RURBAN FINANCIAL CORP
Form 10-K
March 22, 2007

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

(Mark One)

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from __________ to __________

Commission File Number 0-13507
RURBAN FINANCIAL CORP.
(Exact name of Registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Title of each class
Common Shares, Without Par Value

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

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

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 þ No o

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

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

Large Accelerate Filer o Accelerated Filer o Non-Accelerated Filer þ

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

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 $51,697,529.
The number of common shares of the registrant outstanding at March 12, 2007 was 5,027,433.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 19, 2007 are incorporated by reference into Part III of this Annual Report on Form 10-K.

RURBAN FINANCIAL CORP.
2006 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), The Exchange Bank (Exchange), RFCBC, Inc. (RFCBC), Rurbanc Data Services, Inc. (RDSI), Diverse Computer Marketers, Inc. (DCM Reliance Financial Services, N.A. (RFS), Rurban Mortgage Company (RMC), Rurban Statutory Trust I (RST I), Rurban Statutory Trust II (RST II), and Rurban Operations Corp. (ROC), the Company is engaged in a variety of activities, including commercial banking, data and item processing, and trust and financial services, as explained in more detail below.

General Description of Holding Company Group

State Bank

State Bank is an Ohio state-chartered bank. State Bank presently operates six branch offices in Defiance County, Ohio (five in the city of Defiance and one in Ney), two branch offices in adjacent Paulding County, Ohio (one each in Paulding and Oakwood), three branch offices in Fulton County, Ohio (one each in Delta, Lyons and Wauseon), two branch offices in Allen County, Ohio (two in the city of Lima) and one branch office in Allen County, Indiana. At December 31, 2006, State Bank had 91 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.

Exchange Bank

Exchange is an Ohio state-chartered bank. Exchange presently operates three branch offices in Wood County, Ohio (one each in Luckey, Walbridge and Perrysburg) and one office in adjacent Lucas County, Ohio. At December 31, 2006, Exchange had 28 full-time equivalent employees.

Exchange 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; bank credit card services; safe deposit box rentals; Internet and telephone banking and other personalized banking services.

RFS

RFS is a nationally-chartered trust and financial services company and a wholly-owned subsidiary 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.

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RFS has one office located in State Bank s main office in Defiance, Ohio. At December 31, 2006, RFS had 17 full-time equivalent employees.

RMC

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

At December 31, 2006, 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, 2006, RFCBC had 1 full-time equivalent employee.

RDSI

RDSI has been in operation since 1964 and became an Ohio state-chartered company in June 1976. RDSI has four operating locations: one each in Defiance, Ohio, Grove City (Columbus), Ohio, Fremont, Ohio and Holland, Michigan. At December 31, 2006, RDSI had 77 full-time equivalent employees.

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

DCM

DCM was acquired in September of 2006. DCM is a Michigan corporation and a wholly-owned subsidiary of RDSI. DCM has two operating locations: one each in Lansing, Michigan and Plainfield (Indianapolis), Indiana. At December 31, 2006, DCM had 40 full-time equivalent employees.

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

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.

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ROC

ROC is an Ohio corporation and wholly-owned subsidiary of the Company. ROC was formed in December 2005 and its first day of operation commenced January 3, 2006. ROC serves as a central location for the performance of the following functions that provide services for all of the company s subsidiaries: human resources, marketing, facilities maintenance, loan operations, loan accounting, collections, file room, Internet banking, credit analysis, VISA processing, mortgage operations, technology, training and development, deposit operations, operations administration and accounting. At December 31, 2006, ROC had 53 full-time equivalent employees.

See Note 25 of the Financials, pages F-47 and F-48, for the Company s segment information.

Recent Developments

On December 21, 2006, The Company announced the consolidation of Reliance Financial Services, Rurban s trust and investment subsidiary, and The Exchange Bank, it s recently acquired community bank, into the lead bank. The necessary regulatory approvals have been obtained from the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation and the Ohio Division of Financial Institutions, and the consolidation is expective to be effective as of the opening of business on March 26, 2007. This merger will create accounting, staffing and operating efficiencies by combining the three subsidiaries into one banking unit.

On September 5, 2006, the Company announced the completion of the acquisition of DCM by RDSI, Rurban s data and item processing subsidiary, effective after the close of business on September 2, 2006. Further discussion of the acquisition of DCM is provided under the caption Acquisitions in 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.

Competition

State Bank and Exchange Bank experience 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 Exchange 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 and Exchange 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

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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 owned by the bank holding company), acquire all or substantially all of the assets of another bank or bank holding company, or merger 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 banking 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 also subject to the reporting requirements of, and examination and regulation by, the Federal Reserve Board. The Federal Reserve Board also 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.

RFS, as a nationally-chartered trust company, is regulated by the Office of the Comptroller of the Currency (the OCC). As Ohio state-chartered banks, State Bank and Exchange are supervised and regulated by the Ohio Division of Financial Institutions. State Bank and Exchange Bank are members of the Federal Reserve System so their primary federal regulator is the Federal Reserve Board. The deposits of State Bank and Exchange are insured by the Federal Deposit Insurance Corporation (FDIC) and are subject to the applicable provisions of the Federal Deposit Insurance Act. A subsidiary of a bank holding company can be liable to reimburse the FDIC, if the FDIC incurs or anticipates a loss because of a default of another FDIC-insured subsidiary of the bank holding company or in connection with FDIC assistance provided to such subsidiary in danger of default.

Various requirements and restrictions under the laws of the United States and the State of Ohio affect the operations of State Bank and Exchange 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.

The Federal Home Loan Banks (FHLBs) provide credit to their members in the form of advances. As members of the FHLB of Cincinnati, State Bank and Exchange Bank must maintain certain minimum investments in the capital stock of the FHLB of Cincinnati. State Bank and Exchange Bank were in compliance with these requirements at December 31, 2006.

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. Neither State Bank nor Exchange Bank may pay dividends to the Company if, after paying such dividends, it neither would fail to meet the required minimum levels under the risk-based capital guidelines and the minimum leverage ratio requirements. State Bank and Exchange Bank must obtain the approval of the Federal Reserve Board and the Ohio Division of Financial Institutions if a dividend in any year would cause the total dividends for that year to exceed the sum of the current year s net profits and the retained net profits for the preceding two years, less required transfers to surplus. Payment of dividends by State Bank and Exchange 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. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with 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 and Exchange. 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 stockholders equity (including retained earnings but excluding treasury stock), non-cumulative perpetual preferred stock, a limited amount of cumulative perpetual preferred stock, and minority interests in equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets (Tier 1 capital). The remainder (Tier 2 capital) may consist, among other things, of certain amounts of mandatory convertible debt securities, subordinated debt, preferred stock not qualifying as Tier 1 capital, an allowance for loan and lease losses and net unrealized gains, after applicable taxes, on available-for-sale equity securities with readily determinable fair values, all gains 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 become subject to mandatory regulatory scrutiny and limitations, which increase as capital decreases. Such institutions are also required to file capital plans with their primary federal regulator, and their holding companies must guarantee the capital shortfall up to 5% of the assets of the capital deficient institution at the time it becomes undercapitalized.

Each of the Company, State Bank and Exchange Bank at year end 2006 was categorized as well capitalized .

Deposit Insurance Assessments

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

- Increasing the deposit insurance limit for retirement accounts from $100,000 to $250,000;

- Adjusting the deposit insurance limits (currently $100,000 for most accounts) every five years based on an inflation index, with the first adjustment to be effective on January 1, 2011;

- Providing pass-through deposit insurance for the deposits of employee benefit plans (but prohibiting undercapitalized depository institutions from accepting employee benefit plan deposits);

- Allocating an aggregate of $4.7 billion of one-time credits to offset the premiums of depository institutions based on their assessment bases at the end of 1996;

- Establishing rules for awarding cash dividends to depository institutions, based on their relative contributions to the DIF and its predecessor funds, when the DIF reserve ratio reaches certain levels; and

- Revising the rules and procedures for risk-based premium assessments.

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

Monetary Policy and Economic Conditions

The commercial banking business is affected not only by general economic conditions, but also by the policies of various governmental regulatory authorities, including the Federal Reserve Board. The Federal Reserve Board regulates money and credit conditions and interest rates in order to influence general economic conditions primarily through open market operations in U.S. Government securities, changes in the discount rate on bank borrowings and changes in reserve requirements against bank

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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 opted not 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.

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

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act). The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws. The changes are intended to allow shareholders to monitor the performance of companies and directors more easily and efficiently.

The Sarbanes-Oxley Act generally applies to all companies, both U.S. and non-U.S., that file or are required to file periodic reports with the Securities and Exchange Commission (SEC) under the Exchange Act. Further, the Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC, securities exchanges and The NASDAQ Stock Market to adopt extensive additional disclosure, corporate governance and other related rules.

The Sarbanes-Oxley Act addresses, among other matters: increased responsibilities of audit committees; corporate responsibility for financial reports; a requirement that Chief Executive and Chief Financial Officers forfeit certain bonuses and profits if their companies issue an accounting restatement as a result of misconduct; a prohibition on insider trading during pension fund black-out periods; disclosure of off-balance sheet transactions; conditions for the use of pro forma financial information; a prohibition on personal loans to directors and executive officers (excluding loans by insured depository institutions that are subject to the insider lending restrictions of the Federal Reserve Act); expedited filing requirements for stock transaction reports by officers and directors; the formation of the Public Company Accounting Oversight Board; auditor independence; and various increased criminal penalties for violations of securities laws.

As mandated by the Sarbanes-Oxley Act, 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

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governance rules promulgated by The NASDAQ Stock Market, Inc. (NASDAQ). The Board of Directors of the Company has taken a series of actions to comply with the new NASDAQ and SEC rules and to further strengthen its corporate governance practices. The Company has adopted and implemented a Code of Conduct and Ethics and a copy of that policy can be found on the Company s website at www.rurbanfinancial.net by first clicking Corporate Governance and then Code of Conduct . The Company has also adopted charters of the Audit Committee, the Compensation Committee and the Executive Governance and Nominating Committee, which charters are available on the Company s website at www.rurbanfinancial.net by first clicking Corporate Governance and then Supplementary Info .

Effect of Environmental Regulation

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

Available Information

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

Statistical Financial Information Regarding the Company

The following schedules and tables analyze certain elements of the consolidated balance sheets and statements of income of the Company and its subsidiaries, as required under Exchange Act Industry Guide 3 promulgated by the SEC, and should be read in conjunction with the narrative analysis presented in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements of the Company and its subsidiaries included at pages F-1 through F-54 of this Annual Report on Form 10-K.

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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:

	2006			2005			2004		
	Average Balance	Interest	Avg Rate	Average Balance	Interest	Avg Rate	Average Balance	Interest	Avg Rate
	(dollars in thousands)								
Assets:									
Securities									
Taxable	$ 119,394	$ 5,212	4.37%	$ 108,306	$ 4,337	4.00%	$ 100,517	$ 3,568	3.55%
Non-taxable (1)	14,497	848	5.85%	7,248	403	5.56%	4,426	249	5.63%
Federal funds sold and other	2,259	177	7.84%	4,881	160	3.28%	4,557	79	1.73%
Loans, net (2)(3)	354,400	25,055	7.07%	268,158	16,659	6.21%	271,503	16,217	5.97%
Total earning assets	490,550	31,292	6.38%	388,593	21,559	5.55%	381,003	20,113	5.28%
Cash and due from banks	11,827			9,653			12,179		
Allowance for loan losses	(4,495)			(4,885)			(7,123)		
Premises and equipment	19,387			15,570			12,168		
Other assets	36,825			24,435			19,574		
Total assets	$ 554,094			$ 433,366			$ 417,801		
Liabilities:									
Deposits									
Savings and interest-bearing	$ 127,179	$ 1,656	1.30%	$ 102,453	$ 716	0.70%	$ 94,051	$ 350	0.37%
Time deposits	228,193	9,366	4.10%	167,140	4,935	2.95%	162,865	4,205	2.58%
Short-term borrowings	21,965	946	4.30%	6,854	165	2.41%	4,613	53	1.15%
Advances from FHLB	41,353	2,106	5.09%	46,376	2,040	4.40%	48,814	1,877	3.85%
Trust preferred securities	20,620	1,787	8.67%	14,434	1,275	8.83%	10,248	1,119	10.92%
Other borrowed funds	939	75	7.98%	2,247	237	10.55%	5,039	347	6.89%
Total interest-bearing liabilities	440,249	15,936	3.62%	339,504	9,368	2.76%	325,630	7,951	2.44%
Demand deposits	47,176			36,675			38,134		

Other liabilities	12,168		6,105		4,758	
Total liabilities	499,593		382,284		368,522	
Shareholder s equity	54,501		51,083		49,279	
Total liabilities and shareholders equity	$ 554,094		$ 433,367		$ 417,801	
Net interest income (tax equivalent basis)		$ 15,356		$ 12,191		$ 12,162
Net interest income as a percent of average interest-earning assets		3.13%		3.14%		3.19%

1) Interest is computed on a tax equivalent basis using a 34% statutory tax rate. The tax equivalent adjustment was $288, $137 and $84 in 2006, 2005 and 2004, respectively.

(2) Non-accruing 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
$33 in 2006.

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

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

Volume Variance change in volume multiplied by the previous year s rate. Rate Variance change in rate multiplied by the previous year s volume. Rate/Volume Variance change in volume multiplied by the change in rate. This variance was allocated to volume variance and rate variance in proportion to the relationship of the absolute dollar amount of the change in each. Interest on non-taxable securities has been adjusted to a fully tax equivalent basis using a statutory tax rate of 34% in 2006, 2005 and 2004.

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

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

	Total Variance 2005/2004	Variance Attributable To Volume	Rate
	(dollars in thousands)		
Interest income			
Securities			
Taxable	$ 769	$ 290	$ 479
Non-taxable	154	157	(3)
Federal funds sold	81	6	75
Loans, net of unearned income and deferred loan fees	442	(202)	644
	1,446	251	1,195
Interest expense			
Deposits			
Savings and interest-bearing demand deposits	366	34	332
Time deposits	730	113	617
Short-term borrowings	112	34	78
Advances from FHLB	163	(97)	260
Trust preferred securities	156	397	(241)
Other borrowed funds	(110)	(244)	134
	1,417	237	1,180
Net interest income	$ 29	$ 14	$ 15

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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:

	2006	2005	2004
	(dollars in thousands)		
U.S. Treasury and government agencies	$ 58,123	$ 89,671	$ 63,647
State and political subdivisions	15,465	12,694	4,699
Mortgage-backed securities	28,770	35,660	40,316
Other securities	81	1305	50
Marketable equity securities	23	23	8
Total	$ 102,462	$ 139,353	$ 108,720

B. The maturity distribution and weighted average yield of securities available for sale at December 31, 2006 are as follows:

	Maturing			
	Within One Year	After One Year But Within Five Years	After Five Years But Within Ten Years	After Ten Years
U.S. Treasury and Government agencies	$ 1,499	$ 9,493	$ 47,131	$
Obligations of states and political subdivisions	345	661	2,267	12,191
Mortgage-backed securities	120	3,712	4,921	20,018
Other securities	50			
Total	$ 2,014	$ 13,866	$ 54,319	$ 32,209
Marketable equity securities with no maturity	$ 54			
Weighted average yield (1)	4.78%	3.97%	4.79%	4.58%

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

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.

