RURBAN FINANCIAL CORP
Form 10-K
March 20, 2009

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, 2008
OR

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

Commission File Number 0-13507

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the common shares of the registrant held by non-affiliates computed by reference to the price at which the common shares were last sold as of the last business day of the registrant's most recently completed second fiscal quarter was $43,311,868.

The number of common shares of the registrant outstanding at March 11, 2009 was 4,873,351.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 16, 2009 are incorporated by reference into Part III of this Annual Report on Form 10-K.

RURBAN FINANCIAL CORP.

2008 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"), RDSI Banking Systems ("RDSI"), 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. State Bank owns all of the outstanding stock of Rurban Mortgage Company ("RMC").

General Description of Holding Company Group

State Bank

State Bank is an Ohio state-chartered bank. State Bank presently operates five branch offices in Defiance County, Ohio (four in the city of Defiance 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), five branch offices in Williams County, Ohio (two in the city of Montpelier and one each in Bryan, Pioneer, and West Unity) and one office in Lucas County, Ohio (Sylvania), a Commercial and Mortgage Loan Production Office in Franklin County, and one branch office in Allen County, Indiana. At December 31, 2008, State Bank had 197 full-time equivalent employees.

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

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

RMC

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

At December 31, 2008, 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, 2008, RFCBC had no employees.

RDSI

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

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

At December 31, 2008, RDSI had 94 full-time equivalent employees.

RST I

RST I is a trust that was organized in August 2000. In September 2000, RST I closed a pooled private offering of 10,000 Capital Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures with terms similar to the Capital Securities. The sole assets of RST I are the junior subordinated debentures and the back-up obligations, which in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST I under the Capital Securities.

RST II

RST II is a trust that was organized in August 2005. In September 2005, RST II closed a pooled private offering of 10,000 Capital Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures with terms similar to the Capital Securities. The sole assets of RST II are the junior subordinated debentures and the back-up obligations, which in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST II under the Capital Securities.

Recent Developments

During the fourth quarter of 2008, Rurban acquired NBM Bancorp, Inc. and its subsidiary the National Bank of Montpelier, through the merger of NBM Bancorp, Inc. into the Company. Upon closing of the acquisition, the National Bank of Montpelier was merged into State Bank. The merger has allowed the State Bank to expand its footprint into Williams County, Ohio and now has five full service branches in Williams County. The acquisition is expected to be immediately accretive to earnings.

In addition to the Loan Production Office in Columbus, Ohio, which opened in December, 2007, State Bank added a mortgage origination group to the Columbus region during the fourth quarter of 2008.

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 2008, Rurban had repurchased a total of 145,981 shares at an average cost of $11.05 per share.

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

5.

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.

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

6.

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

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

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

The Federal Home Loan Banks ("FHLBs") provide credit to their members in the form of advances. As a member of the FHLB of Cincinnati, State Bank must maintain certain minimum investments in the capital stock of the FHLB of Cincinnati. State Bank was in compliance with these requirements at December 31, 2008.

Dividends

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

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 of total risk-based capital ("Tier 2 capital") may consist, among other things, of certain amounts of mandatory convertible debt securities, subordinated debt, preferred stock not qualifying as Tier 1 capital, an allowance for loan and lease losses and net unrealized gains, after applicable taxes, on available-for-sale equity securities with readily determinable fair values, all subject to limitations established by the guidelines. The Federal Reserve Board also imposes a minimum leverage ratio (Tier 1 capital to total assets) of 3% for bank holding companies and state member banks that meet certain specified conditions, including no operational, financial or supervisory deficiencies, and including having the highest regulatory rating. The minimum leverage ratio is 1%-2% higher for other bank holding companies and state member banks based on their particular circumstances and risk profiles and those experiencing or anticipating significant growth. Failure to meet applicable capital guidelines could subject a banking institution to a variety of enforcement remedies available to federal and state regulatory authorities, including the termination of deposit insurance by the FDIC.

The federal banking regulators have established regulations governing prompt corrective action to resolve capital deficient banks. The regulations establish five capital level categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. Under these regulations, institutions which become undercapitalized can become subject to mandatory regulatory scrutiny and limitations, which increase as capital decreases. Such institutions may also be required to file capital plans with their primary federal regulator,

and their holding companies may be required to guarantee the capital shortfall up to 5% of the assets of the capital deficient institution at the time it becomes undercapitalized.

8.

The Company's management believes that the Company and State Bank, at year end 2008, satisfied all requirements to be deemed "well capitalized".

Federal Deposit Insurance Corporation ("FDIC")

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

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

Monetary Policy and Economic Conditions

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

Holding Company Activities

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

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

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

SEC 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 rules and regulations of The NASDAQ Stock Market, Inc. ("NASDAQ") applicable to listed companies.

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

As mandated by the Sarbanes-Oxley Act of 2002, 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 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".

Patriot Act

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

Effect of Environmental Regulation

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

Available Information

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

10.

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.

11.

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:

	2008			2007			2006		
($in thousands)	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Assets:									
Securities									
Taxable	$ 84,301	$ 4,293	5.09%	$ 84,389	$ 4,284	5.08%	$ 119,394	$ 5,212	4.37%
Non-taxable (1)	17,193	1,040	6.05%	16,405	978	5.96%	14,497	848	5.85%
Federal funds sold	4,985	134	2.68%	5,072	225	4.44%	2,259	177	7.84%
Loans, net (2)(3)	401,770	27,601	6.87%	381,449	27,893	7.31%	354,400	25,055	7.07%
Total earning assets	508,250	33,067	6.51%	487,315	33,380	6.85%	490,550	31,292	6.38%
Cash and due from banks	9,570			11,605			11,827		
Allowance for loan losses	(4,182)			(3,843)			(4,495)		
Premises and equipment	21,145			19,788			19,387		
Other assets	40,708			41,707			36,825		
Total assets	$ 575,491			$ 556,572			$ 554,094		
Liabilities									
Deposits									
Savings and interest-bearing demand deposits	$ 158,765	$ 1,748	1.10%	$ 138,314	$ 2,714	1.96%	$ 127,179	$ 1,656	1.30%
Time deposits	213,891	$ 8,319	3.89%	231,605	10,882	4.70%	228,193	9,366	4.10%
Short-term borrowings	44,891	1,874	4.18%	36,588	1,653	4.52%	21,965	946	4.30%
Advances from FHLB	33,377	1,508	4.52%	19,329	1,037	5.36%	41,353	2,106	5.09%
Junior subordinated debentures	20,620	1,692	8.20%	20,620	1,809	8.77%	20,620	1,787	8.67%
Other borrowed funds	-	-	N/A	1,641	127	7.74%	939	75	7.98%
Total interest-bearing liabilities	471,544	15,141	3.21%	448,097	18,222	4.07%	440,249	15,936	3.62%
Demand deposits	35,386			42,848			47,176		
Other liabilities	8,597			7,682			12,168		
Total liabilities	515,527			498,627			499,593		
Shareholders' equity	59,964			57,945			54,501		

