As of September 30, 2007, the Company had unused federal funds lines totaling \$16.4 million from four correspondent banks. At December 31, 2006, the Company had \$21.8 million in federal fund lines. Federal funds borrowed at September 30, 2007 and December 31, 2006 totaled \$4.4 million and \$0, respectively.

The Company's contractual obligations as of September 30, 2007 consisted of long-term debt obligations, other debt obligations, operating lease obligations and other long-term liabilities. Long-term debt obligations were comprised of FHLB advances of \$19.0 million. Other debt obligations were comprised of Trust Preferred Securities of \$20.6 million. The operating lease obligation is a lease on the State Bank operations building of \$99,600 per year, the RDSI-North building of \$162,000 per year, the new Northtowne branch of State Bank of \$60,000 per year and the DCM Lansing and Indiana facilities which total \$108,000 and \$60,000, respectively, per year. Other long-term liabilities were comprised of time deposits of \$233.6 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 consists 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 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

Table of Contents

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 results and profitability and stockholder 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, and serves as 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 contracts, options on futures contracts, and other such derivative financial instruments can be used for this purpose. Because these

Table of Contents

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.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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 September 30, 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 Company's historical experience of the 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, as 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 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.



Table of Contents

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

Comparison of 2007 to 2006:	First Year	Years 2 - 5	Thereafter	Total
Total rate-sensitive assets:				
At September 30, 2007	\$ 175,702	\$ 184,873	\$ 134,470	\$ 495,045
At December 31, 2006	195,015	170,804	120,379	486,198
Increase (decrease)	\$ (19,313)	\$ 14,069	\$ 14,091	\$ 8,847
Total rate-sensitive liabilities:				
At September 30, 2007	\$ 248,234	\$ 230,870	\$ 21,660	\$ 500,764
At December 31, 2006	232,446	237,240	21,349	491,035
Increase (decrease)	\$ 15,788	\$ (6,370)	\$ 311	\$ 9,729

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. While increasingly aggressive local market competition in lending rates has pushed loan rates lower, the Company's increased reliance on non-core funding sources has restricted the Company's ability to reduce funding rates in concert with declines in lending rates.

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 30 days, and 6) FHLB borrowings with terms of one day to ten years.

**Item 4. 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 quarterly period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Company's President and Chief Executive Officer and Executive Vice President and Chief Financial Officer have concluded that:

- information required to be disclosed by the Company in this Quarterly Report on Form 10-Q and other reports which the Company files or submits under the Exchange Act would be accumulated and



Table of Contents

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 Quarterly Report on Form 10-Q and other reports which 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 quarterly period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II - OTHER INFORMATION****Item 1. Legal Proceedings**

There are no material pending legal proceedings against the Company or any of its subsidiaries other than ordinary, routine litigation incidental to their respective businesses. In the opinion of management, this litigation should not, individually or in the aggregate, have a material adverse effect on the Company's results of operations or financial condition.

**Item 1A. Risk Factors**

An investment in our common shares involves certain risks, including those identified and described in "Item 1A. Risk Factors" of Part I of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as well as in the Cautionary Statements Regarding Forward-Looking Information contained on page 22 of this Form 10-Q. These risk factors could materially affect the Company's business, financial condition or future results. There have been no material change in the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

a. Not applicable

b. Not applicable

c. The following table provides information regarding repurchases of the Company's common shares during the three months ended September 30, 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)
July 1 through July 31, 2007	19,568	\$12.61	16,000	222,000
August 1 through August 31, 2007	—	—	—	222,000
September 1 through September 30, 2007	2,682	\$12.67	—	222,000

(1) In July and September 3,568 and 2,682 of the repurchased shares respectively, 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. The balance of shares repurchased were part of the publicly announced 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.

**Item 3. Defaults Upon Senior Securities**

Not applicable

-34-

---

Table of Contents

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

Not applicable

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

Exhibits

- 31.1 - Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)
- 31.2 - Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)
- 32.1 - Section 1350 Certification (Principal Executive Officer)
- 32.2 - Section 1350 Certification (Principal Financial Officer)

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

RURBAN FINANCIAL CORP.

Date: November 13, 2007

By: /s/ Kenneth A. Joyce

---

Kenneth A. Joyce  
President & Chief Executive Officer

By: /s/ Duane L. Sinn

---

Duane L. Sinn  
Executive Vice President & Chief Financial Officer