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, 2006.

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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:

	2006	2005	2004	2003	2002
	(dollars in thousands)				
Commercial and Agricultural	$ 225,827	$ 187,667	$ 188,532	$ 188,532	$ 321,726
Real estate mortgage	94,389	89,086	63,828	46,718	84,432
Consumer loans to individuals	49,314	48,877	31,949	37,310	60,139
Leases	857	1,661	5,128	11,775	21,509
Total loans	$ 370,387	$ 327,291	$ 264,750	$ 284,335	$ 487,806
Real estate mortgage loans held for resale	$ 390	$ 224	$ 113	$ 219	$ 63,536

Concentrations of Credit Risk: The Company grants commercial, real estate and installment loans to customers mainly in northwest Ohio. Commercial loans include loans collateralized by commercial real estate, business assets and, in the case of agricultural loans, crops and farm equipment. As of December 31, 2006, commercial and agricultural loans made up approximately 61.0% of the loan portfolio and the loans are expected to be repaid from cash flow from operations of businesses. As of December 31, 2006, residential first mortgage loans made up approximately 25.5% of the loan portfolio and are collateralized by first mortgages on residential real estate. As of December 31, 2006, consumer loans to individuals made up approximately 13.5% 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, 2006 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	Commercial and Agricultural
Within one year	$ 56,685
After one year but within five years	64,538
After five years	104,604
Total commercial and agricultural loans	$ 225,827

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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	$ 18,423	$ 46,115	$ 64,538
Due after five years	5,951	98,653	104,604
Total	$ 24,374	$ 144,768	$ 169,142

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.

	2006	2005	2004	2003	2002
	(dollars in thousands)				
(a) Loans accounted for on a non-accrual basis	$ 3,828	$ 6,270	$ 13,384	$ 18,352	$ 18,259
(b) Accruing loans which are contractually past due 90 days or more as to interest or principal payments		5	11		476
(c) Loans not included in (a) which are Troubled Debt Restructurings as defined by Statement of Financial Accounting Standards No. 15	166	825	1,570	5,058	
Total non-performing loans	$ 3,994	$ 7,100	$ 14,965	$ 23,410	$ 18,735
(d) Other loans defined as impaired	$ 82	$ 3,283	$ 4,671	$ 9,099	$ 3,166

	2006 (In thousands)
Cash basis interest income recognized on impaired loans outstanding at December 31, 2006	$ 51
Interest income actually recorded on impaired loans and included in net income for the period	47
2006 unrecorded interest income on non-accrual loans	207

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III. LOAN PORTFOLIO (Continued)

Management believes the allowance for loan losses at December 31, 2006 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, 2006, in addition to the $3,994,000 of loans reported under Item III.C.1. above (which amount includes all loans classified by management as doubtful or loss), there were approximately $3,991,000 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.

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III. LOAN PORTFOLIO (Continued)

3. Foreign Outstandings

   None

4. Loan Concentrations

   At December 31, 2006, loans outstanding related to agricultural operations or collateralized by agricultural real estate aggregated approximately $44,683,000.

D. Other Interest-Bearing Assets

There were no other interest-bearing assets as of December 31, 2006 which would be required to be disclosed under Item III.C.1 or Item III.C.2. if such assets were loans.

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IV. SUMMARY OF LOAN LOSS EXPERIENCE

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

	2006	2005	2004	2003	2002
			(dollars in thousands)		
Loans					
Loans outstanding at end of period	$ 370,102	$ 327,048	$ 264,481	$ 284,104	$ 487,475
Average loans outstanding during period	$ 354,726	$ 268,158	$ 271,503	$ 385,153	$ 627,685
Allowance for loan losses					
Balance at beginning of period	$ 4,700	$ 4,899	$ 10,181	$ 17,694	$ 9,239
Balance, Exchange		910			
Balance, Oakwood					1,427
Loans charged-off					
Commercial and agricultural loans	(1,277)	(2,760)	(6,599)	(10,089)	(19,584)
Real estate mortgage	(100)	(133)	(12)	(195)	496)
Leases		(208)	(70)	(225)	(173)
Consumer loans to individuals	(440)	(308)	(308)	(1,345)	(1,520)
	(1,817)	(3,409)	(6,989)	(11,854)	(21,773)
Recoveries of loans previously charged-off					
Commercial and agricultural loans	419	1,566	1,835	2,497	892
Real estate mortgage	75	2	52	86	28
Leases		4	31	109	27
Consumer loans to individuals	162	145	188	447	324
	656	1,717	2,106	3,139	1,271
Net loans charged-off	(1,160)	(1,692)	(4,883)	(8,715)	(20,502)
Provision for loan losses	178	583	(399)	1,202	27,530
Balance at end of period	$ 3,717	$ 4,700	$ 4,899	$ 10,181	$ 17,694
Ratio of net charge-offs during the period to average loans outstanding during the period	0.33%	0.63%	1.80%	2.26%	3.27%

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

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IV. SUMMARY OF LOAN LOSS EXPERIENCE (Continued)

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

	Allocation of the Allowance for Loan Losses									
	Allowance Amount	Percentage of Loans In Each Category to Total Loans	Allowance Amount	Percentage of Loans In Each Category to Total Loans	Allowance Amount	Percentage of Loans In Each Category to Total Loans	Allowance Amount	Percentage of Loans In Each Category to Total Loans	Allowance Amount	Percentage of Loans In Each Category to Total Loans
	December 31, 2006		December 31, 2005		December 31, 2004		December 31, 2003		December 31, 2002	
	(dollars in thousands)									
Commercial and agricultural	$ 2,945	79.2%	$ 3,728	57.3%	$ 4,502	61.9%	$ 9,649	66.3%	$ 16,518	66.0%
Residential first mortgage	317	8.5%	291	27.2%	141	24.1%	75	16.4%	204	17.3%
Consumer loans to individuals	455	12.3%	681	15.5%	256	14.0%	457	17.3%	972	16.7%
	$ 3,717	100.0%	$ 4,700	100.0%	$ 4,899	100.0%	$ 10,181	100.0%	$ 17,694	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.

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V. DEPOSITS

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

	2006		2005		2004	
	Average Amount	Average Rate	Average Amount	Average Rate	Average Amount	Average Rate
			(dollars in thousands)			
Savings and interest-bearing demand deposits	$ 127,179	1.30%	$ 102,453	0.70%	$ 94,051	0.37%
Time deposits	228,193	4.10	167,140	2.95	162,865	2.58
Demand deposits (non-interest-bearing)	47,176		36,675		38,134	
	$ 402,548		$ 306,268		$ 295,050	

Maturities of time certificates of deposit and other time deposits of $100,000 or more outstanding at December 31, 2006 are summarized as follows:

	Amount
Three months or less	$ 23,936
Over three months and through six months	14,401
Over six months and through twelve months	19,560
Over twelve months	16,633
Total	$ 74,530

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VI. RETURN ON EQUITY AND ASSETS

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

	2006	2005	2004
		(dollars in thousands)	
Average total assets	$ 554,094	$ 433,367	$ 417,801
Average shareholders equity	$ 54,501	$ 51,083	$ 49,279
Net income	$ 2,760	$ 673	$ 2,734
Cash dividends declared	$ 1,056	$ 914	$
Return on average total assets	0.50%	0.16%	0.65%
Return on average share- holders equity	5.06%	1.32%	5.55%
Dividend payout ratio (1)	38.25	133.33	N/A
Average shareholders equity to average total assets	9.84%	11.79%	11.79%

(1) Cash dividends declared divided by net income.

VII. SHORT-TERM BORROWINGS

The Company did have short-term borrowings during 2005 and 2004, but the average ending balance for the period did not exceed 30% or more of shareholders equity. The following information is reported for short-term borrowings for 2006:

	2006 (dollars in thousands)
Amount outstanding at end of year	$ 32,271
Weighted average interest rate at end of year	4.43%
Maximum amount outstanding at any month end	$ 32,584

Average amount outstanding during the year	$	21,965
Weighted average interest rate during the year		4.30%

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Item 1A. Risk Factors

Cautionary Statement Regarding Forward-Looking Information

Certain statements contained in this Annual Report on Form 10-K which are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, without limitation, the statements specifically identified as forward-looking statements within this document. In addition, certain statements in future filings by the Company with the SEC, in press releases, and in oral and written statements made by or with the approval of the Company which are not statements of historical fact constitute forward-looking statements with in the meaning of the Private Securities Litigation Reform Act. Examples of forward-looking statements include: (i) projections of income or expense, earnings per share, the payment or non-payment of dividends, and other financial items; (ii) statements of plans and objectives of the Company or our management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as believes, anticipates, expects, intends, targeted, and similar expressions are intended to identify forward-looking statements but are not the exclusive means of identifying those statements.

The Private Securities Litigation Reform Act of 1995 (the Act) 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, and, 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 subsequent written and oral forward-looking statements attributable to the Company or any person acting on our behalf are qualified in their entirety by the following cautionary statements.

Changes in 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.

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

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

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

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

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

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

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

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

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

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

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

We are dependent primarily upon the earnings of our operating subsidiaries for funds to pay dividends on our common shares. The payment of dividends by us is also subject to regulatory restrictions. As a result, any payment of dividends in the future will be dependent, in large part, on our ability to satisfy these regulatory restrictions and our subsidiaries earnings, capital requirements, financial condition and other factors. Although our financial earnings and financial condition have allowed us to declare and pay periodic cash dividends to our shareholders, there can be no assurance that our dividend policy or size of dividend distribution will continue in the future. Our failure to pay dividends on our common shares could have a material adverse effect on the market price of our common shares.

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

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

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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, leasing to price volatility in excess of that which would occur in a more active trading market.

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 The State Bank and Trust Company, 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 RFS. (Banking and Other)

2. State Bank owns a drive through branch office located at 510 Third Street, Defiance, Ohio. (Banking)

3. State Bank owns a full service branch office located on Main Street in Ney, Ohio. (Banking)

4. State Bank owns a full service branch office located at 1600 North Clinton Street, Defiance, Ohio. (Banking)

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

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

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

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

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

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

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

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

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

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

The following is a listing and brief description of the properties owned by Exchange and used in its business:

1. Exchange s main office is owned and located at 235 Main Street, Luckey, Ohio. (Banking)

2. Exchange owns a full service branch office located at 311 Main Street, Walbridge, Ohio. (Banking)

3. Exchange owns a full service branch office located at 610 East South Boundary, Perrysburg, Ohio. (Banking)

4. Exchange owns a full service branch office located at 6401 Monroe Street, Sylvania, Ohio. (Banking)

ROC leases office space located at 2010 South Jefferson, Defiance, Ohio.

RDSI leases office space located at 7622 St Rt. 66, Defiance, Ohio, office space located at 1804 East State Street, Fremont, Ohio, office space located at 6314 Seeds Road, Grove City (Columbus), Ohio, office space located at 11952 James Street, Holland, Michigan and office space located at 105 East Holland Street, Archbold, Ohio.

DCM leases office space located at 3101 Technology Blvd., Suite B, Lansing, Michigan and office space located at 211 West Main, Plainfield, Indiana.

Item 3. Legal Proceedings.

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

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

Not applicable.

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Supplemental Item: Executive Officers of the Registrant.

The following table lists the names and ages of the executive officers of the Company as of March 20, 2007, the positions presently held by each executive officer and the business experience of each executive officer during the past five years. Unless otherwise indicated, each person has held his principal occupation(s) for more than five years.

Name	Age	Position(s) Held with the Company and its Subsidiaries and Principal Occupation(s)
Kenneth A. Joyce	59	President and Chief Executive Officer of the Company since August 2002; Chairman and Chief Executive Officer of RDSI since October 1997; Director of State Bank since 2002; Director of RDSI since 1997; Director of RFCBC since 2004; Chairman and Director of RFS since 2005; Director of Exchange since January 2006; and; Chairman, CEO and Director of ROC since January 2006; Director of Promedica Defiance Regional Medical Center and Promedica Physicians Group; Chairman of Promedica Defiance Regional Medical Center Finance Committee; Director and President of the Board of United Way (non-profit); Director of Kettenring Country Club.
Henry R. Thiemann	60	President and Chief Executive Officer of Exchange Bank since December 31, 2005; Chief Operating Officer of the Company from May 2005 to December 2005; Executive Vice President and Chief Operating Officer of State Bank from 2002 to May 2005; President and Chief Executive Officer of RFCBC since 2004; Senior Vice President and Operations Manager of the Company from 1998 to 2001; Director of Exchange since January 2006; Director of RFCBC since 2004; President of RMC since August 1999; Director of RMC since August 1999; Director of ROC since January 2006; Director of RFS since 2006; Director of RDSI since December 2006.
Duane L. Sinn	36	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 and; Treasurer and Director of ROC since January 2006; and Director of RFS since 2006.
Mark A. Klein	52	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; Director of ROC since January 2006 and Director of RFS since 2006.

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PART II

Item 5. Market for Registrant s Common Shares and Related Shareholder Matters.

The common shares of the Company are traded on The NASDAQ Global Market (symbol RBNF). The table below sets forth the high and low bid prices and the cash dividends declared with respect to the common shares of the Company for the indicated periods. The high and low bid 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 Bid Prices		Per Share Dividends
	High	Low	Declared
2006			
First Quarter	$13.00	$11.16	$.050
Second Quarter	12.44	10.90	.050
Third Quarter	12.00	10.82	.050
Fourth Quarter	11.79	10.50	.060
2005			
First Quarter	$14.49	$13.50	$.050
Second Quarter	14.47	12.65	.050
Third Quarter	13.50	12.50	.050
Fourth Quarter	13.00	11.50	.050

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.

During the Fourth Quarter 2006, there were no sales of unregistered securities.

The approximate number of holders of the outstanding common shares of the Company, as of February 21, 2007, was 2,228.

Share Performance

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, 2006.

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Rurban Financial Corp.