Total liabilities and shareholders' equity	$ 575,491	$ 556,572	$ 554,094
Net interest income (tax equivalent basis)	$ 17,926	$ 15,158	$ 15,356
Net interest income as a percent of average interest-earning assets	3.53%	3.11%	3.13%

(1) Interest is computed on a tax equivalent basis using a 34% statutory tax rate. The tax equivalent adjustment was $354,000, $333,000 and $288,000 in 2008, 2007 and 2006, 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 $44,000, $38,000 and $33,000 in 2008, 2007 and 2006 respectively.

12.

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 2008, 2007 and 2006.

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

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

	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)

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

	2008	2007	2006
	(dollars in thousands)		
U.S. Treaury and government agencies	$ 15,184	$ 40,189	$ 58,123
State and political subdivisions	22,801	16,019	15,465
Mortgage-backed securities	64,546	36,380	28,770
Other securities	52	50	81
Marketable equity securities	23	23	23
Total	$ 102,606	$ 92,661	$ 102,462

B. The maturity distribution and weighted average interest rates of securities available for sale at December 31, 2008 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	$ -	$ 2,160	$ 9,002	$ 4,023
State and political subdivisions	1,750	3,654	5,537	11,861
Mortgage-backed securities	12	3,742	1,164	59,627
Other securities	-	51	-	-
Total	$ 1,762	$ 9,607	$ 15,703	$ 75,511
Marketable equity securities with no maturity	$ 23			
Weighted average yield (1)	2.84%	3.60%	4.78%	5.14%

(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, 2008.

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)	2008	2007	2006	2005	2004
Commercial and Agricultural	$ 288,853	$ 253,202	$ 225,827	$ 187,667	$ 188,532
Real estate mortgage	107,905	84,621	94,389	89,086	63,828
Consumer loans to individuals	53,339	51,358	49,314	48,877	31,949
Leases	266	330	857	1,661	5,128
Total loans	$ 450,363	$ 389,511	$ 370,387	$ 327,291	$ 264,750
Real estate mortgage loans held for resale	$ 3,824	$ 1,650	$ 390	$ 224	$ 113

Concentrations of Credit Risk: The Company grants commercial, real estate and installment loans to customers mainly in Northwest Ohio. Commercial loans include loans collateralized by commercial real estate, business assets and, in the case of agricultural loans, crops and farm equipment and the loans are expected to be repaid from cash flow from operations of businesses. As of December 31, 2008, commercial and agricultural loans made up approximately 64.1% of the loan portfolio. As of December 31, 2008, residential first mortgage loans made up approximately 24% of the loan portfolio and are collateralized by first mortgages on residential real estate. As of December 31, 2008, consumer loans to individuals made up approximately 11.9% 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, 2008 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	$ 56,815
After one year but within five years	73,404
After five years	158,634
Total commercial and agricultural loans	$ 288,853

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	$ 24,860	$ 48,544	$ 73,404
Due after five years	20,490	138,144	158,634
Total	$ 45,350	$ 186,688	$ 232,038

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.

	2008	2007	2006	2005	2004
	(dollars in thousands)				
(a) Loans accounted for on a non-accrual basis	$ 5,178	$ 5,990	$ 3,828	$ 6,270	$ 13,384
(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	151	159	166	825	1,570
Total non-performing loans	$ 5,329	$ 6,149	$ 3,994	$ 7,100	$ 14,965
(d) Other loans defined as impaired	$ 1,868	$ 593	$ 82	$ 3,283	$ 4,671

	2008 ($ In thousands)
Cash basis interest income recognized on impaired loans outstanding at December 31, 2008	$ 15
Interest income actually recorded on impaired loans and included in net income for the period	12
2008 unrecorded interest income on non-accrual loans	155

17.

III. LOAN PORTFOLIO (Continued)

Management believes the allowance for loan losses at December 31, 2008 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, 2008, in addition to the $5,329,000 of non-performing loans reported under Item III.C.1. above (which amount includes all loans classified by management as doubtful or loss), there were approximately $6,778,000 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, 2008, loans outstanding related to agricultural operations or collateralized by agricultural real estate and equipment aggregated approximately $43,641,000, or 9.7 % of total loans.

D. Other Interest-Bearing Assets

There were no other interest-bearing assets as of December 31, 2008 which would be required to be disclosed under Item III.C.1 or Item III.C.2. if such assets were loans.

IV. SUMMARY OF LOAN LOSS EXPERIENCE

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

Summary of Loan Loss Experience

	2008	2007	2006	2005	2004
			(dollars in thousands)		
Loans					
Loans outstanding at end of period	$ 450,112	$ 389,269	$ 370,102	$ 327,048	$ 264,481
Average loans outstanding during period	$ 401,770	$ 381,453	$ 354,726	$ 268,158	$ 271,503
Allowance for loan losses					
Balance at beginning of period	$ 3,990	$ 3,717	$ 4,700	$ 4,899	$ 10,181
Balance, of ALLL acquired in Exchange acquisition				910	
Balance, of ALLL acquired in Montpelier acquisition	1,104				
Loans charged-off					
Commercial and agricultural loans	(489)	(104)	(1,277)	(2,760)	(6,599)
Real estate mortgage	(172)	(81)	(100)	(133)	(12)
Leases	-	-	-	(208)	(70)
Consumer loans to individuals	(261)	(247)	(440)	(308)	(308)
	(922)	(432)	(1,817)	(3,409)	(6,989)
Recoveries of loans previously charged-off					
Commercial and agricultural loans	91	85	419	1,566	1,835
Real estate mortgage	4	4	75	2	52
Leases	-	-	-	4	31
Consumer loans to individuals	63	95	162	145	188
	158	184	656	1,717	2,106
Net loans charged-off	(764)	(248)	(1,160)	(1,692)	(4,883)
Provision for loan losses	690	521	178	583	(399)
Balance at end of period	$ 5,020	$ 3,990	$ 3,717	$ 4,700	$ 4,899
Ratio of net charge-offs during the period to average loans	0.19%	0.07%	0.33%	0.63%	1.80%

outstanding during the
period

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.