	Period Ending					
Index	**12/31/01**	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**
Rurban Financial Corp.	100.00	69.18	103.25	103.62	89.14	82.94
NASDAQ Composite	100.00	68.76	103.67	113.16	115.57	127.58
NASDAQ Bank Index	100.00	106.95	142.29	161.73	158.61	180.53

Source : SNL Financial LC, Charlottesville, VA (434) 977-1600
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Item 6. Selected Financial Data.

SUMMARY OF SELECTED FINANCIAL DATA

FINANCIAL HIGHLIGHTS

(Dollars in thousands except per share data)

	Year Ended December 31				
	2006	2005	2004	2003	2002
EARNINGS					
Interest income	$ 30,971	$ 21,422	$ 20,028	$ 27,774	$ 48,591
Interest expense	15,936	9,368	7,951	13,972	24,813
Net interest income	15,035	12,054	12,077	13,802	23,778
Provision (credit) for loan losses	178	583	(399)	1,202	27,531
Noninterest income	23,755	18,338	17,376	35,169	14,121
Noninterest expense	34,904	29,054	26,009	29,160	30,820
Provision (credit) for income taxes	948	81	1,109	6,303	(7,044)
Net income (loss)	2,760	673	2,734	12,305	(13,408)
PER SHARE DATA					
Basic earnings	$ 0.55	$ 0.15	$ 0.60	$ 2.71	($2.95)
Diluted earnings	0.55	0.15	0.60	2.70	(2.95)
Cash dividends declared	0.21	0.20	N/A	N/A	0.26
AVERAGE BALANCES					
Average shareholders equity	$ 54,501	$ 51,083	$ 49,279	$ 44,599	$ 44,674
Average total assets	554,095	433,366	417,801	549,371	791,091
RATIOS					
Return on average shareholders equity	5.06%	1.32%	5.55%	27.59%	(30.01)%
Return on average total assets	0.50	0.16	0.65	2.24	(1.69)
Cash dividend payout ratio (cash dividends divided by net income)	38.25	133.33	N/A	N/A	N/A
Average shareholders equity to average total assets	9.84	11.79	11.79	8.12	5.65
PERIOD END TOTALS					
Total assets	$556,007	$530,542	$415,349	$435,312	$742,317
Total investments and fed funds sold	111,562	139,353	108,720	117,699	129,109
Total loans and leases	370,102	327,048	264,481	284,104	487,475
Loans held for sale	390	224	113	219	63,536
Total deposits	414,555	384,838	279,624	317,475	636,035
Notes Payable	2,589	939	3,080	10,328	6,000
Advances from FHLB	21,000	45,500	56,000	39,000	47,850
Trust Preferred Securities	20,620	20,620	10,310	10,000	10,000
Shareholders equity	56,955	54,451	50,306	48,383	36,382

Shareholders equity per share	$ 11.33	$ 10.83	$ 11.01	$ 10.60	$ 7.97

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

Rurban Financial Corp. (Rurban) is a bank holding company registered with the Federal Reserve Board under the Bank Holding Company Act of 1956, as amended. Through its direct and indirect subsidiaries, Rurban is engaged in commercial banking, computerized data and item processing, and trust and financial services.

The following discussion is intended to provide a review of the consolidated financial condition and results of operations of Rurban and its subsidiaries (collectively, the Company). This discussion should be read in conjunction with the Company s consolidated financial statements and related footnotes for the year ended December 31, 2006.

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, 2006. 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.

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

Impact of Accounting Changes

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

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

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

In September 2006, the EITF reached a consensus on Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements. The consensus requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. If the policyholder has agreed to maintain the insurance policy in force for the employee s benefit during his or her retirement, then the liability recognized during the employee s active service period should be based on the future cost of insurance to be incurred during the employee s retirement. Alternatively, if the policyholder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in Statement 106 or Opinion 12, as appropriate. This approach requires the policyholder to gain a clear understanding of the benefit being provided by the policyholder to its employee given that it is this benefit that is being recognized as a liability. If this consensus is ratified by the FASB, it will be applicable in fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of adopting Issue No. 06-4 and the impact it will have on the Company s financial statements.

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Acquisitions

Diverse Computer Marketers

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

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

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

Assets:	
Cash	$ 118,137
Accounts receivable	419,151
Premises and equipment	207,644
Goodwill and other intangibles	7,447,144
Other assets	158,241
Total Assets	8,350,317
Liabilities:	
Accounts payable	1,188,289
Borrowings	1,284,427
Other liabilities	886,510
Total Liabilities	3,359,226
Net assets acquired	$ 4,991,091

The signficant intangible assets acquired include the customer related intangible of $2,389,000, the Trademark of $180,000 and the non-compete agreements of $83,000, which have useful lives of 120, 36 and 36 months, respectively, and will be amortized using the straight-line method. The $4.8 million of goodwill was assigned entirely to the data processing unit and is not expected to be deductible for tax purposes. This analysis is based upon an initial third party opinion and is subject to change for up to twelve months.

Under terms of the Stock Purchase Agreement, and immediately prior to the closing, the disaster recovery services portion of the DCM business was spun-off. As DCM records did not include separate financial information for the disaster recovery services, historical financial information for the purchased portion of the business is not available. Therefore, pro forma information that

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discloses the results of operations as though the business combination had been completed at the beginning of the period is not included.

EARNINGS SUMMARY

Net income for 2006 was $2.8 million, or $0.55 per diluted share, compared with net income of $673,000 or $0.15 per diluted share and net income of $2.7 million or $0.60 per diluted share, reported for 2005 and 2004, respectively. Cash dividends per share were $0.21 in 2006 and $0.20 in 2005. No cash dividends were paid in 2004.

2006 was a successful year for Rurban on numerous fronts, as the Company continued its path of improving profitability. Rurban achieved its fourth consecutive quarter of core earnings and revenue growth, consisting of net interest income plus non-interest income. Non-performing assets reached a five-year low of 70 basis points as a percent of total assets marking Rurban s return to banking normalcy. It also represents a new beginning for Rurban, where the Company can focus its energies on growth, efficiency and profitability. In the fourth quarter, the Company announced additional steps to complete its restructuring. The Company will move forward in 2007 to bring these initiatives to closure, streamlining Rurban into a holding company with a single-chartered community bank and a dynamic data processing company. Net income for 2005 was impacted by continued improvement in asset quality combined with continued improvement in the revenue stream of RDSI. Also negatively impacting earnings was the RFCBC loan sale and acquisition costs relating to the acquisitions that were necessary for the growth strategy to pave the way for increased earnings in 2006 and beyond. Net income for 2004 was driven by improved credit quality and a higher level of non-bank revenue.

CHANGES IN FINANCIAL CONDITION

Balance sheet growth over the past twelve months has been achieved exclusively through organic growth, since the assets of The Exchange Bank were consolidated as of December 31, 2005. Despite a fourth quarter reduction in assets of $12.5 million due to the restructuring of the bank s investment portfolio, total assets increased $25.5 million, or 4.8%, to $556.0 million. Total loan growth was $43.1 million or 13.2% in 2006, all of which was organic. Deposit growth increased 29.7 million or 7.7% in 2006.

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Significant Events of 2006

In addition to the discussion which follows regarding the results of operations, which affected the income statement and balance sheet, several other significant events occurred during 2006 and 2005.

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

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

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

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

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

Significant Events of 2005

On February 1, 2005, the Company received permission from the Federal Reserve Bank and the Ohio Department of Financial Institutions to pay a first quarter common stock dividend to its shareholders. The Company declared a common stock dividend of $0.05 per share to shareholders of record on February 11, 2005, payable on February 25, 2005. The Company was required to obtain regulatory approval to pay dividends in accordance with the requirements of the Written Agreement dated July 5, 2002.

On February 18, 2005, the Company received notice from the Federal Reserve Bank and the Ohio Department of Financial Institutions that approval was given effective as of February 17, 2005, for release of the Written Agreement dated July 5, 2002.

On March 17, 2005, the Company announced that is had signed an agreement to acquire two northwest Ohio bank branches located in Lima, Ohio. On April 13, 2005, the Company and Exchange jointly announced the signing of an Agreement and Plan of Merger for Rurban to acquire Exchange and its wholly-owned subsidiary, The Exchange Bank, headquartered in Luckey, Ohio.

On May 9, 2005, the Company received regulatory approval from the Federal Reserve Bank of Cleveland and the Ohio Division of Financial Institutions to purchase the two Lima, Ohio branch offices.

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On June 17, 2005, the Company announced that the purchase of the two Lima, Ohio branches had been completed at the close of business.

On September 9, 2005, the Company announced it participated in a pooled offering of Trust Preferred Securities, in the amount of $10 million, through a business trust subsidiary, Rurban Statutory Trust II.

On December 15, 2005, the Company announced it has received regulatory approval from the Federal Reserve Bank of Cleveland and the Ohio Division of Financial Institutions to acquire Exchange as previously announced. The shareholders of Exchange approved the acquisition at a special shareholder meeting held on October 11, 2005.

On December 19, 2005, the Company announced it has completed the sale of approximately $8.4 million of troubled loans held in its workout loan subsidiary, RFCBC, Inc. The loans were sold at 84.6% of their book value. Additional reserves were also taken which when combined with the loan sale resulted in a pre-tax loss of $1.45 million (including expenses incurred with the sale). The sold loans were properly reserved for in the allowance for loan loss, but management decided to do a bulk sale to avoid further collection expenses.

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RESULTS OF OPERATIONS

	Year Ended December 31,			Year Ended December 31,		
	2006	2005	% Change	2005	2004	% Change
	(dollars in thousands except per share data)					
Total Assets	$556,007	$530,542	+5%	$530,542	$415,349	+28%
Total Securities	102,462	139,353	-27%	139,353	108,720	+28%
Loans Held for Sale	390	224	N/A	224	113	N/A
Loans (Net)	366,384	322,348	+14%	322,348	259,582	+24%
Allowance for Loan Losses	3,717	4,700	-21%	4,700	4,899	-4%
Total Deposits	$414,555	$384,838	+8%	$ 384,838	$279,624	+38%
Total Revenues (Net)	$ 38,790	$ 30,392	+28%	$ 30,392	$ 29,454	+3%
Net Interest Income	15,034	12,054	+25%	12,054	12,077	
Loan Loss Provision (credit)	178	583	-70%	583	(399)	N/A
Noninterest Income	23,755	18,338	+13%	18,338	17,376	+6%
Non-interest Expense	34,904	29,054	+20%	29,054	26,010	+12%
Net Income	2,760	673	+310%	673	2,734	-75%
Basic Earnings per Share	$ 0.55	$ 0.15	N/A	$ 0.15	$ 0.60	N/A
Diluted Earnings per Share	$ 0.55	$ 0.15	N/A	$ 0.15	$ 0.60	N/A

Net Interest Income

	Year Ended December 31,			Year Ended December 31,		
	2006	2005	% Change	2005	2004	% Change
	(dollars in thousands)					
Net Interest Income	$15,034	$12,054		$12,054	$12,077	-12%

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

Net interest income for 2005 remained relatively flat compared to the previous year. The net interest margin for 2005 was 3.14% compared to 3.19% for the previous year. The 5 basis point decrease in the net interest margin was largely due the flattening of the yield curve, the growth of the investment portfolio relative to the mix of earning assets, and the higher cost of funds acquired in the Lima acquisition as its thrift-like deposit base has a higher concentration in certificates of deposit.

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Loan Loss Provision

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

The provision for loan losses was $583,000 in 2005 compared to $(399,000) in 2004. The allowance for loan losses at December 31, 2005 was 1.44% of loans compared to 1.85% at December 31, 2004. Non-performing loans decreased to $6.3 million at December 31, 2005 versus $14.4 million at December 31, 2004. Further evidencing the loan quality improvement was the significant reduction in classified assets of the Company. Classified assets, which are defined as substandard and doubtful loans, decreased 43% from December 31, 2004 and totaled $17.1 million at December 31, 2005.

Non-interest Income

	Year Ended December 31,			Year Ended December 31,		
	2006	2005	% Change	2005	2004	% Change
			(dollars in thousands)			
Total Non-interest Income	$23,755	$18,338	+30%	$18,338	$17,376	+6%
- Data Service Fees	$15,011	$12,708	+18%	$12,708	$11,164	+14%
- Trust Fees	$ 3,192	$ 3,134	+2%	$ 3,134	$ 3,042	+3%
- Deposit Service Fees	$ 2,161	$ 1,860	+16%	$ 1,860	$ 1,985	-6%
- Gains on Sale of Loans	$ 1,249	$ (437)	N/A	$ (437)	$ 41	N/A
- Investment Securities Recoveries	$ 889	$	N/A	$	$	N/A
- Gains (losses) on Sale of Securities	$ (495)	$ 25	N/A	$ 25	$ 241	-89%
- Other	$ 1,748	$ 1,048	+67%	$ 1,048	$ 904	+16%

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

Total non-interest income increased $1.0 million to $18.3 million in 2005 from $17.3 million in 2004. The increase is primarily driven by data servicing fees increasing $1.5 million as a result of RDSI contracting to perform data processing services for 10 new client banks and item processing for 9 new client banks. The increase was partially offset by a loss on sale of loans of $499,000 in the fourth quarter of 2005 at RFCBC. This was the result of the approximately $8.4 million in troubled loans that were sold at RFCBC in the fourth quarter of 2005. Trust fees at Reliance Financial Services, N.A. (Reliance) increased $92,000 or 3% to $3.1 million in 2005 from $3.0 million in 2004. The primary reason for this

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increase was the development of new innovative wealth management products and new customer sales. These positives were somewhat offset by the declining equity markets in 2005.

Rurbanc Data Services, Inc. (RDSI)

	Year Ended December 31,			Year Ended December 31,		
	2006	2005	%Change	2005	2004	% Change
	(Dollars in thousands)					
Data Service Fees	$15,011	$12,708	+18%	$12,708	$11,164	+14%

Data service fees increased $2.3 million or 18% to $15.0 million in 2006 from $12.7 million in 2005 and $1.5 million or 14% from 2004 to 2005. Data processing fees contributed 69.9% of Rurban s recurring non-interest income for 2006. The majority of the increase was due to RDSI core growth, as well as additional fee income from DCM, which was acquired September 2, 2006. RDSI now services over 100 community banks, accounting for 62.2% of Rurban s fee growth in 2006.

Earnings for the 2006 fiscal year were $2.1 million compared to $1.7 million for 2005, up $366,000 or 21.3%. The Company added an additional item processing client bank to the newly acquired DCM Company during the 4th quarter. The Company continues to see a solid pipeline of potential customers for both the data processing and item processing business lines entering 2007.

RDSI and DCM provide data processing and item processing services for 113 community banks in Arkansas, Florida, Illinois, Indiana, Michigan, Missouri, 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 used by over 3,600 banks nationwide. Customer service encompasses on-time delivery every morning and a discipline of responding to and resolving customer questions and issues within one day in excess of 95% of the time. 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,		
	2006	2005	%Change	2005	2004	% Change
	(dollars in thousands)					
Total Non-interest Expense	$34,904	$29,054	+20%	$29,054	$26,010	+12%
- Salaries & Employee Benefits	$16,584	$13,519	+23%	$13,519	$12,993	+4%
- Professional Fees	$ 2,396	$ 2,730	-12%	$ 2,730	$ 2,253	+21%
- All Other	$15,924	$12,805	+24%	$12,805	$10,764	+19%

Non-interest expense increased $5.8 million, or 20.0%, primarily from the additional expenses of $4.9 million and $1.2 million, respectively, contributed by Exchange Bank and DCM, both of which merged with Rurban in 2006. Excluding one-time 2006 charges including $215,000 associated with the prepayment of approximately $9.0 million of higher-cost FHLB advances and merger-related charges of

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approximately $283,000, including a fourth quarter charge to merge the two community banks, 2006 recurring non-interest expense was $34.4 million, up 18.4% from the $29.1 million reported for 2005.

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

Non-interest expense for 2005 was $29.1 million, up $3.0 million or 10% from $26.0 million in 2004. Although ongoing banking related operating expenses were well-controlled, the Company incurred higher than anticipated expenses from several expansion initiatives. These initiatives included an increase in expenses of $1.3 million at RDSI for its organic growth, cost associated with non-reoccurring 2004 tax credits, and attention to disaster recovery, facilities, and resource upgrades. In addition, there were operating expenses of $1.0 million related to the acquisition of the two Lima branches and an expense of $95,000 for the branch expansion and optimization study. Also impacting 2005 was an increase in professional fees of $478,000 from loan workout efforts and fees associated with the sale of problem loans. Together, these items added approximately $2.8 million to pre-tax expenses in 2005.

FINANCIAL CONDITION

Investments

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

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

Loans

				Period Ended				
	12/31/06	% of Total	12/31/05	% of Total	% Inc/(Dec)	12/31/04	% of Total	% Inc/(Dec)
				(dollars in thousands)				
Commercial	$ 71,641	19%	$ 79,359	24%	(10)%	$ 58,499	22%	36%
Commercial R.E.	109,503	30%	68,072	21%	61%	64,107	24%	6%
Agricultural	44,683	12%	40,236	12%	11%	41,240	16%	(2)%
Residential	94,389	25%	89,086	27%	6%	63,828	24%	40%
Consumer	49,314	13%	48,877	15%	1%	31,949	12%	53%
Leases	857	1%	1,661	1%	(48)%	5,127	2%	(68)%
Loans	$ 370,387		$ 327,291		13%	$ 264,750		24%
Loans held for sale	390		224			113		
Total	$ 370,777		$ 327,515			$ 264,863		

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

In 2005, loans increased $63 million to $327 million at December 31, 2005, due mainly from the Lima branch and Exchange acquisitions that took place in 2005. The Company experienced nominal organic growth, restructured the loan portfolio for quality and with the Company s detailed policy and procedures coupled with the aforementioned acquisitions, set the stage for growth in 2006.

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	Period Ended December 31 (dollars in millions)				
	12/31/2006	12/31/2005	Change in Dollars/ Percentages	12/31/2004	Change in Dollars/ percentages
Asset Quality					
Non-performing loans	$3.80	$6.30	($2.50)	$14.40	($ 8.10)
Non-performing assets	$3.90	$8.90	($5.00)	$15.40	($ 6.50)
Non-performing assets/total assets	0.70%	1.67%	-0.97%	3.71%	-2.04%
Net charge-offs	$1.20	$0.70	($0.50)	$ 4.90	($ 3.20)
Net charge-offs/total loans	0.31%	0.52%	-0.21%	1.81%	-1.29%
Loan loss provision (credit)	$0.20	$0.60	($0.40)	($ 0.40)	$ 1.00
Allowance for loan losses	$3.70	$4.70	($1.00)	$ 4.90	($ 0.20)
Allowance/loans	1.00%	1.44%	-0.44%	1.85%	-0.41%
Allowance/non-perform ing Loans	97%	75%	22%	34%	41%
Allowance/non-perform ing Assets	95%	53%	42%	32%	21%

Asset quality statistics reflect a decrease in both nonperforming assets and chargeoffs during 2006 compared to 2005 and a decrease from 2005 compared to 2004. Non-performing assets at December 31, 2006 were $3.9 million or 0.70% of total assets, versus $8.9 million or 1.67% at December 31, 2005, and $15.4 million or 3.71% at year-end 2004. Annual net chargeoffs for 2006 were $1.2 million or 0.31% of total loans compared to $1.7 million or 0.52% for 2005.

CAPITAL RESOURCES

Stockholders equity at December 31, 2006, was $57.0 million, equivalent to 10.2% of total assets. On a tangible basis, the ratio was 6.9%. The total risk-based capital ratio was 16.0% at December 31, 2006, well in excess of the well-capitalized regulatory threshold of 10%.

Total consolidated regulatory (risk-based) capital was $62.0 million at December 31, 2006, and $67.8 million at December 31, 2005. As of December 31, 2006, $19.3 million of the $20 million of trust preferred securities qualified as tier 1 capital.

<u>Planned Purchases of Premises and Equipment</u>

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 $3.4 million over the next year. These purchases are expected to be funded by cash on hand and from cash generated from current operations.

LIQUIDITY

Liquidity relates primarily to the Company s ability to fund loan demand, meet deposit customers withdrawal requirements and provide for operating expenses. Assets used to satisfy these needs consist of cash and due from banks, federal funds sold, interest earning deposits in other financial institutions, securities available for sale and loans held for sale. These assets are commonly referred to as liquid assets. Liquid assets were $125.5 million at December 31, 2006 compared to $152.4 million at December 31, 2005. During the fourth quarter, Rurban restructured its balance sheet to improve its net interest margin going forward by selling $17.5 million of investment securities, or approximately 13% of its investment portfolio, with an average yield of 3.89%. Approximately $12 million of the proceeds were used to repay higher-cost, non-core funding, namely, long-term advances from the Federal Home Loan Bank and other borrowings that had a cost in excess of 5.25%. The remaining proceeds of approximately $5.5 million will be used to fund the bank s growing commercial loan portfolio. The Company views this level of liquidity as appropriate.

The Company s residential first mortgage portfolio of $94.4 million at December 31, 2006, and $89.1 million at December 31, 2005, 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, 2006, all eligible 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 2006, 2005 and 2004 follows.

The Company experienced positive cash flows from operating activities in 2006, 2005 and 2004. Net cash from operating activities was $4.7 million, $4.2 million and $5.7 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Cash flow from investing activities was a use of cash of $21.0 million for December 31, 2006 and net funds provided of $28.9 million and $1.2 million for the years ended December 31, 2005 and 2004, respectively. 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. The changes in net cash from investing activities for 2005 include proceeds for the Lima Branches and Exchange Bank. The changes in net cash from investing activities for 2004 include a reduction in loan growth. In 2006, 2005 and 2004, the Company received $33.3 million, $5.2 million and $23.1 million, respectively, from sales of securities available for sale, while proceeds from repayments, maturities and calls of securities were $19.5 million, $17.1 million and $62.5 million in 2006, 2005 and 2004, respectively.

Net cash flow from financing activities was $26.1 million, ($31.1) million, and ($20.4) million for the years ended December 31, 2006, 2005 and 2004, respectively. The net cash increase was primarily due to an increase in total deposits of $29.2 million in 2006 versus a reduction of $(16.4) million and $(20.7) million for the years ended December 31, 2005 and 2004, respectively. Other significant changes in 2006, 2005 and 2004 include ($24.5) million, ($14.0) million and $17.0 million in net borrowings from the FHLB. Also, in 2005, the Company received proceeds of $10.3 million from the trust preferred issuance.

Off-Balance-Sheet Borrowing Arrangements:

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

Approximately $75.7 million residential first mortgage loans of the Company s $94.4 million portfolio qualify to collateralize FHLB borrowings and have been pledged to meet FHLB collateralization requirements as of December 31, 2006. Based on the current collateralization requirements of the FHLB, approximately $26.0 million of additional borrowing capacity existed at December 31, 2006.

At December 31, 2006, the Company had $21.8 million in federal funds lines. As of December 31, 2005, the Company had $20.9 million in federal funds lines. Federal funds borrowed were $4.6 million at December 31, 2005. The company also had $13.8 million in unpledged securities that may be used to pledge for additional borrowings.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

		Payment due by period			
	Total	**Less than 1 year**	**1 3 years**	**3 5 Years**	**More than 5 years**
Contractual Obligations					
Long-Term Debt Obligations	$ 21,000,000	$ 5,500,000	$ 4,000,000	$11,500,000	$
Other Debt Obligations	23,209,207	503,762	708,763	1,376,682	20,620,000
Capital Lease Obligations					
Operating Lease Obligations	2,026,092	378,894	673,298	514,900	459,000
Purchase Obligations					
Other Long-Term Liabilities Reflected on the Registrant s Balance Sheet under GAAP	237,722,558	185,915,277	47,546,982	3,535,802	724,497
Total	$283,957,857	$192,297,933	$52,929,043	$16,927,384	$21,803,497

The Company s contractual obligations as of December 31, 2006 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 $21.0 million. Other debt obligations are comprised of Trust Preferred securities of $20.6 million and Notes Payable of $2.6 million. The operating lease obligation is a lease on the Rurban Operations Corp., the bank operations building, of $99,600 per year, the RDSI-North building of $162,000 a year, the DCM-Lansing facility of $97,200 per year and the DCM-Indianapolis facility of $28,800 per year. Other long-term liabilities are comprised of time deposits of $237.7 million.

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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.

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

Quantitative Market Risk Disclosure. The following table provides information about the Company s financial instruments used for purposes other than trading that are sensitive to changes in interest rates as of December 31, 2006. 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)

	2007	2008	2009	2010	2011	Thereafter	Total
Rate-sensitive assets							
Variable rate loans	$ 58,761	$ 8,567	$ 4,083	$ 2,246	$ 1,267	$ 2,036	$ 76,960
Average interest rate	8.60%	8.07%	7.99%	7.81%	7.65%	7.42%	8.44%
Adjustable rate loans	$ 28,401	$23,505	$20,545	$15,891	$13,791	$ 66,704	$168,837
Average interest rate	6.81%	6.80%	6.71%	6.73%	6.63%	6.74%	6.74%
Fixed rate loans	$ 38,154	$22,836	$15,062	$10,012	$ 9,563	$ 29,067	$124,695
Average interest rate	6.51%	6.61%	6.44%	6.30%	6.39%	5.60%	6.28%
Total loans	$125,316	$54,908	$39,690	$28,149	$24,621	$ 97,807	$370,492
Average interest rate	7.56%	6.92%	6.74%	6.66%	6.59%	6.41%	6.94%
Fixed rate investment securities	$ 57,872	$ 7,867	$ 7,763	$ 2,532	$ 1,790	$ 19,035	$ 96,859
Average interest rate	4.56%	5.11%	4.59%	5.07%	5.36%	4.17%	4.56%
Variable rate investment securities	$ 2,577	$ 1,956	$ 1,005	$ 347	$ 175	$ 3,537	$ 9,597
Average interest rate	4.72%	4.91%	4.91%	4.76%	4.86%	4.75%	4.79%
Federal Funds Sold & Other	$ 9,250	$ 0	$ 0	$ 0	$ 0	$ 0	$ 9,250
Average interest rate	4.83%	0.00%	0.00%	0.00%	0.00%	0.00%	4.83%
Total rate sensitive assets	$195,015	$64,731	$48,458	$31,028	$26,586	$120,379	$486,198
Average interest rate	6.50%	6.64%	6.35%	6.51%	6.49%	6.01%	6.38%
Rate sensitive liabilities:							
Demand non interest-bearing	$ 9,332	$ 9,332	$ 9,332	$ 9,332	$ 9,238	$ 0	$ 46,566
Demand interest bearing	$ 8,804	$ 8,804	$ 8,804	$ 8,804	$ 8,717	$ 0	$ 43,933
Average interest rate	1.26%	1.26%	1.26%	1.26%	1.26%	0.00%	1.26%
Money market accounts	$ 11,839	$11,838	$11,838	$11,838	$11,722	$ 0	$ 59,075
Average interest rate	3.04%	3.04%	3.04%	3.04%	3.04%	0.00%	3.04%

Savings	$ 5,554	$ 5,440	$ 5,440	$ 5,440	$ 5,384	$ 0	$ 27,258
Average interest rate	0.59%	0.59%	0.59%	0.59%	0.59%	0.00%	0.59%
Certificates of deposit	$183,946	$40,950	$ 4,994	$ 2,430	$ 4,674	$ 729	$237,723
Average interest rate	4.36%	4.61%	3.52%	4.07%	4.37%	3.81%	4.38%
Fixed rate FHLB advances	$ 2,000	$ 2,000	$ 2,000	$ 4,000	$ 7,500	$ 0	$ 17,500
Average interest rate	5.22%	5.22%	5.24%	6.25%	4.98%	0.00%	5.35%
Variable rate FHLB advances	$ 3,500	$ 0	$ 0	$ 0	$ 0	$ 0	$ 3,500
Average interest rate	5.34%	0.00%	0.00%	0.00%	0.00%	0.00%	5.34%
Fixed rate Notes Payable	$ 0	$ 0	$ 0	$ 0	$ 0	$ 10,310	$ 10,310
Average interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	10.60%	10.60%
Variable rate Notes Payable	$ 200	$ 0	$ 0	$ 0	$ 2,389	$ 10,310	$ 12,899
Average interest rate	8.75%	0.00%	0.00%	0.00%	7.75%	6.67%	6.90%
Fed Funds Purchased & Repos	$ 7,271	$ 0	$ 0	$ 0	$25,000	$ 0	$ 32,271
Average interest rate	3.48%	0.00%	0.00%	0.00%	4.71%	0.00%	4.43%
Total rate sensitive liabilities	$232,446	$78,364	$42,408	$41,844	$74,624	$ 21,349	$491,035
Average interest rate	3.91%	3.18%	1.85%	2.03%	3.27%	8.47%	3.56%

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

	First Year	Years 2 5	Thereafter	Total
Comparison of 2006 to 2005:				
Total rate-sensitive assets:				
At December 31, 2006	$ 195,015	$ 170,804	$ 120,379	$ 486,198
At December 31, 2005	215,721	162,891	92,014	470,626
Increase (decrease)	$ (20,707)	$ 7,913	$ (28,364)	$ 15,572
Total rate-sensitive liabilities:				
At December 31, 2006	$ 232,446	$ 237,240	$ 21,349	$ 491,035
At December 31, 2005	200,846	221,267	40,464	462,577
Increase (decrease)	$ 31,600	$ 15,973	$ (19,115)	$ 28,458

The above table reflects expected maturities, not expected repricing. The contractual maturities adjusted for anticipated prepayments and anticipated renewals at current interest rates, as shown in the preceding table, are only part of the Company s interest rate risk profile. Other important factors include the ratio of rate-sensitive assets to rate sensitive liabilities (which takes into consideration loan repricing frequency but not when deposits may be repriced) and the general level and direction of market interest rates. For core deposits, the repricing frequency is assumed to be longer than when such deposits actually reprice. For some rate sensitive liabilities, their repricing frequency is the same as their contractual maturity. For variable rate loans receivable, repricing frequency can be daily or monthly. For adjustable rate loans receivable, repricing can be as frequent as annually for loans whose contractual maturities range from one to thirty years. In 2004 and 2005, maturities of non-core funding sources positively impacted net interest income and the net interest margin. In 2006, the company s liquidation of a portion of the investment securities and their ability to obtain below market funding through repurchase agreements helped balance deposit expenses in the midst of four interest rate increases. The acquisition of Exchange Bank also provided for lower cost funding. The tax equivalent net interest income as a percentage of average interest earning assets decreased from 3.19% in 2004 to 3.19% in 2005, and decreased slightly in 2006 to 3.13%..