20.

IV. SUMMARY OF LOAN LOSS EXPERIENCE (Continued)

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

	Allocation of the Allowance for Loan Losses									
	Allowance Amount December 31, 2008	Percentage of Loans In Each Category to Total Loans	Allowance Amount December 31, 2007	Percentage of Loans In Each Category to Total Loans	Allowance Amount December 31, 2006	Percentage of Loans In Each Category to Total Loans	Allowance Amount December 31, 2005	Percentage of Loans In Each Category to Total Loans	Allowance Amount December 31, 2004	Percentage of Loans In Each Category to Total Loans
					(dollars in thousands)					
Commercial and agricultural	$ 3,559	70.9%	$ 2,945	73.8%	$ 2,945	79.2%	$ 3,728	57.3%	$ 4,502	61.9%
Residential first mortgage	884	17.6%	590	14.8%	317	8.5%	291	27.2%	141	24.1%
Consumer loans to individuals	577	11.5%	455	11.4%	455	12.3%	681	15.5%	256	14.0%
	$ 5,020	100.0%	$ 3,990	100.0%	$ 3,717	100.0%	$ 4,700	100.0%	$ 4,899	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:

	2008		2007		2006	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
	(dollars in thousands)					
Savings and interest-bearing demand deposits	$ 158,765	1.10%	$ 138,314	1.96%	$ 127,179	1.30%
Time deposits	213,891	3.89%	231,604	4.70%	228,193	4.10%
Demand deposits (non-interest-bearing)	35,386	—	42,849	—	47,176	—
	$ 408,042		$ 412,767		$ 402,548	

Maturities of time certificates of deposit and other time deposits of $100,000 or more outstanding at December 31, 2008 are summarized as follows:

	Amount (dollars in thousands)
Three months or less	$ 10,404
Over three months and through six months	14,356
Over six months and through twelve months	12,404
Over twelve months	22,602
Total	$ 59,766

VI. RETURN ON EQUITY AND ASSETS

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

Return on Equity and Assets

	2008	2007	2006
	(dollars in thousands)		
Average total assets	$ 575,491	$ 556,572	$ 554,094
Average shareholders’ equity	$ 59,964	$ 57,945	$ 54,501
Net income	$ 5,217	$ 3,257	$ 2,760
Cash dividends declared	$ 1,677	$ 1,303	$ 1,056
Return on average total assets	0.91%	0.59%	0.50%
Return on average shareholders' equity	8.70%	5.62%	5.06%
Dividend payout ratio (1)	32.14	40.01	38.25
Average shareholders' equity to average total assets	10.42%	10.41%	9.84%

(1) Cash dividends declared divided by net income.

VII. SHORT-TERM BORROWINGS

The following information is reported for short-term borrowings for 2008, 2007 and 2006:

	2008	2007	2006
	(dollars in thousands)		
Amount outstanding at end of year	$ 43,426	$ 43,006	$ 32,271
Weighted average interest rate at end of year	3.91%	4.38%	4.43%
Maximum amount outstanding at any month end	$ 49,554	$ 46,966	$ 32,584
Average amount outstanding during the year	$ 44,891	$ 36,588	$ 21,965
Weighted average interest rate during the year	4.10%	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 within 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 phrases "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 in our markets could adversely affect our financial condition and results of operations.

As a consequence of the current U.S. recession, businesses across a wide range of industries face serious difficulties due to the lack of consumer spending and the lack of liquidity in the global credit markets. Unemployment has also increased significantly. A sustained weakness or weakening in business and economic conditions generally or specifically in the markets in which we do business could adversely affect our businesses by, among other things, decreasing the demand for loans and other products and services that we offer, causing impairment of certain intangible assets, such as goodwill, and increasing the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us.

Current levels of market volatility are unprecedented and may adversely affect our businesses, financial condition and results of operations.

The capital and credit markets have been experiencing volatility and disruption for more than a year and have reached unprecedented levels in recent months. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our businesses, financial condition and results of operations.

Recent developments in the residential mortgage and related markets and the economy may adversely affect our business.

The residential mortgage market in the United States, including Ohio, has been negatively impacted recently by increasing rates and payments on adjustable-rate mortgages, decreasing housing values, increased credit standards for borrowers and other economic factors. As a result, delinquencies, foreclosures and losses with respect to residential construction and mortgage loans have increased and may continue to increase. Additionally, the lower housing prices and appraisal values may result in additional delinquencies and loan losses. While the residential real estate loans held in our portfolio are typically originated using conservative underwriting standards and do not include sub-prime loans, we do originate and hold fixed- and adjustable-rate loans and residential construction loans. If the residential loan market continues to deteriorate, especially in our local markets, our financial condition and results of operations could be adversely affected.

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.

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.

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

The FDIC insures deposits at FDIC insured financial institutions, including State Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. Current economic conditions have increased bank failures and expectations for further failures, in which case the FDIC insures payment of deposits up to insured limits from the Deposit Insurance Fund. In late 2008, the FDIC announced an increase in insurance premium rates of seven basis points for the first quarter of 2009. On February 27, 2009, the FDIC announced its adoption of an interim final rule imposing a one-time special assessment of 20 basis points and a final rule adjusting the risk-based calculation used to determine the premiums due from each financial institution. Management of the Company expects that the special assessment and the changes to the premium calculation could significantly increase the Company's insurance expense in 2009. Additional increases may be announced in the future, which could negatively affect our net income.

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.

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

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 35 of this Annual Report on Form 10-K.

27.

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 9-year lease. (Banking)

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

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

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

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

9. 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)

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

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

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

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

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

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

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

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

18. State Bank leases a loan production office located at 109 South High Street, #8, Dublin, Ohio. (Banking)

19. State Bank owns a full service branch office located at 1201 East Main Street, Montpelier, Ohio. (Banking)

20. State Bank owns a full service branch office located at 302 West Main Street, Montpelier, Ohio. (Banking)

21. State Bank owns a full service branch office located at 119 South State Street, Pioneer, Ohio. (Banking)

22. State Bank owns a full service branch office located at 112 East Jackson Street, West Unity, Ohio. (Banking)

23. State Bank owns a full service branch office located at 1419 West High Street, Bryan, Ohio. (Banking)

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

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

Item 3. Legal Proceedings.

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.