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

Impact of Inflation and Changing Prices

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

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

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Forward-Looking Statements

When used in this filing and in future filings by the Company with the SEC, in the Company s press releases or other public or shareholder communications, or in oral statements made with the approval of an authorized executive officer, the words or phases, anticipate, would be, will allow, intends to, will likely result, are expected to, v continue, is anticipated, estimated, project, or similar expressions are intended to identify, forward looking stateme within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties, including but not limited to changes in economic conditions in the Company s market area, changes in policies by regulatory agencies, fluctuations in interest rates, demand for loans in the Company s market area, and competition, all or some of which could cause actual results to differ materially from historical earnings and those presently anticipated or projected. For a more detailed discussion of the factors that could affect the Company s financial results, please see Item 1A Risk Factors in Rurban s Annual Report on Form 10-K for the year ended December 31, 2006.

The Company wishes to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made, and advise readers that various factors, including regional and national economic conditions, substantial changes in levels of market interest rates, credit and other risks of lending and investing activities, and competitive and regulatory factors, could affect the Company s financial performance and could cause the Company s actual results for future periods to differ materially form those anticipated or projected.

The Company does not undertake, and specifically disclaims any obligation, to update any forward looking statements to reflect occurrences or unanticipated events or circumstances after the date of such statements.

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 47 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, 2006 and December 31, 2005, 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, 2006, the related Notes to Consolidated Financial Statements and the Report of Independent Registered Public Accounting Firm, appear on pages F-1 through F-54 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 are effective as of the end of the fiscal year covered by this Annual Report on Form 10-K to ensure that material information relating to the Company and its consolidated subsidiaries is made known to them, particularly during the period for which the Company s periodic reports, including this Annual Report on Form 10-K, are being prepared.

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

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December 31, 2006, that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information

Not Applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant and Corporate Governance.

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 19, 2007 (the 2007 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.

The information required by Item 405 of SEC Regulation S-K is incorporated herein by reference from the disclosure included in the Company s 2007 Proxy Statement under the caption SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.

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

The information required by Item 407(c)(3) of SEC Regulation S-K is incorporated herein by reference from the disclosure to be included under the caption CORPORATE GOVERNANCE Nominating Procedures in the Company s 2007 Proxy Statement.

The information required by Items 407(d)(4) and 407(d)(5) of SEC Regulation S-K is incorporated herein by reference from the disclosure to be included under the caption MEETINGS AND COMMITTEES OF THE BOARD Committees of the Board Audit Committee in the Company s 2007 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 2007 Proxy Statement under the captions COMPENSATION, DISCUSSION AND ANALYSIS , COMPENSATION OF EXECUTIVE OFFICERS and DIRECTOR COMPENSATION .

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The information required by Item 407(e)(4) of SEC Regulation S-K is incorporated herein by reference to the information contained in the Company s 2007 Proxy Statement under the caption MEETINGS AND COMMITTEES OF THE BOARD Compensation Committee Interlocks and Insider Participation .

The information required by Item 407(e)(5) of SEC Regulation S-K is incorporated herein by reference from the disclosure included under the caption, COMPENSATION COMMITTEE REPORT in the Company s 2007 Proxy Statement.

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 2007 Proxy Statement under the caption SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT .

The information required by this Item 12 regarding securities authorized for issuance under equity compensation plans is as follows:

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Equity Compensation Plan Information

The following table provides information regarding certain equity compensation plans of the Company at December 31, 2006:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) 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 (1)	325,274	$ 13.41	115,726
Equity compensation plans not approved by security holders (2)	N/A	N/A	N/A
Total	325,274	$ 13.41	115,726

(1) Information relates to the 1997 Rurban Financial Corp. Stock Option Plan.

(2) Information relates to the Rurban Financial Corp. Employee Stock Purchase Plan (the ESPP). All employees of the Company and its subsidiaries are eligible to participate in the ESPP

immediately following their date of hire. Participants are allowed to deduct from their compensation for each payroll period an amount to be used to purchase common shares of the Company. These funds are forwarded to Registrar and Transfer Company at the end of each payroll period and Registrar and Transfer Company uses the funds to purchase common shares of the Company on the open market for the participants. There is no limit as to the number of shares to be purchased through the ESPP and as of December 31, 2006; there were no accrued purchased rights. The ESPP was not approved by shareholders of the Company.

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 2007 Proxy Statement under the caption TRANSACTIONS WITH RELATED PERSONS .

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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 2007 Proxy Statement under the caption CORPORATE GOVERNANCE Director Independence .

Item 14. Principal Accounting Fees

The information called for in this Item 14 is incorporated herein by reference to the information contained in the Company s 2007 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 2006 Fiscal Year .

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) (1) Financial Statements.

For a list of all financial statements included in this Annual Report on Form 10-K, see the Index to Financial Statements at page 59.

(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.

Exhibits filed with this Annual Report on Form 10-K are attached hereto or incorporated into this Annual Report on Form 10-K by reference. For a list of such exhibits, see the Index to Exhibits beginning at page E-1.

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SIGNATURES

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

RURBAN FINANCIAL CORP.

Date: March 22, 2007 By: /s/ Duane L. Sinn

Duane L. Sinn, Executive Vice President and Chief Financial Officer

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS, that each undersigned officer and/or director of Rurban Financial Corp., an Ohio corporation (the Corporation), which is about to file with the Securities and Exchange Commission, Washington, D.C., under the provisions of the Securities Exchange Act of 1934, as amended, the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2006, 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	March 22, 2007	President, Chief Executive Officer, and Director
Kenneth A. Joyce		
/s/ Duane L. Sinn	March 22, 2007	Executive Vice President and Chief Financial
Duane L. Sinn		Officer
/s/ Thomas A. Buis	March 20, 2007	Director
Thomas A. Buis		
/s/ Thomas M. Callan	March 20, 2007	Director
Thomas M. Callan		

Name	Date	Capacity
/s/ John R. Compo	March 20, 2007	Director
John R. Compo		
/s/ John Fahl	March 20, 2007	Director
John Fahl		
/s/ Robert A. Fawcett, Jr.	March 20, 2007	Director
Robert A. Fawcett, Jr.		
/s/ Richard L. Hardgrove	March 20, 2007	Director
Richard L. Hardgrove		
/s/ Rita A. Kissner	March 20, 2007	Director
Rita A. Kissner		
/s/ Thomas L. Sauer	March 20, 2007	Director
Thomas L. Sauer		
/s/ Steven D. VanDemark	March 20, 2007	Director
Steven D. VanDemark		
/s/ J. Michael Walz, D.D.S.	March 20, 2007	Director
J. Michael Walz, D.D.S		

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Rurban Financial Corp.
December 31, 2006 and 2005

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Rurban Financial Corp. as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company s management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as 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, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

Cincinnati, Ohio
February 19, 2007

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Rurban Financial Corp.
Consolidated Balance Sheets
December 31

	2006	2005
Assets		
Cash and due from banks	$ 13,381,791	$ 12,650,839
Federal funds sold	9,100,000	
Cash and cash equivalents	22,481,791	12,650,839
Interest-bearing deposits	150,000	150,000
Available-for-sale securities	102,462,075	139,353,329
Loans held for sale	390,100	224,000
Loans, net of unearned income	370,101,809	327,048,229
Allowance for loan losses	(3,717,377)	(4,699,827)
Premises and equipment	15,449,774	13,346,632
Federal Reserve and Federal Home Loan Bank stock, at cost	3,993,450	3,607,500
Foreclosed assets held for sale, net	82,397	2,309,900
Interest receivable	3,129,774	3,010,355
Goodwill	13,674,058	8,917,373
Core deposits and other intangibles	5,858,982	3,742,333
Purchased software	4,618,691	3,916,913
Cash value of life insurance	10,771,843	10,443,487
Other	6,559,886	6,521,213
Total assets	$ 556,007,253	$ 530,542,276

See Notes to Consolidated Financial Statements

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Rurban Financial Corp.
Consolidated Balance Sheets
December 31

	2006	2005
Liabilities and Stockholders Equity		
Liabilities		
Deposits		
Demand	$ 46,565,554	$ 52,073,751
Savings, interest checking and money market	130,267,333	124,206,115
Time	237,722,558	208,558,046
Total deposits	414,555,445	384,837,912
Short-term borrowings	32,270,900	10,680,420
Notes payable	2,589,207	938,572
Federal Home Loan Bank advances	21,000,000	45,500,000
Trust preferred securities	20,620,000	20,620,000
Interest payable	2,224,413	1,373,044
Deferred income taxes	1,610,462	1,140,001
Other liabilities	4,181,673	11,001,679
Total liabilities	499,052,100	476,091,628
Commitments and Contingent Liabilities		
Stockholders Equity		
Common stock, $2.50 stated value; authorized 10,000,000 shares; 5,027,433 shares outstanding	12,568,583	12,568,583
Additional paid-in capital	14,859,165	14,835,110
Retained earnings	30,407,298	28,702,817
Accumulated other comprehensive loss	(879,893)	(1,655,862)
Total stockholders equity	56,955,153	54,450,648
Total liabilities and stockholders equity	$ 556,007,253	$ 530,542,276

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

	2006	2005	2004
Interest Income			
Loans			
Taxable	$ 24,958,988	$ 16,593,703	$ 16,151,220
Tax-exempt	63,356	64,609	65,711
Securities			
Taxable	5,211,672	4,337,477	3,567,819
Tax-exempt	559,518	265,959	164,541
Other	176,884	160,240	78,549
Total interest income	30,970,418	21,421,988	20,027,840
Interest Expense			
Deposits	11,022,161	5,651,372	4,554,093
Notes payable	923,181	334,713	386,450
Federal funds purchased	97,226	67,300	13,896
Federal Home Loan Bank advances	2,106,385	2,039,851	1,877,284
Trust preferred securities	1,787,023	1,275,168	1,118,751
Total interest expense	15,935,976	9,368,404	7,950,474
Net Interest Income	15,034,442	12,053,584	12,077,366
Provision (Credit) for Loan Losses	177,838	583,402	(399,483)
Net Interest Income After Provision (Credit) for Loan Losses	14,856,604	11,470,182	12,476,849
Non-interest Income			
Data service fees	15,011,143	12,708,407	11,163,990
Trust fees	3,192,025	3,133,550	3,042,297
Customer service fees	2,161,153	1,859,547	1,985,389
Net gains (losses) on loan sales	1,249,148	(436,971)	40,603
Net realized gains on sales of available-for-sale securities	(494,885)	25,300	241,008
Investment securities recoveries	889,454		
Loan servicing fees	419,709	306,929	367,753
Gain on sale of assets	94,198		
Other	1,233,376	741,340	535,336
Total non-interest income	$ 23,755,321	$ 18,338,102	$ 17,376,376

See Notes to Consolidated Financial Statements

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

	2006	2005	2004
Non-interest Expense			
Salaries and employee benefits	$ 16,584,146	$ 13,518,749	$ 12,993,449
Net occupancy expense	1,840,864	1,214,169	981,700
Equipment expense	5,850,281	5,148,458	4,336,573
Data processing fees	562,265	411,465	371,153
Professional fees	2,395,863	2,730,337	2,252,677
Marketing expense	669,764	445,656	339,968
Printing and office supplies	619,100	524,473	423,030
Telephone and communications	1,705,261	1,549,449	1,323,273
Postage and delivery expense	735,210	313,379	347,494
Insurance expense	171,363	218,484	292,418
Employee expense	978,832	994,735	796,556
State, local and other taxes	674,280	572,456	591,142
FHLB prepayment penalties	214,886		
Other	1,901,452	1,412,030	960,643
Total non-interest expense	34,903,567	29,053,840	26,010,076
Income Before Income Tax	3,708,358	754,444	3,843,149
Provision for Income Taxes	948,116	81,353	1,108,857
Net Income	$ 2,760,242	$ 673,091	$ 2,734,292
Basic Earnings Per Share	$ 0.55	$ 0.15	$ 0.60
Diluted Earnings Per Share	$ 0.55	$ 0.15	$ 0.60

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, January 1, 2004	$ 11,439,255	$ 11,009,268	$ 26,209,444	$ (163,493)	$ 201,082	$ (312,800)	$ 48,382,756
Comprehensive income							
Net income			2,734,292				2,734,292
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect					(1,004,271)		(1,004,271)
Total comprehensive income							1,730,021
Stock options exercised (158 treasury shares)		(5,626)				35,151	29,525
ESOP shares earned				163,493			163,493
Balance, December 31, 2004	11,439,255	11,003,642	28,943,736		(803,189)	(277,649)	50,305,795
Comprehensive income							
Net income			673,091				673,091

Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect					(852,673)		(852,673)
Total comprehensive income							(179,582)
Dividends on common stock, \$0.20 per share			(914,010)				(914,010)
Stock options exercised (2,929 treasury shares)		(4,158)				40,753	36,595
Treasure stock retired (4,358 treasury shares	(10,962)	(225,934)				236,896	
Exchange acquisition	1,140,290	4,061,560		163,493			5,201,850
Balance, December 31, 2005	12,568,583	14,835,110	28,702,817		(1,655,862)		54,450,648
Comprehensive income							
Net income			2,760,242				2,760,242
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect					775,969		775,969

Total comprehensive income							3,536,211
Dividends on common stock, $0.21 per share			(1,055,761)				(1,055,761)
Shares issued under 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

See Notes to Consolidated Financial Statements

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

	2006	2005	2004
Operating Activities			
Net income	$ 2,760,242	$ 673,091	$ 2,734,292
Items not requiring (providing) cash			
Depreciation and amortization	3,544,965	3,108,693	2,492,661
Provision (credit) for loan losses	177,838	583,402	(399,483)
Expense of stock option plan	24,055		
ESOP shares earned			163,493
Amortization of premiums and discounts on securities	206,096	218,221	469,148
Amortization of intangible assets	535,351	131,826	102,009
Deferred income taxes	(460,305)	384,337	3,344,719
FHLB Stock Dividends	(385,950)	(116,800)	(93,400)
Proceeds from sale of loans held for sale	11,328,770	5,481,329	5,709,084
Originations of loans held for sale	(11,326,566)	(6,029,400)	(5,562,628)
(Gain) loss from sale of loans	(1,249,148)	436,971	(40,603)
(Gain) loss on sale of foreclosed assets	(113,729)	214,642	(33,758)
(Loss) on sales of fixed assets	19,530	18,817	
Net realized gains on available-for-sale securities	494,885	(25,300)	(241,008)
Changes in			
Interest receivable	(119,419)	(513,229)	16,280
Other assets	296,344	(1,241,089)	(707,055)
Interest payable and other liabilities	(1,081,796)	899,500	(2,256,287)
Net cash provided by operating activities	4,651,163	4,225,011	5,697,464
Investing Activities			
Net change in interest-bearing deposits			110,000
Purchases of available-for-sale securities	(15,375,196)	(38,373,878)	(88,396,063)
Proceeds from maturities of available-for-sale securities	19,506,403	17,107,354	62,537,668
Proceeds from sales of available-for-sale securities	33,263,994	5,154,173	23,086,736
Proceeds from sale of credit card portfolio and non-performing loans	5,760,603		
Net change in loans	(49,367,497)	(4,562,982)	13,852,870
Purchase of premises and equipment	(9,042,264)	(2,975,180)	(3,652,078)
Proceeds from sales of premises and equipment	2,880,497	93,216	
Purchase bank owned life insurance			(8,000,000)
Proceeds from sale of foreclosed assets	2,811,928	1,565,223	1,592,373
Purchase of Federal Home Loan and Federal Reserve Bank stock			(383,300)
Cash paid to shareholders of Exchange Bank Acquisition	(6,526,646)		
Cash paid to shareholders of Diverse Computer Marketers, Inc. Acquisition	(4,872,961)		
Proceeds from sale of Federal Home Loan Bank stock			428,600

Proceeds from assumption of net liabilities in business acquisition		50,928,950	
Net cash provided by (used in) investing activities	(20,961,139)	28,936,876	1,176,806

See Notes to Consolidated Financial Statements

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

	2006	2005	2004
Financing Activities			
Net increase (decrease) in demand deposits, money market, interest checking and savings accounts	$ 553,021	$ (6,940,715)	$ (17,178,739)
Net increase (decrease) in certificates of deposit	29,164,512	(16,360,869)	(20,671,696)
Net increase in securities sold under agreements to repurchase	26,190,480	2,021,269	135,397
Net increase (decrease) in federal funds purchased	(4,600,000)	(2,900,000)	7,500,000
Proceeds from Federal Home Loan Bank advances	47,900,000	20,500,000	66,500,000
Repayment of Federal Home Loan Bank advances	(72,400,000)	(34,500,000)	(49,500,000)
Proceeds from notes payable	2,700,000		1,219,863
Proceeds from trust preferred		10,310,000	
Repayment of notes payable	(2,311,326)	(2,381,084)	(8,467,806)
Proceeds from stock options exercised		36,595	29,525
Dividends paid	(1,055,759)	(914,010)	
Net cash (used in) provided by financing activities	26,140,928	(31,128,814)	(20,433,456)
Increase (Decrease) in Cash and Cash Equivalents	9,830,952	2,033,073	(13,559,186)
Cash and Cash Equivalents, Beginning of Year	12,650,839	10,617,766	24,176,952
Cash and Cash Equivalents, End of Year	$ 22,481,791	$ 12,650,839	$ 10,617,766
Supplemental Cash Flows Information			
Interest paid	$ 15,084,607	$ 8,989,474	$ 9,303,363
Income taxes paid (net of refunds)	$ (948,000)	$ (1,021,302)	$ (717,666)
Common stock and payable issued for net assets in Acquisition	$	$ 11,826,130	$
Transfer of loans to foreclosed assets	$ 556,677	$ 3,247,539	$ 888,063

See Notes to Consolidated Financial Statements

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Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

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), The Exchange Bank (Exchange), Rurban Operations Corp. (ROC), RFCBC, Inc. (RFCBC), Rurbanc Data Services, Inc. (RDSI), Divers Computer Marketers, Inc. (DCM), Rurban Statutory Trust I (RST I), and Rurban Statutory Trust II (RST II). State Bank owns all of the outstanding stock of Reliance Financial Services, N.A. (RFS) and Rurban Mortgage Company (RMC). State Bank and Exchange are primarily engaged in providing a full range of banking and financial services to individual and corporate customers in northern Ohio. State Bank and Exchange are subject to competition from other financial institutions. State Bank and Exchange are regulated by certain federal and state agencies and undergo periodic examinations by those regulatory authorities. ROC serves as a central location for the performance of the following functions that provide services for all of the Company s subsidiaries: human resources, marketing, facilities maintenance, loan operations, loan accounting, collections, file room, internet banking, credit analysis, VISA processing, mortgage operations, technology, training and development, deposit operations, operations administration and accounting. RFCBC operates as a loan subsidiary that continues to administer classified loans. RDSI and DCM provide data and item processing services to community banks in Arkansas, Florida, Illinois, Indiana, Michigan, Missouri, 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, Exchange, RFCBC, RDSI, DCM, RFS and RMC. Exchange s balance sheet was consolidated at December 31, 2005, but not the income statement as a result of closing this acquisition at the close of business December 31, 2005. All significant intercompany accounts and transactions have been eliminated in consolidation. In December 2003, FASB issued a revision to FIN 46 (FIN 46R) that, among other matters, clarified certain provisions that affected the accounting for trust preferred securities. As a result of the adoption of FIN 46R, RST I was deconsolidated as of March 31, 2004, with the Company accounting for its investment in RST I as assets, its subordinated debentures as debt, and the interest paid thereon as interest expense. The Company had previously classified the trust preferred securities as debt, but eliminated its common stock investment as a result of the adoption of FIN 46R.

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.

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Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

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

Cash Equivalents

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

Securities

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

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

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

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

Mortgage Loans Held for Sale

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

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoffs are reported at their outstanding principal balances adjusted for any charge-offs, the allowance for loan losses, any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term.

Generally, loans are placed on non-accrual status not later than 90 days past due, unless the loan is well-secured and in the process of collection.

Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

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 and Exchange 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 and Exchange Bank do not separately identify individual consumer and residential loans for impairment measurements.

Premises and Equipment

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

Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

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 ten years. Such assets are periodically evaluated as to the recoverability of their carrying value. Purchased software is being amortized using the straight-line method over periods ranging from one to three years.

Stock Options

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

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

Rurban Financial Corp.
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

accordance with Statement No. 123 and related interpretations, no compensation expense was recognized.

The following table illustrates the effect on 2005 and 2004 net income and earnings per share if the Company had applied the fair value provisions of FASB Statement No. 123, *Accounting for Stock-based Compensation*, to stock-based employee compensation. In April 2005, the Company accelerated certain stock options to be immediately vested. In accordance with Statement No. 123 and related interpretations, no compensation expense was recognized.

	2005	2004
Net income, as reported	$ 673,091	$ 2,734,292
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(655,615)	(196,730)
Pro forma net income	$ 17,476	$ 2,537,562
Earnings per share:		
Basic as reported	$ 0.15	$ 0.60
Basic pro forma	$ 0.00	$ 0.56
Diluted as reported	$ 0.15	$ 0.60
Diluted pro forma	$ 0.00	$ 0.56

Income Taxes

Deferred tax assets and liabilities are recognized for the tax effects of differences between the financial statement and tax bases 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 with its subsidiaries.

Earnings Per Share

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

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Reclassifications

Certain reclassifications have been made to the 2005 and 2004 financial statements to conform to the 2006 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Restriction on Cash and Due From Banks

State Bank and Exchange are required to maintain reserve funds in cash and/or on deposit with the Federal Reserve Bank. The reserve required at December 31, 2006, was $1,716,000.

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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, 2006:				
U.S. Treasury and government agencies	$ 59,021,221	$	$ (898,591)	$ 58,122,630
Mortgage-backed securities	29,169,513	48,022	(447,351)	28,770,184
State and political subdivision	15,500,312	47,316	(82,680)	15,464,948
Equity securities	23,000			23,000
Other securities	81,200	113		81,313
	$ 103,795,246	$ 95,451	$ (1,428,622)	$ 102,462,075
December 31, 2005:				
U.S. Treasury and government agencies	$ 91,020,624	$ 13,675	$ (1,363,079)	$ 89,671,220
Mortgage-backed securities	36,571,076	9,783	(920,973)	35,659,886
State and political subdivision	12,942,183	6,713	(255,001)	12,693,895
Equity securities	23,000			23,000
Other securities	1,305,328			1,305,328
	$ 141,862,211	$ 30,171	$ (2,539,053)	$ 139,353,329

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The amortized cost and fair value of securities available for sale at December 31, 2006, 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	$ 1,994,691	$ 1,992,866
One to five years	10,122,369	10,055,193
Five to ten years	50,257,185	49,397,992
After ten years	12,197,288	12,191,640
	74,571,533	73,637,691
Mortgage-backed securities and equity securities	29,223,713	28,824,384
Totals	$ 103,795,246	$ 102,462,075

The carrying value of securities pledged as collateral, to secure public deposits was $61,186,085 at December 31, 2006, and $80,968,923 at December 31, 2005. The securities delivered for repurchase agreements were $27,437,603 at December 31, 2006, and $0 for 2005.

Gross gains of $7,928, $34,050, and $251,846 and gross losses of $502,813, $8,750, and $10,838 resulting from sales of available-for-sale securities were realized for 2006, 2005 and 2004, respectively. The tax expense for net security gains (losses) for 2006, 2005, and 2004 was $(168,000), $9,000, and $82,000, 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, 2006, was $92,111,343, which is approximately 90% of the Company s available-for-sale investment portfolio. These declines primarily resulted from recent increases in market interest rates.

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.

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

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

Securities with unrealized losses at December 31, 2005, 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	$ 24,755,316	$ (313,414)	$ 46,397,390	$ (1,049,665)	$ 71,152,706	$ (1,363,079)
Mortgage-backed securities	10,869,812	(197,459)	23,102,173	(723,514)	33,971,985	(920,973)
State and political subdivisions	10,124,496	(215,897)	1,771,884	(39,104)	11,896,380	(255,001)
	$ 45,749,624	$ (726,770)	$ 71,271,447	$ (1,812,283)	$ 117,021,071	$ (2,539,053)

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Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31 include:

	2006	2005
Commercial	$ 71,640,907	$ 79,359,126
Commercial real estate	109,503,312	68,071,738
Agricultural	44,682,699	40,236,664
Residential real estate	94,389,118	89,086,024
Consumer	49,314,080	48,876,788
Leasing	856,808	1,661,126
Total loans	370,386,924	327,291,466
Less		
Net deferred loan fees, premiums and discounts	(285,115)	(243,237)
Loans, net of unearned income	$ 370,101,809	$ 327,048,229
Allowance for loan losses	$ (3,717,377)	$ (4,699,827)

Activity in the allowance for loan losses was as follows:

	2006	2005	2004
Balance, beginning of year	$ 4,699,827	$ 4,899,063	$ 10,181,135
Balance, Exchange Bank		910,004	
Provision (credit) charged (credited) to expense	177,838	583,402	(399,483)
Recoveries	656,963	1,716,815	2,106,470
Losses charged off	(1,817,251)	(3,409,457)	(6,989,059)
Balance, end of year	$ 3,717,377	$ 4,699,827	$ 4,899,063

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Individual loans determined to be impaired were as follows:

	2006	2005	2004
Year-end impaired loans with no allowance for loan losses allocated	$ 607,469	$ 1,676,128	$ 975,000
Year-end loans with allowance for loan losses allocated	$ 1,514,169	$ 4,460,129	$ 10,411,000
Total impaired loans	$ 2,121,638	$ 6,136,257	$ 11,386,000
Amount of allowance allocated	$ 224,630	$ 1,992,807	$ 1,265,000
Average of impaired loans during the year	$ 4,177,213	$ 10,036,150	$ 14,313,000
Interest income recognized during impairment	$ 46,917	$ 223,782	$ 433,242
Cash-basis interest income recognized	$ 50,779	$ 232,008	$ 455,872

At December 31, 2006, 2005, and 2004 accruing loans delinquent 90 days or more totaled $0, $5,200, and $11,000 respectively. Non-accruing loans at December 31, 2006, 2005, and 2004 were $3,828,000, $6,270,000, and $13,384,000 respectively.