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 19, 2009, 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	60	President and Chief Executive Officer of the Company since 2002; Chairman, Chief Executive Officer and a Director of RDSI Banking Systems ("RDSI") since 1997; Director of State Bank since 2002; Director of RFCBC since 2004; Member of Investment Committee of Reliance Financial Services (now a division of State Bank) ("RFS") since March 2007; Director of Promedica-Defiance Regional Medical Center and Promedica Physicians Group; Chairman of Promedica-Defiance Regional Medical Center Finance Committee; Director of United Way (non-profit); Chairman and Director of Kettenring Country Club.
Henry R. Thiemann	62	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, Chief Executive Officer and Director of RFCBC since 2004.
Duane L. Sinn	38	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.
Mark A. Klein	54	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.

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
2008	High	Low	Declared
First Quarter	$ 12.60	$ 9.79	$ .080
Second Quarter	10.96	7.52	.080
Third Quarter	10.24	7.72	.090
Fourth Quarter	9.50	7.54	.090
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

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 2008, there were no sales of unregistered securities.

The approximate number of holders of the outstanding common shares of the Company, as of February 18, 2009, was 2,498.

Repurchases of Common Shares

The following table provides information regarding repurchases of the Company's common shares during the three months ended December 31, 2008:

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, 2008	4,375	$ 8.70	3,800	124,393
November 1 through November 30, 2008	4,305	$ 8.64	3,850	120,543
December 1 through December 31, 2008	18,369	$ 8.31	16,524	104,019

(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 July 22, 2008 the Company announced that its Board of Directors had authorized an extension to the stock repurchase program for an additional twelve months. The original stock repurchase program was announced in April, 2007 for fifteen months authorizing the purchase of 250,000 common shares.

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, 2008.

Rurban Financial Corp.

	Period Ending					
Index	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Rurban Financial Corp.	100.00	100.36	86.33	80.33	95.15	60.01
NASDAQ Composite	100.00	108.59	110.08	120.56	132.39	78.72
NASDAQ Bank	100.00	110.99	106.18	117.87	91.85	69.88

Source : SNL Financial LC, Charlottesville, VA
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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				
	2008	2007	2006	2005	2004
EARNINGS					
Interest income	$ 32,669	$ 33,010	$ 30,971	$ 21,422	$ 20,028
Interest expense	15,141	18,222	15,936	9,368	7,951
Net interest income	17,528	14,788	15,035	12,054	12,077
Provision (credit) for loan losses	690	521	178	583	(399)
Noninterest income	28,061	26,861	23,755	18,338	17,376
Noninterest expense	37,557	36,637	34,904	29,054	26,009
Provision (credit) for income taxes	2,125	1,234	948	81	1,109
Net income (loss)	5,217	3,257	2,760	673	2,734
PER SHARE DATA					
Basic earnings	$ 1.06	$ 0.65	$ 0.55	$ 0.15	$ 0.60
Diluted earnings	1.06	0.65	0.55	0.15	0.60
Cash dividends declared	0.34	0.26	0.21	0.20	N/A
AVERAGE BALANCES					
Average shareholders’ equity	$ 59,964	$ 57,945	$ 54,501	$ 51,083	$ 49,279
Average total assets	575,491	556,572	554,095	433,366	417,801
RATIOS					
Return on average shareholders' equity	8.70%	5.62%	5.06%	1.32%	5.55%
Return on average total assets	0.91	0.59	0.50	0.16	0.65
Cash dividend payout ratio (cash dividends divided by net income)	32.14	40.01	38.25	133.33	N/A
Average shareholders' equity to average total assets	10.42	10.41	9.84	11.79	11.79
PERIOD END TOTALS					
Total assets	$ 657,619	$ 561,214	$ 556,007	$ 530,542	$ 415,349
Total investments and fed funds sold	112,606	94,661	111,562	139,353	108,720
Total loans and leases	450,112	389,269	370,102	327,048	264,481

Loans held for sale	3,824	1,650	390	224	113
Total deposits	484,221	406,031	414,555	384,838	279,624
Notes Payable	1,000	922	2,589	939	3,080
Advances from FHLB	36,647	24,000	21,000	45,500	56,000
Trust Preferred Securities	20,620	20,620	20,620	20,620	10,310
Shareholders' equity	61,662	59,325	56,955	54,451	50,306
Shareholders' equity per share	$ 12.63	$ 11.92	$ 11.33	$ 10.83	$ 11.01

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Rurban Financial Corp. (the "Company"), 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 notes for the year ended December 31, 2008.

Critical Accounting Policies

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States and conform to general practices within the banking industry. The Company's significant accounting policies are described in detail in the notes to the Company's consolidated financial statements for the year ended December 31, 2008. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The Company's financial position and results of operations can be affected by these estimates and assumptions and are integral to the understanding of reported results. Critical accounting policies are those policies that management believes are the most important to the portrayal of the Company's financial condition and results, and they require management to make estimates that are difficult, subjective or complex.

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

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

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

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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

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

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

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

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

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

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

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

Acquisitions

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

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

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

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

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

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

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

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

EARNINGS SUMMARY

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

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

CHANGES IN FINANCIAL CONDITION

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

Significant Events of 2008

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

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

During 2008, State Bank expanded its reach into Columbus, Ohio's high volume mortgage market by adding a Mortgage Origination Group to the Columbus Loan Production Office.

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

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

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

On July 22, 2008 the Company announced that its Board of Directors had authorized an extension to the stock repurchase program for an additional twelve months. The original stock repurchase program was announced in April, 2007 for fifteen months authorizing the purchase of 250,000 common shares.

Significant Events of 2007

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

State Bank continued to expand its reach to higher-growth markets during 2007. 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 (which was merged into RDSI on December 31, 2007), 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 of 2007, Rurban had 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.

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RESULTS OF OPERATIONS

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

Net Interest Income

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

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

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

Loan Loss Provision

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

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.

Non-interest Income

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

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

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

RDSI Banking Systems ("RDSI")

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

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

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

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

Non-interest Expense

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

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

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

FINANCIAL CONDITION

Investments

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

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

Loans

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

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

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

Asset Quality

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

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

CAPITAL RESOURCES

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

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

Goodwill and Intangibles

Goodwill is related to both our banking and data processing segments. We test for impairment of goodwill in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." We evaluate the fair value of our banking and data processing segments versus their carrying value as of each fiscal year end or more frequently if events or changes in circumstances indicate that the carrying value may exceed the fair value. The discount factors used in present value calculations are updated annually. We also use available market value information to evaluate fair value.

The methodology of calculating fair value for the Banking segment typically includes three different approaches. The income approach calculates a discounted cash flow analysis based on earnings capacity. The projections for the cash flow analysis are based on the Bank's 2009 budget and assume modest increases in total assets and net income through 2013. A cost savings of 15 percent of the Bank's overhead has also been factored into this equation.

The asset approach is based on the estimated market difference between the value of assets and liabilities. This approach was not used in calculating fair value for year end 2008 because it does not render a “control level” indication of value.

The final approach is the market approach. This analysis is based on guideline transactions, including price-to-earnings multiples and price-to-book value ratios for selected bank sale transactions.

The methodology for calculating fair value for the data processing segment also utilizes a three step approach. The first approach is the capitalized net value approach. This approach assumes a value based on normalized cash flow capitalized assuming a discount rate of 14.65 percent and long-term growth rate of 3 percent. The data processing segments financial performance reflects the implementation of Rurban’s cost savings synergies; therefore no additional cost savings were assumed in this valuation method.

The net asset value approach estimates the market value of assets less the market value of liabilities. This approach was not utilized in determining the fair value of the data processing segment due to RDSI being a service oriented company. The value of the business is not based on the production of a tangible asset, and a minimal amount of tangible capital has been allocated to RDSI. Therefore, a valuation based on net asset value would not be meaningful.

The final approach utilized in determining the fair value of the data processing segment was the market comparables approach. This analysis is based on a review of guideline transactions including multiple of earnings, multiple of earnings before interest, taxes, depreciation and amortization (“EBITDA”) and multiple of revenue for selected financial technology companies. Indications of value are determined using publicly traded guidelines comparable multiples.

Significant changes in the estimates and assumptions used in calculating the fair value of the segments and the recoverability of goodwill or differences between estimates and actual results could result in impairment charges in the future.

Planned Purchases of Premises and Equipment

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

LIQUIDITY

Liquidity relates primarily to the Company's ability to fund loan demand, meet deposit customers' withdrawal requirements and provide for operating expenses. Assets used to satisfy these needs consist of cash and due from banks, federal funds sold, interest earning deposits in other financial institutions, securities available for sale and loans held for sale. These assets are commonly referred to as liquid assets. Liquid assets were $134.5 million at December 31, 2008 compared to $111.5 million at December 31, 2007. During 2008, the Company continued to liquidate investments and use the funding to grow the loan portfolio. The acquisition of NBM also added liquidity to the organization. The loan to deposits ratio at NBM prior to the acquisition was 48%. Rurban liquidated approximately $39 million of the $51 million in investments during December of 2008, and used $25 million to pay the shareholders of NBM Bancorp. The Company anticipates using the rest of the liquidity to fund loan growth throughout 2009. The approximately $13 million in investments that were retained will also provide liquidity to the Company, as cash flows are expected on these investments over the next 3 years.

The Company's commercial real estate and residential first mortgage portfolio of $269.5 million at December 31, 2008, and commercial real estate and residential first mortgage portfolio of $211.4 million at December 31, 2007, which can and has been readily used to collateralize borrowings, is an additional source of liquidity. Management believes the Company's current liquidity level, without these borrowings, is sufficient to meet its liquidity needs. At December 31, 2008, all eligible commercial real estate and first mortgage loans were pledged under an FHLB blanket lien.

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

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

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

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

Off-Balance-Sheet Borrowing Arrangements:

Significant additional off-balance-sheet liquidity is available in the form of FHLB advances, unused federal funds lines from correspondent banks, and the national certificate of deposit market. Management expects the risk of changes in off-balance-sheet arrangements to be immaterial to earnings. Approximately $138.6 million commercial

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

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

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

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

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

ASSET LIABILITY MANAGEMENT

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

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

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

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

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

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

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

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

	2009	2010	2011	2012	2013	Thereafter	Total
Rate Sensitive Assets							
Variable Rate Loans	$ 58,629	$ 8,865	$ 4,518	$ 2,973	$ 1,921	$ 3,931	$ 80,837
Average interest rate	4.07%	4.25%	4.23%	4.22%	4.26%	4.09%	4.11%
Adjustable Rate Loans	$ 43,366	$ 33,822	$ 28,191	$ 20,854	$ 17,251	$ 70,580	$ 214,064
Average interest rate	6.51%	6.41%	6.48%	6.48%	6.49%	6.46%	6.47%
Fixed Rate Loans	$ 49,077	$ 32,096	$ 27,239	$ 14,379	$ 9,351	$ 26,894	$ 159,035
Average interest rate	6.37%	6.47%	6.49%	6.34%	6.24%	5.55%	6.26%
Total Loans	$ 151,072	$ 74,783	$ 59,948	$ 38,206	$ 28,523	$ 101,405	$ 453,936
Average interest rate	5.52%	6.18%	6.32%	6.25%	6.26%	6.13%	5.98%
Fixed rate investment securities	$ 21,306	$ 10,018	$ 5,655	$ 4,123	$ 4,760	$ 50,651	$ 96,513
Average interest rate	4.68%	5.04%	5.10%	5.38%	5.16%	5.03%	4.98%
Var rate investment securities	$ 417	$ 395	$ 390	$ 348	$ 185	$ 8,603	$ 10,338
Average interest rate	4.98%	4.97%	4.96%	5.08%	4.82%	5.25%	5.20%
Fed Funds Sold & Other	$ 10,000	$ -	$ -	$ -	$ -	$ -	$ 10,000
Average interest rate	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%
Total Rate Sensitive Assets	$ 182,795	$ 85,196	$ 65,992	$ 42,677	$ 33,468	$ 160,659	$ 570,787
Average interest rate	5.12%	6.04%	6.20%	6.16%	6.09%	5.73%	5.69%
Rate Sensitive Liabilities							
Demand - Non Interest Bearing	$ 10,456	$ 10,457	$ 10,457	$ 10,457	$ 10,416	$ -	$ 52,243
Demand - Interest Bearing	$ 14,628	$ 14,628	$ 14,628	$ 14,628	$ 14,611	$ -	$ 73,123
Average interest rate	0.38%	0.38%	0.38%	0.38%	0.38%	0.00%	0.38%
Money Market Accounts	$ 16,404	$ 16,404	$ 16,404	$ 16,404	$ 16,409	$ -	$ 82,025

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

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

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

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

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

Impact of Inflation and Changing Prices

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

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

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 51 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, 2008 and December 31, 2007, 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, 2008, 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, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not Applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors and Executive Officers