Note 5: Premises and Equipment

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

	2006	2005
Land	$ 1,544,883	$ 1,558,946
Buildings and improvements	9,925,293	11,145,608
Equipment	11,259,960	11,300,093
Construction in progress	2,567,079	67,775
	25,297,215	24,072,422
Less accumulated depreciation	(9,847,441)	(10,725,790)
Net premises and equipment	$ 15,449,774	$ 13,346,632

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Note 6: Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2006, 2005 and 2004 were:

		2006	2005	2004
Balance as of January 1		$ 8,917,373	$ 2,144,304	$ 2,144,304
Goodwill acquired during the year	Data Processing	4,795,149		
Adjustment on final allocation of purchase price	Banking	(38,464)	6,773,069	
Balance as of December 31		$ 13,674,058	$ 8,917,373	$ 2,144,304

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Note 7: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2006 and 2005, were:

	2006		2005	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposit intangible	$ 4,039,615	$ (888,544)	$ 4,039,615	$ (432,679)
Customer relationship intangible	200,627	(76,405)	200,627	(65,230)
Banking intangibles	4,240,242	(964,949)	4,240,242	(497,909)
Customer relationship intangible	2,389,000	(53,089)		
Trademark intangible	180,000	(6,000)		
Non-compete intangible	83,000	(9,222)		
Data Processing intangibles	2,652,000	(68,311)		
Purchased software Banking	217,940	(166,435)	251,357	(166,972)
Purchased software Data Processing	9,073,965	(4,679,663)	8,123,024	(4,342,184)
Purchased software Other	379,422	(206,538)	156,921	(105,233)
Purchased software	9,671,327	(5,052,636)	8,531,302	(4,614,389)
Total	$ 16,563,569	$ (6,085,896)	$ 12,771,544	$ (5,112,298)

Amortization expense for core deposits and other for the years ended December 31, 2006, 2005 and 2004, was $535,351, $131,825 and $102,009, respectively. Amortization expense for purchased software for the years ended December 31, 2006, 2005 and 2004 was $1,329,580, $1,234,279 and $1,036,796, respectively Estimated amortization expense for each of the following five years is:

	2007	2008	2009	2010	2011
Core deposit intangible	$ 397,436	$ 397,436	$ 397,436	$ 397,436	$ 397,436
Customer relationship intangible	59,370	49,930	42,337	36,884	31,063
Banking intangibles	456,806	447,366	439,773	434,320	428,499
Customer Relationship intangible	159,264	159,264	159,264	159,264	159,264
Trademark intangible	18,000	18,000	18,000	18,000	18,000
Non-compete intangible	27,667	27,667	18,445		
Data Processing intangibles	204,931	204,931	195,709	177,264	177,264

Purchased software	Banking	22,221	17,071	12,211		
Purchased Software Processing	Data	1,159,692	969,541	853,261	767,126	231,177
Purchased Software	Other	86,014	48,787	17,468	16,294	4,366
Purchased Software		1,267,927	1,035,399	882,940	783,420	235,543
Total		$ 1,929,664	$ 1,687,696	$ 1,518,422	$ 1,395,004	$ 841,306

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Note 8: Interest-Bearing Time Deposits

Interest-bearing time deposits in denominations of $100,000 or more were $74,530,000 on December 31, 2006, and $59,267,000 on December 31, 2005. Certificates of deposit obtained from brokers totaled approximately $14,992,000 and $3,933,000 at December 31, 2006 and 2005, respectively.

At December 31, 2006, the scheduled maturities of time deposits were as follows:

2007	$ 185,915,277
2008	42,331,462
2009	5,215,520
2010	1,656,967
2011	1,878,835
Thereafter	724,497
Total	$ 237,722,558

Of the $15.0 million in brokered deposits held at December 31, 2006, $12.3 million mature within the next year.

Note 9: Short-Term Borrowings

		2006	2005
Federal funds purchased		$	$ 4,600,000
Securities sold under repurchase agreements	retail	7,270,900	7,270,900
Securities sold under repurchase agreements	broker	25,000,000	
Total short-term borrowings		$ 32,270,900	$ 10,680,420

At December 31, 2006, the Company had $21.8 million in federal funds lines, of which none were drawn upon. At December 31, 2005, the Company had $20.9 million in federal funds lines, of which $4.6 million was drawn on.

The Company has retail repurchase agreements to facilitate cash management transactions with commercial customers. These obligations are secured by agency securities and such collateral is held by the Federal Home Loan Bank. At December 31, 2006, retail repurchase agreements totaled

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$7,270,900. The maximum amount of outstanding agreements at any month end during 2006 and 2005 totaled $7,400,000 and $6,600,000, respectively, and the monthly average of such agreements totaled $6,471,000 and $5,182,000, respectively. The agreements at December 31, 2006 and 2005 mature within one month.

The Company also has repurchase agreements with brokerage firms who are in possession of the underlying securities. The securities are returned to the Company on the repurchase date. The maximum amount of outstanding agreements at any month end during 2006 totaled $25,000,000, and the monthly average of such agreements totaled $14,064,000. These repurchase agreements mature between 2010 and 2015 and at December 31, 2006, totaled $25,000,000 with a weighted average interest rate at year-end of 4.71%.

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Note 10: Notes Payable

Notes payable at December 31, include:

	2006	2005
Revolving Demand Note payable in the amount of $500,000, secured by all business assets of DCM, Inc. and RDSI monthly payments of interest at prime plus .5%	$ 200,000	$
Note payable in the amount of $2,500,000, secured by all inventory, equipment and receivables of DCM and 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	2,389,207	
Revolving Demand Note payable in the amount of $250,000, unsecured and assumed from Exchange Bancshares, monthly payments of interest at prime, maturing April 30, 2006 (paid off in January 2006)		240,000
Note payable in the amount of $319,863, secured by equipment of RDSI, monthly payments of $6,272 together with interest at a fixed rate of 6.5%, maturing September 14, 2009 (paid off in February 2006)		48,837
Note payable in the amount of $1,708,711, of which 47.328% was sold to a third party bank, secured by equipment and disk systems of RDSI, monthly payments of $33,504 together with interest at a fixed rate of 6.5%, maturing September 14, 2009 (paid off in February 2006)		629,856
Note payable in the amount of $28,626, secured by a vehicle owned by State Bank, monthly payments of $795, together with interest at a fixed rate of 1.90%, maturing January 5, 2008 (paid off in March 2006)		19,879
	$ 2,589,207	$ 938,572

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Aggregate annual maturities of notes payable at December 31, 2006, are:

	Debt
2007	$ 503,762
2008	340,288
2009	368,475
2010	398,494
2011	978,188
Total	$ 2,589,207

Note 11: Federal Home Loan Bank Advances

The Federal Home Loan Bank advances were secured by mortgage loans totaling $75,650,875 at December 31, 2006. Advances, at interest rates from 4.78 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, 2006, are:

	Debt
2007	$ 5,500,000
2008	2,000,000
2009	2,000,000
2010	4,000,000
2011	7,500,000
Thereafter	
Total	$ 21,000,000

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Note 12: Trust Preferred Securities

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

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

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Note 13: Income Taxes

The provision for income taxes includes these components:

	For The Year Ended December 31, 2006	2005	2004
Taxes currently payable (refundable)	$ 1,408,421	$ (302,984)	$ (2,235,862)
Deferred income taxes	(460,305)	384,337	3,344,719
Income tax expense	$ 948,116	$ 81,353	$ 1,108,857

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, 2006	2005	2004
Computed at the statutory rate (34%)	$ 1,260,842	$ 256,511	$ 1,306,670
Increase (decrease) resulting from			
Tax exempt interest	(184,640)	(103,015)	(72,091)
Other	(128,086)	(72,143)	(125,722)
Actual tax expense	$ 948,116	$ 81,353	$ 1,108,857

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

	At December 31, 2006	At December 31, 2005
Deferred tax assets		
Allowance for loan losses	$ 1,121,589	$ 1,438,141
Accrued compensation and benefits	279,153	363,428
Net deferred loan fees	100,932	91,756
Unrealized losses on available-for-sale securities	452,812	852,695
Purchase accounting adjustments	188,644	212,434
NOL carry over	751,000	531,704
Other	3,166	67,647
	2,897,296	3,557,805
Deferred tax liabilities		
Depreciation	(974,157)	(1,677,950)
Mortgage servicing rights	(71,078)	(51,222)
Mark to market adjustment	(452,812)	(852,695)
Purchase accounting adjustments	(2,350,013)	(1,553,898)
Prepaids	(185,760)	(147,841)
FHLB stock dividends	(422,314)	(362,576)
Other	(51,624)	(51,624)
	(4,507,758)	(4,697,806)
Net deferred tax liability	$ (1,610,462)	$ (1,140,001)

The NOL carry over begins to expire in 2024.

Note 14: Other Comprehensive Loss

Other comprehensive loss components and related taxes are as follows:

	2006	2005	2004
Unrealized gains (losses) on securities available for sale	$ 680,825	$ (1,266,627)	$ (1,280,615)
Reclassification for realized amount included in income	494,885	(25,300)	(241,008)
Other comprehensive income (loss), before tax effect	1,175,710	(1,291,927)	(1,521,623)
Tax expense (benefit)	399,741	(439,254)	(517,352)
Other comprehensive income (loss)	$ 775,969	$ (852,673)	$ (1,004,271)

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Rurban Financial Corp.
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Note 15: Regulatory Matters

The Company, State Bank and Exchange 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, State Bank and Exchange 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, State Bank and Exchange 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, 2006, that the Company, State Bank and Exchange Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2006, the most recent notification to the regulators categorized the State Bank and Exchange Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, State Bank and Exchange 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 or Exchange Bank s status as well-capitalized.

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The Company, State Bank and Exchange 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, 2006						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$62.0	16.0%	$30.9	8.0%	$	N/A
State Bank	38.9	12.2	25.4	8.0	31.8	10.0%
Exchange Bank	7.8	13.2	4.8	8.0	6.0	10.0
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	57.6	14.9	15.5	4.0		N/A
State Bank	35.9	11.3	12.7	4.0	19.1	6.0
Exchange Bank	7.1	11.9	2.4	4.0	3.6	6.0
Tier I Capital (to Average Assets)						
Consolidated	57.6	10.5	22.0	4.0		N/A
State Bank	35.9	7.9	18.2	4.0	22.8	5.0
Exchange Bank	7.1	8.7	3.3	4.0	4.1	5.0
As of December 31, 2005						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$67.8	19.3%	$28.1	8.0%	$	N/A
State Bank	36.6	13.0	22.6	8.0	28.2	10.0%
Exchange Bank	7.5	13.8	4.4	8.0	5.5	10.0
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	62.1	17.7	14.0	4.0		N/A
State Bank	33.5	11.9	11.3	4.0	16.9	6.0
Exchange Bank	6.9	12.6	2.2	4.0	3.3	6.0
Tier I Capital (to Average Assets)						
Consolidated	62.1	14.4	17.2	4.0		N/A
State Bank	33.5	8.0	16.7	4.0	20.8	5.0
Exchange Bank	6.9	8.5	3.2	4.0	4.1	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 and Exchange 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 and Exchange Bank s earnings retained for the current

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year plus retained net profits since January 1, 2004. As of December 31, 2006, approximately $4.2 million was available for distribution to Rurban as dividends without prior regulatory approval.

Note 16: Related Party Transactions

Certain directors, executive officers and principal shareholders of the Company, including associates of such persons, are loan customers. A summary of the related party loan activity, for loans aggregating $60,000 or more to any one related party, follows for the years ended December 31, 2006 and 2005:

	2006	2005
Balance, January 1	$ 2,394,000	$ 3,959,000
New Loans	5,936,000	5,915,000
Repayments	(4,997,000)	(5,206,000)
Other changes	121,000	(2,274,000)
Balance, December 31	$ 3,454,000	$ 2,394,000

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

Deposits from related parties held at December 31, 2006 and 2005 totaled $1,840,000 and $1,076,000, respectively.

Note 17: Employee Benefits

The Company has retirement savings 401(k) plans covering substantially all employees. Employees contributing up to 6% of their compensation receive a Company match of 50% of the employee s contribution. Employee contributions are vested immediately and the Company s matching contributions are fully vested after three years of employment. Employer contributions charged to expense for 2006, 2005 and 2004 were $307,000, $257,600, and $238,000 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 was $199,000, $240,000, and $319,000 for 2006, 2005 and 2004, respectively. In 2006 and 2005, previously accrued benefits under the agreements in the amount of $166,000 and $346,000, respectively, were reversed and credited to expense as a result of termination or resignation of certain officers. Such charges reflect the straight-line accrual over the period until full eligibility of the present value of benefits due each participant on the full eligibility date, using a 6% discount factor.

Life insurance plans are provided for certain executive officers on a split-dollar basis. The Company is the owner of the split-dollar policies. The officers are entitled to a sum equal to two times either the employee s annual salary at death, if actively employed, or final annual salary, if retired, less $50,000, not to exceed the employee s portion of the death benefit. The Company is entitled to the portion of the death proceeds which equates to the cash surrender value less any loans on the policy and unpaid interest or cash withdrawals previously incurred by the Company. The employees have the right to designate a beneficiary(s) to receive their share of the proceeds payable upon death. The cash surrender value of these life insurance policies and life insurance policies related to the Company s supplemental retirement plan totaled approximately $1,955,902 at December 31, 2006, and $1,919,253 at December 31, 2005.

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. The cash surrender value of these life insurance policies totaled approximately $8,815,940 at December 31, 2006, and $8,524,234 at December 31, 2005.

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, 2006, 2005 and 2004, were $497,955, $556,607, and $580,740, 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, 2006, 2005 and 2004 was $531,000, $445,000, and $430,000, respectively.

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Note 18: Stock Option Plan

On December 31, 2006, the Company has a single share-based compensation plan, which is described below. The compensation cost that has been charged against income for that plan was $24,055, $0, and $0 for 2006, 2005, and 2004, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $8,179, $0, and $0 for 2006, 2005 and 2004, respectively.

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

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

	2006	**2005**	**2004**
Expected volatility	18.5%	23.7-27.7%	24.5%
Weighted-average volatility	18.5%	26.7%	24.5%
Expected dividends	1.7%	0-1.5%	0.0%
Expected term (in years)	10	10	10
Risk-free rate	2.3%	4.5-4.5%	1.2%

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A summary of option activity under the Plan as of December 31, 2006 and changes during the year then ended, is presented below:

	2006					
	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term		Aggregate Intrinsic Value
Outstanding, beginning of year	357,886	$	13.44			
Granted	5,000		10.91			
Exercised						
Forfeited or expired	37,613		13.37			
Outstanding, end of year	325,274	$	13.41	4.99	$	
Exercisable, end of year	304,274	$	13.50	4.71	$	

The weighted-average grant-date fair value of options granted during the years 2006, 2005 and 2004 was $2.34, $4.32 and $4.79, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004, was $0, $2,017 and $4,125, respectively.

As of December 31, 2006, there was $60,501 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted-average period of 2.31 years

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Note 19: Earnings Per Share

Earnings per share (EPS) is computed as follows:

	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.

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

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

	Year Ended December 31, 2004		
	Income	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Net income available to common shareholders	$ 2,734,292	4,559,459	$ 0.60
Effect of dilutive securities			
Stock options		12,680	
Diluted earnings per share			
Income available to common shareholders and assumed conversions	$ 2,734,292	4,572,139	$ 0.60

Options to purchase 197,558 common shares at $13.85 to $16.78 per share were outstanding at December 31, 2004, but were not included in the computation of diluted EPS because the options exercise price was greater than the average market price of the common shares.

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Note 20: Leases

The Company s subsidiaries, RDSI and DCM, have several noncancellable operating leases for business use, that expire over the next ten years. These leases generally contain renewal options for periods of five years and require the lessee to pay all executory costs such as taxes, maintenance and insurance. Aggregate rental expense for these leases was $307,393, $249,504 and $126,600 for the years ended December 31, 2006, 2005 and 2004, respectively.