The information required by Item 401 of SEC Regulation S-K concerning the directors of the Company 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 16, 2009 (the "2009 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 2009 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. Copies of these charters are available on the Company's Internet website at www.rurbanfinancial.net by first clicking "Corporate Governance" and then "Supplementary Info". The Company has adopted a Code of Conduct and Ethics that applies to the Company's directors, officers and employees. A copy of the Code of Conduct and Ethics is available on the Company's Internet website at www.rurbanfinancial.net under the "Corporate Governance" tab. Interested persons may also obtain copies of the Code of Conduct and Ethics, the Audit Committee charter, the Compensation Committee charter and the Executive Governance and Nominating Committee charter, without charge, by writing to Rurban Financial Corp., Attn: 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 included under the caption “CORPORATE GOVERNANCE – Nominating Procedures” in the Company’s 2009 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 included under the caption “MEETINGS AND COMMITTEES OF THE BOARD – Committees of the Board – Audit Committee” in the Company’s 2009 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 2009 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 2009 Proxy Statement under the caption “SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT”.

Equity Compensation Plan Information

The Rurban Financial Corp. Stock Option Plan (the "1997 Plan") was approved by the shareholders of the Company at the 1997 Annual Meeting of Shareholders. The 1997 Plan expired in accordance with its terms on March 12, 2007, and no additional stock options, stock appreciation rights ("SARS") or other awards may be granted under the 1997 Plan. At the 2008 Annual Meeting of Shareholders, the shareholders of the Company approved the Rurban Financial Corp. 2008 Stock Incentive Plan (the "2008 Plan"). Only one award of 10,000 restricted common shares had been issued under the 2008 Plan as of December 31, 2008.

The following table shows, as of December 31, 2008 the number of common shares issuable upon exercise of outstanding stock options, he weighted-average exercise price of those stock option, and the number of common shares remaining for future issuance under the Company's equity compensation plans (excluding common shares issuable upon exercise of outstanding stock options):

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by security holders	315,763(1)	$ 12.60	240,000(2)
Equity compensation plans not approved by security holders	N/A	N/A	N/A

(1) Does not include "tandem" SARs awards under the 1997 Plan in connection with the grant of the same number of nonqualified stock options. A total of 28,000 "tandem" SARs, with a weighted-average price of $13.68, were outstanding as of December 31, 2008.

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

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

The information required by Item 404 of SEC Regulation S-K is incorporated herein by reference to the information contained in the Company's 2009 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 2009 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 2009 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 2008 Fiscal Year".

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements.

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

By: /s/ Duane L. Sinn
Duane L. Sinn, Executive Vice President and Chief Financial Officer

Date: March 19, 2009

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, 2008, 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 Kenneth A. Joyce	March 19, 2009	President, Chief Executive Officer, and Director
/s/ Duane L. Sinn Duane L. Sinn	March 19, 2009	Executive Vice President and Chief Financial Officer
/s/ Thomas A. Buis Thomas A. Buis	March 19, 2009	Director
/s/ Thomas M. Callan Thomas M. Callan	March 19, 2009	Director

/s/ John R. Compo John R. Compo	March 19, 2009	Director
/s/ Robert A. Fawcett, Jr. Robert A. Fawcett, Jr.	March 19, 2009	Director
/s/ Richard L. Hardgrove Richard L. Hardgrove	March 19, 2009	Director
/s/ Rita A. Kissner Rita A. Kissner	March 19, 2009	Director
/s/ Thomas L. Sauer Thomas L. Sauer	March 19, 2009	Director
/s/ Steven D. VanDemark Steven D. VanDemark	March 19, 2009	Director
/s/ J. Michael Walz, D.D.S. J. Michael Walz, D.D.S	March 19, 2009	Director

Date: March 19, 2009

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Rurban Financial Corp.
December 31, 2008 and 2007

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 U.S. generally accepted accounting principles. The Corporation's internal control over financial reporting includes those policies and procedures that:

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

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

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

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

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

RURBAN FINANCIAL CORP.

Kenneth A. Joyce
President and Chief Executive Officer

Duane L. Sinn
Chief Financial Officer

February 17, 2009

F-0.

Report of Independent Registered Public Accounting Firm

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

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

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

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

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

Cincinnati, Ohio

February 17, 2009

Rurban Financial Corp.
Consolidated Balance Sheets
December 31

Assets

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

See Notes to Consolidated Financial Statements

Rurban Financial Corp.
Consolidated Balance Sheets
December 31

Liabilities and Stockholders' Equity

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

See Notes to Consolidated Financial Statements

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

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

See Notes to Consolidated Financial Statements

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

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

See Notes to Consolidated Financial Statements

Rurban Financial Corp.
Consolidated Statements of Stockholders' Equity
Years Ended December 31

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2006	$ 12,568,583	$ 14,835,110	$ 28,702,817	$ (1,655,862)	$ -	$ 54,450,648
Comprehensive Income						
Net Income			2,760,242			2,760,242
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect				775,969		775,969
Total comprehensive income						3,536,211
Dividends on common stock, $0.21 per share			(1,055,761)			(1,055,761)
Expense of stock option plan		24,055				24,055
Balance, December 31, 2006	12,568,583	14,859,165	30,407,298	(879,893)	-	56,955,153
Comprehensive Income						
Net Income			3,256,635			3,256,635
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect				962,128		962,128
Total comprehensive income						4,218,763
Dividends on common stock, $0.26 per share			(1,302,827)			(1,302,827)
		64,406				64,406

Expense of stock option plan						
Shares repurchased under stock repurchase plan					(610,260)	(610,260)
Balance, December 31, 2007	12,568,583	14,923,571	32,361,106	82,235	(610,260)	59,325,235
Comprehensive Income						
Net Income			5,217,239			5,217,239
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect				(203,892)		(203,892)
Total comprehensive income						5,013,347
Dividends on common stock, $0.34 per share			(1,676,723)			(1,676,723)
Expense of stock option plan		119,210				119,210
Cumulative effect adjustment for split dollar BOLI			(116,305)			(116,305)
Shares repurchased under stock repurchase plan					(1,002,760)	(1,002,760)
Balance, December 31, 2008	$ 12,568,583	$ 15,042,781	$ 35,785,317	$ (121,657)	$ (1,613,020)	$ 61,662,004

See Notes to Consolidated Financial Statements

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

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

See Notes to Consolidated Financial Statements

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

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

Rurban Financial Corp.
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Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Principles of Consolidation

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

Use of Estimates

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

Rurban Financial Corp.
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Cash Equivalents

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

Securities

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

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

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

Mortgage Loans Held for Sale

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

Loans

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

Rurban Financial Corp.
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Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the 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.
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Federal Reserve and Federal Home Loan Bank Stock

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

Foreclosed Assets Held for Sale

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

Goodwill

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

Intangible Assets

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

Mortgage Servicing Rights

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

Share-Based Employee Compensation Plan

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

Rurban Financial Corp.
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Income Taxes

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

Treasury Shares

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

Earnings Per Share

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

Current Economic Conditions

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

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

Rurban Financial Corp.
Notes to Consolidated Financial Statements
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Reclassifications

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

Note 2: Restriction on Cash and Due From Banks

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

Rurban Financial Corp.
Notes to Consolidated Financial Statements
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Note 3:Securities

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

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

Rurban Financial Corp.
Notes to Consolidated Financial Statements
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The amortized cost and fair value of securities available for sale at December 31, 2008, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Fair Value
Within one year	$ 1,749,631	$ 1,749,631
Due after one year through five years	5,816,222	5,865,316
Due after five years through ten years	14,593,591	14,538,964
Due after ten years	16,278,493	15,883,139
	38,437,937	38,037,050
Mortgage-backed securities & Equity Securities	64,352,865	64,569,425
Totals	$ $102,790,802	$ $102,606,475

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

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

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2008 and 2007, were $26,135,897 and $20,200,650, which is approximately 25% and 22% of the Company's available-for-sale investment portfolio, respectively.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for these securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

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

Rurban Financial Corp.
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Securities with unrealized losses at December 31, 2008, are as follows:

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

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

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

Rurban Financial Corp.
Notes to Consolidated Financial Statements
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Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31 include:

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

Activity in the allowance for loan losses was as follows:

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

Rurban Financial Corp.
Notes to Consolidated Financial Statements
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Individual loans determined to be impaired were as follows:

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

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

Note 5: Premises and Equipment

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

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

Rurban Financial Corp.
Notes to Consolidated Financial Statements
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Note 6:Goodwill

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

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

Rurban Financial Corp.
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Note 7: Other Intangible Assets

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

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

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

	2009	2010	2011	2012	2013
Core deposit intangible	$ 632,423	$ 626,595	$ 621,634	$ 617,490	$ 614,029
Customer relationship intangible	8,306	8,801	7,958	7,931	7,136
Banking intangibles	640,729	635,396	629,592	625,421	621,165
Customer relationship intangible	159,267	159,267	159,267	159,267	159,267
Trademark intangible	40,000	-	-	-	-
Non-compete intangible	18,444	-	-	-	-
Data Procesing intangibles	217,711	159,267	159,267	159,267	159,267
Purchased software - Banking	119,285	94,336	43,365	9,874	3,291
Purchased software - Data Processing	1,195,761	1,093,234	989,614	866,869	480,685
Purchased software - Other	46,323	34,308	7,040	-	-

Purchased Software	1,361,369	1,221,878	1,040,019	876,743	483,976
Total	$ 2,219,809	$ 2,016,541	$ 1,828,878	$ 1,661,431	$ 1,264,408

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Note 8: Mortgage Servicing Rights

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

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

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

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Note 9: Interest-Bearing Time Deposits

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

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

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

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

Rurban Financial Corp.
Notes to Consolidated Financial Statements
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Note 10:Short-Term Borrowings

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

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

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

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

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Notes to Consolidated Financial Statements
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Note 11:Notes Payable

Notes payable at December 31, include:

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

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

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Notes to Consolidated Financial Statements
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Note 12:Federal Home Loan Bank Advances

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

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

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

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Notes to Consolidated Financial Statements
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Note 13: Trust Preferred Securities

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

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

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

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Note 14: Income Taxes

The provision for income taxes includes these components:

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

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

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

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

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

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

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

The NOL carry over begins to expire in 2024.

Note 15: Other Comprehensive Income (Loss)

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

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

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Note 16: Regulatory Matters

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

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

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

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

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

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Note 17: Related Party Transactions

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

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

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

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

Note 18: Employee Benefits

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

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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 were $239,440, $166,000, and $199,000 for 2008, 2007, and 2006, respectively. Such charges reflect the straight-line accrual over the period until full eligibility of the present value of benefits due each participant on the full eligibility date, using a 6% discount factor.

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

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

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

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

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

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

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Note 19: Share Based Compensation Plan

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

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

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

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

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

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

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

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

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

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

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

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

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Note 20: Earnings Per Share

Earnings per share (EPS) is computed as follows:

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

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

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

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

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

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

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Note 21: Leases

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

Future minimum lease payments under operating leases are:

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

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Note 22: Disclosures about Fair Value of Financial Instruments

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

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

Available-for-Sale Securities

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

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

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

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Impaired Loans

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

Mortgage Servicing Rights

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

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

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

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

Cash and Cash Equivalents and Federal Reserve and Federal Home Loan Bank Stock and Accrued Interest Payable and Receivable

The carrying amount approximates the fair value.

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Loans

The estimated fair value for loans receivable, including loans held for sale, net, is based on estimates of the rate State Bank would charge for similar loans at December 31, 2008 and 2007, applied for the time period until the loans are assumed to re-price or be paid.

Deposits & Other Borrowings

Deposits include demand deposits, savings accounts, NOW accounts and certain money market deposits. The carrying amount approximates the fair value. The estimated fair value for fixed-maturity time deposits, as well as borrowings, is based on estimates of the rate State Bank could pay on similar instruments with similar terms and maturities at December 31, 2008 and 2007.

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The estimated fair value for other financial instruments and off-balance-sheet loan commitments approximate cost at December 31, 2008 and 2007 and are not considered significant to this presentation.

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

Note 23: Commitments and Credit Risk

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

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

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

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

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

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

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

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

Note 24: Future Change in Accounting Principles

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

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

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

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

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

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

At its September 2006 meeting, the Emerging Issues Task Force (“EITF”) reached a final consensus on Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The consensus stipulates that an agreement by an employer to share a portion of the proceeds of a life insurance policy with an employee during the postretirement period is a postretirement benefit arrangement required to be accounted for under Statement No. 106 (“SFAS No. 106”) or Accounting Principles Board (APB) Opinion No. 12, Omnibus Opinion-1967. The consensus concludes that the purchase of a split-dollar life insurance policy does not constitute a settlement under SFAS No. 106 and, therefore, a liability for the postretirement obligation must be recognized under SFAS No. 106 if the benefit is offered under an arrangement that constitutes a plan or under APB No. 12 if it is not part of a plan. Issue 06-04 is effective for annual or interim reporting periods beginning after December 15, 2007. The Company has endorsement split-dollar life insurance policies. A liability has been recorded through a cumulative-effect adjustment to retained earnings as of January 1, 2008 in the amount of $116,303. There was no material impact to the financial position and results of operations as a result of the implementation of EITF 06-04.

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Note 25: Condensed Financial Information (Parent Company Only)

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

Condensed Balance Sheets

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

Rurban Financial Corp.
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Condensed Statements of Income

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

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

Rurban Financial Corp.
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Note 26: Segment Information

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

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

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

2008	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Income Statement information:						
Net interest income (expense)	$ 19,327,854	$ (109,864)	$ (1,690,115)	$ 17,527,875	$ -	$ 17,527,875
Other revenue - external customers	7,694,299	20,162,913	203,525	28,060,737	-	28,060,737
Other revenue - other segments	54,019	1,513,093	1,432,097	2,999,209	(2,999,209)	-
Net interest income and other revenue	27,076,172	21,566,142	(54,493)	48,587,821	(2,999,209)	45,588,612
Noninterest expense	20,088,447	17,295,426	3,171,950	40,555,823	(2,999,209)	37,556,614
Significant noncash items:						
Depreciation and amortization	1,012,382	2,535,876	136,100	3,684,358	-	3,684,358

Provision for loan losses	689,567	-	-	689,567	-	689,567
Income tax expense	1,784,371	1,452,014	(1,111,193)	2,125,192	-	2,125,192
Segment profit	$ 4,513,787	$ 2,818,702	$ (2,115,250)	$ 5,217,239	$ -	$ 5,217,239
Balance sheet information:						
Total assets	$ 637,108,955	$ 19,955,458	$ 85,084,977	$ 742,149,390	$ (84,530,481)	$ 657,618,909
Goodwill and intangibles	20,113,196	7,137,530	-	27,250,726	-	27,250,726
Premises and equipment expenditures	$ 2,437,582	$ 5,501,574	$ 106,610	$ 8,045,766	$ -	$ 8,045,766

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

2006	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals

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

Rurban Financial Corp.
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Note 27: Quarterly Financial Information (Unaudited)

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

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

Rurban Financial Corp.
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Note 28: Business Acquisitions

National Bank of Montpelier

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

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

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

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

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

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

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

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

RURBAN FINANCIAL CORP.

ANNUAL REPORT ON FORM 10-K
FOR FISCAL YEAR ENDED DECEMBER 31, 2008

INDEX TO EXHIBITS

Exhibit No.	Description	Location
2.1	Agreement and Plan of Merger, dated as of May 22, 2008, by and among Rurban Financial Corp., Rurban Merger Corp, and NBM Bancorp, Incorporated	Incorporated herein by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed May 23, 2008 (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).

Exhibit No.	Description	Location
4.2	Amended and Restated Declaration of Trust of Rurban Statutory Trust II, dated as of September 15, 2005	Incorporated herein by reference to Exhibit 4.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 (File No. 0-13507).
4.3	Guarantee Agreement, dated as of September 15, 2005, by and between Rurban Financial Corp. and Wilmington Trust Company, as Guarantee Trustee	Incorporated herein by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 (File No. 0-13507).
4.4	Agreement to furnish instruments and agreements defining rights of holders of long-term debt	Filed herewith.
10.1*	Rurban Financial Corp. Plan to Allow Directors to Elect to Defer Compensation	Incorporated herein by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-13507).
10.2*	Rurban Financial Corp. 1997 Stock Option Plan	Incorporated herein by reference to Exhibit 10(v) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-13507).
10.3*	Form of Non-Qualified Stock Option Agreement with Five-Year Vesting under Rurban Financial Corp. 1997 Stock Option Plan	Incorporated herein by reference to Exhibit 10(w) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-13507).
10.4*	Form of Non-Qualified Stock Option Agreement with Vesting After One Year of Employment under Rurban Financial Corp. 1997 Stock Option Plan	Incorporated herein by reference to Exhibit 10(a) to the Company's Current Report on Form 8-K filed March 21, 2005 (File No. 0-13507).

Exhibit No.	Description	Location
10.5*	Form of Incentive Stock Option Agreement with Five-Year Vesting under Rurban Financial Corp. 1997 Stock Option Plan	Incorporated herein by reference to Exhibit 10(x) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-13507).
10.6*	Form of Incentive Stock Option Agreement with Vesting After One Year of Employment under Rurban Financial Corp. 1997 Stock Option Plan	Incorporated herein by reference to Exhibit 10(c) to the Company's Current Report on Form 8-K filed March 21, 2005 (File No. 0-13507).
10.7*	Form of Stock Appreciation Rights under Rurban Financial Corp. 1997 Stock Option Plan	Incorporated herein by reference to Exhibit 10(b) to the Company's Current Report on Form 8-K filed March 21, 2005 (File No. 0-13507).
10.8*	Rurban Financial Corp. 2008 Stock Incentive Plan	Incorporated herein by reference to Exhibit 10 to the Company's Current Report on Form 8-K filed April 22, 2008 (File No. 0-13507).
10.9*	Form of Restricted Stock Award Agreement (For Employees) under Rurban Financial Corp. 2008 Stock Option Plan	In Incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed April 22, 2008 (File No. 0-13507).
10.10*	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).
10.11*	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).
10.12*	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).
10.13*	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).
10.14*		Filed herewith.

	Second Amendment to Employment Agreement, effective as of December 31, 2008, by and between Rurban Financial Corp. and Kenneth A. Joyce	
10.15*	Amended and Restated Supplemental Executive Retirement Plan Agreement, effective as of December 31, 2008, by and between Rurban Financial Corp. and Kenneth A. Joyce	Filed herewith.
10.16*	Schedule identifying other substantially identical Amended and Restated Supplemental Executive Retirement Plan Agreements with executive officers of Rurban Financial Corp. and its subsidiaries	Filed herewith.

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Exhibit No.	Description	Location
10.17*	Amended and Restated Change in Control Agreement, effective as of December 31, 2008, by and between Rurban Financial Corp. and Duane L. Sinn	Filed herewith.
10.18*	Schedule identifying other substantially identical Amended and Restated Change in Control Agreements with executive officers of Rurban Financial Corp. and its subsidiaries	Filed herewith.
10.19*	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.

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