Future minimum lease payments under operating leases are:

2007	$ 378,894
2008	350,951
2009	322,347
2010	261,600
2011	253,300
Thereafter	459,000
Total minimum lease payments	$ 2,026,092

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Note 21: Disclosures about Fair Value of Financial Instruments

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

	December 31, 2006		December 31, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	$ 22,481,791	$ 22,482,000	$ 12,650,839	$ 12,651,000
Interest-bearing deposits	150,000	150,000	150,000	150,000
Available-for-sale securities	102,462,075	102,462,000	139,353,329	139,353,000
Loans including loans held for sale, net	366,774,532	364,490,109	322,572,403	320,313,000
Stock in FRB and FHLB	3,993,450	3,993,000	3,607,500	3,608,000
Accrued interest receivable	3,129,774	3,130,000	3,010,355	3,010,000
Financial liabilities				
Deposits	$414,555,445	$413,990,242	$384,837,912	$383,785,000
Securities sold under agreements to repurchase	32,270,900	31,674,000	6,080,420	6,080,000
Federal funds purchased			4,600,000	4,600,000
Note payable	2,589,207	2,589,000	938,572	939,000
FHLB advances	21,000,000	20,982,000	45,500,000	46,046,000
Trust preferred securities	20,620,000	21,257,000	20,620,000	20,537,000
Accrued interest payable	2,224,413	2,224,000	1,373,044	1,373,000

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For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2006 and 2005. The estimated fair value for cash and cash equivalents, interest-bearing deposits, FRB and FHLB stock, accrued interest receivable, demand deposits, savings accounts, interest checking accounts, certain money market deposits, short-term borrowings and interest payable is considered to approximate cost. The estimated fair value for securities is based on quoted market values for the individual securities or for equivalent securities. The estimated fair value for loans receivable, including loans held for sale, net, is based on estimates of the rate State Bank and Exchange Bank would charge for similar loans at December 31, 2006 and 2005 applied for the time period until the loans are assumed to reprice or be paid.

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The estimated fair value for fixed-maturity time deposits as well as borrowings is based on estimates of the rate State Bank and Exchange Bank pay on such liabilities at December 31, 2006 and 2005, applied for the time period until maturity. The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. The estimated fair value for other financial instruments and off-balance sheet loan commitments approximate cost at December 31, 2006 and 2005 and are not considered significant to this presentation.

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Note 22: Commitments and Credit Risk

State Bank and Exchange grant commercial, agribusiness, consumer and residential loans to customers throughout the state. Although State Bank and Exchange have a diversified loan portfolio, agricultural loans comprised approximately 12% and 13% of the portfolio as of December 31, 2006 and 2005, respectively.

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

Letters of credit are conditional commitments issued by State Bank and Exchange 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.

	2006	2005
Loan commitments and unused lines of credit	$ 71,545,000	$ 69,584,000
Standby letters of credit	582,000	657,000
Total	$ 72,127,000	$ 70,241,000

And 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 23: Future Change in Accounting Principle

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

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48), which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the 2007 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its financial statements.

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

In September 2006, the EITF reached a consensus on Issue No. 06-4, Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement of Split-Dollar Life Insurance Arrangements. The consensus requires the recognition of a liability related to the postretirement benefits covered by an endorsement split-dollar life insurance arrangement. If the policyholder has agreed to maintain the insurance policy in force for the employee s benefit during his or her retirement, then the liability recognized during the employee s active service period should be based on the future cost of insurance to be incurred during the employee s retirement. Alternatively, if the policyholder has agreed to provide the employee with a death benefit, then the liability for the future death benefit should be recognized by following the guidance in Statement 106 or Opinion 12, as appropriate. This approach requires the policyholder to gain a clear understanding of the benefit being provided by the policyholder to its employee given that it is this benefit that is being recognized as a liability. If this consensus is ratified by the FASB, it will be applicable in fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of adopting Issue No. 06-4 and the impact it will have on the Company s financial statements.

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Note 24: Condensed Financial Information (Parent Company Only)

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

Condensed Balance Sheets

	2006	2005
Assets		
Cash and cash equivalents	$ 7,102,859	$ 15,590,954
Investment in common stock of banking subsidiaries	56,448,620	58,870,748
Investment in nonbanking subsidiaries	13,846,560	6,277,462
Other assets	2,103,164	2,529,825
Total assets	$ 79,501,203	$ 83,268,989
Liabilities		
Trust preferred securities	$ 20,000,000	$ 20,000,000
Notes payable	0	240,000
Borrowings from nonbanking subsidiaries	620,000	620,000
Other liabilities	1,926,050	7,958,341
Total liabilities	22,546,050	28,818,341
Stockholders Equity	56,955,153	54,450,648
Total liabilities and stockholders equity	$ 79,501,203	$ 83,268,989

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Condensed Statements of Income

	2006	2005	2004
Income			
Interest Income	$ 3,099	$ 2,126	$ 1,875
Dividends from subsidiaries			
Banking Subsidiaries	6,400,000	7,153,134	2,185,720
Nonbanking subsidiaries		1,513,000	995,043
Total	6,400,000	8,666,134	3,180,763
Other income	1,491,158	1,091,721	1,128,316
Total income	7,894,257	9,759,981	4,310,954
Expenses			
Interest expense	1,787,023	1,364,168	1,155,729
Other expense	2,683,109	2,514,712	2,206,457
Total expenses	4,470,132	3,878,880	3,362,186
Income before income tax and equity in undistributed income of subsidiaries	3,424,125	5,881,101	948,768
Income tax	(1,011,797)	(946,911)	(757,526)
Income before equity in undistributed income of subsidiaries	4,435,922	6,828,012	1,706,294
Equity in undistributed (excess distributed) income of subsidiaries			
Banking subsidiaries	(3,797,432)	(6,383,468)	131,679
Nonbanking subsidiaries	2,121,752	228,547	896,319
Total	(1,675,680)	(6,154,921)	1,027,998
Net income	$ 2,760,242	$ 673,091	$ 2,734,292

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Condensed Statements of Cash Flows

	2006	2005	2004
Operating Activities			
Net income	$ 2,760,242	$ 673,091	$ 2,734,292
Items not requiring (providing) cash			
Equity in (undistributed) excess distributed net income of subsidiaries	2,204,917	6,192,398	(1,027,998)
Other assets	(49,256)	(15,230)	(1,059,391)
Other liabilities	(6,032,292)	629,444	(1,049,450)
Net cash provided by (used in) operating activities	(1,116,389)	7,479,703	(402,547)
Investing Activities			
Investment in RST II		(310,000)	
Investment in RDSI	(5,500,000)		
Investment in ROC	(600,000)		
Repayment of policy loan		(1,014,523)	
Proceeds from liabilities assumed in business acquisition		3,029	
Net cash (used in) investing activities	(6,100,000)	(1,321,494)	
Financing Activities			
Cash dividends paid	(1,055,761)	(914,010)	
Payment of registration costs and other acquisition costs		(326,615)	
Repayment of note payable	(240,000)		
Proceeds from subordinated debenture		10,310,000	
Shares issued under Stock Option Plan	24,055		
Proceeds from exercise of stock options		36,595	29,525
Net cash provided by (used in) financing activities	(1,271,706)	9,105,970	29,525
Net Change in Cash and Cash Equivalents	(8,488,095)	15,264,179	(373,022)
Cash and Cash Equivalents at Beginning of Year	15,590,954	326,775	699,797
Cash and Cash Equivalents at End of Year	$ 7,102,859	$ 15,590,954	$ 326,775
Supplemental cash flow information			
Common stock and payable issued for net assets in acquisition	$	$ 11,826,130	$

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Note 25: Segment Information

The reportable segments are determined by the products and services offered, primarily distinguished between banking and data processing operations. Loans, investments, deposits and financial services provide the revenues in the banking segment and include the accounts of State Bank, Exchange Bank, and RFCBC. Service fees provide the revenues in the data processing operation and include the accounts of RDSI and DCM. Other segments include the accounts of the Company, Rurban Financial Corp., which provides management services to its subsidiaries and RFS, which provides trust and financial services to customers nationwide.

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.

2006	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Income Statement Information:						
Net interest income (expense)	$ 17,021,780	$ (264,336)	$ (1,723,002)	$ 15,034,442	$	$ 15,034,442
Other revenue-external customers	4,875,166	15,011,143	3,869,012	23,755,321		23,755,321
Other revenue-other segments		1,551,655	4,180,992	5,732,647	(5,732,647)	
Net interest income and other revenue	21,896,946	16,298,462	6,327,002	44,522,410	(5,732,647)	38,789,763
Noninterest expense	19,312,823	13,142,661	8,180,730	40,636,214	(5,732,647)	34,903,567
Significant noncash items:						
Depreciation and amortization	794,929	2,505,065	244,971	3,544,965		3,544,965
Provision for loan losses	177,838			177,838		177,838
Income tax expense	518,646	1,072,973	(643,503)	948,116		948,116
Segment profit	$ 1,887,639	$ 2,082,828	$ (1,210,225)	$ 2,760,242		$ 2,760,242

Balance sheet information:						
Total assets	$537,216,244	$20,306,144	$12,535,236	$570,057,623	$(14,050,371)	$556,007,253
Goodwill and intangibles	12,154,202	7,378,838		19,533,040		19,533,040
Premises and equipment expenditures	$ 2,994,741	$ 5,820,264	$ 227,259	$ 9,042,264		$ 9,042,264

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2005	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Income Statement Information:						
Net interest income (expense)	$ 13,607,036	$ (234,741)	$ (1,318,711)	$ 12,053,584	$	$ 12,053,584
Other revenue-external customers	2,422,644	12,708,407	3,207,051	18,338,102		18,338,102
Other revenue-other segments	759,649	1,354,001	979,638	3,093,288	(3,093,288)	
Net interest income and other revenue	16,789,329	13,827,667	2,867,978	33,484,974	(3,093,288)	30,391,686
Noninterest expense	16,319,085	11,164,340	4,663,703	32,147,128	(3,093,288)	29,053,840
Significant noncash items:						
Depreciation and amortization	668,288	2,287,592	124,784	3,080,664		3,080,664
Provision for loan losses	583,402			583,402		583,402
Income tax expense	(245,779)	945,869	(618,737)	81,353		81,353
Segment profit	$ 132,621	$ 1,717,458	$ (1,176,988)	$ 673,091		$ 673,091
Balance sheet information:						
Total assets	$520,581,903	$10,204,699	$20,931,806	$551,718,408	$(21,176,132)	$530,542,276
Goodwill and intangibles	12,659,706			12,659,706		12,659,706
Premises and equipment expenditures	$ 662,245	$ 2,252,592	$ 183,697	$ 3,098,534		$ 3,098,534

2004	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals

Income Statement Information:						
Net interest income (expense)	$ 13,447,380	$ (217,829)	$(1,140,245)	$ 12,089,306	$ (11,940)	$ 12,077,366
Other revenue-external customers	3,169,122	11,163,990	3,031,324	17,364,436	11,940	17,376,376
Other revenue-other segments	904,220	1,314,942	1,091,753	3,310,915	(3,310,915)	
Net interest income and other revenue	17,520,722	12,261,103	2,982,832	32,764,657	(3,310,915)	29,453,742
Noninterest expense	15,258,307	9,650,869	4,411,815	29,320,991	(3,310,915)	26,010,076
Significant noncash items:						
Depreciation and amortization	534,415	1,857,524	100,722	2,492,661		2,492,661
Provision for loan losses	(399,483)			(399,483)		(399,483)
Income tax expense	919,192	688,498	(498,833)	1,108,857		1,108,857
Segment profit	$ 1,742,706	$ 1,921,736	$ (930,150)	$ 2,734,292		$ 2,734,292
Balance sheet information:						
Total assets	$407,831,742	$10,974,521	$ 4,030,214	$422,836,477	$(7,487,731)	$415,348,746
Goodwill and intangibles	2,687,282			2,687,282		2,687,282
Premises and equipment expenditures	$ 415,402	$ 3,098,388	$ 138,288	$ 3,652,078		$ 3,652,078

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Note 26: Quarterly Financial Information (Unaudited)

The following tables summarize selected quarterly results of operations for 2006 and 2005.

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

	March	June	September	December
December 31, 2005				
Interest income	$5,044,213	$5,133,104	$5,429,354	$5,815,317
Interest expense	2,047,303	2,205,784	2,446,879	2,668,437
Net interest income	2,996,910	2,927,320	2,982,475	3,146,880
Provision for loan losses		352,000	(382,000)	613,402
Noninterest income	4,627,031	4,639,945	4,594,610	4,476,517
Noninterest expense	6,736,406	7,466,199	7,219,077	7,632,157
Income tax expense	249,070	(137,232)	247,824	(278,308)
Net income	638,465	(113,702)	492,184	(343,854)
Earnings per share				
Basis	0.14	(0.02)	0.11	(0.08)
Diluted	0.14	(0.02)	0.11	(0.08)
Dividends per share	0.05	0.05	0.05	0.05

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During the fourth quarter of 2006, the Company restructured its balance sheet and recorded losses of $718,000, recorded losses of $283,000 associated with the merger, recorded income of $890,000 on the recovery of bond losses and sold the credit card portfolio for a gain of $740,000. The merger charges relate to the company s plan to merge it s banking group consisting of State Bank and Trust Co., Exchange Bank, Rurban Operations Company and Reliance Financials Services into the State Bank and Trust Co. charter. The company expects the merger to be completed by the end of the first quarter of 2007 pending regulatory approval.

During the fourth quarter of 2005, RFCBC completed a loan sale of approximately $8.4 million of problem loans. This resulted in write-downs and a pre-tax loss of approximately $1.45 million (including expenses incurred with the sale). Including additional adjustments taken to reserves, the net after-tax impact was a loss of approximately $745,000 taken in the fourth quarter of 2005.

Rurban Financial Corp.
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December 31, 2006 and 2005

NOTE 27: BUSINESS ACQUISITIONS

Diverse Computer Marketers

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

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

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

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

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The signficant intangible assets acquired include the customer related intangible of $2,389,000, the Trademark of $180,000 and the non-compete agreements of $83,000, which have useful lives of 120, 36 and 36 months, respectively, and will be amortized using the straight-line method. The $4.8 million of goodwill was assigned entirely to the data processing unit and is not expected to be deductible for tax purposes. This analysis is based upon an initial third party opinion and is subject to change for up to twelve months.

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

Exchange Bank

On December 31, 2005, the Company acquired Exchange Bancshares, Inc. (Exchange). Exchange was merged with and into the Company, with the Company being the surviving corporation of the merger. Exchange s wholly-owned subsidiary, Exchange Bank, now operates as a separate subsidiary of the 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.

The Company paid approximately $12.0 million in cash and stock in the Exchange acquisition. The cash outlay for this acquisition was approximately $6.5 million or $22.00 per share for 50% of the outstanding shares of Exchange Bancshares as of December 31, 2005. Exchange had 586,644 shares outstanding as of December 31, 2005. The 456,116 shares of the Company stock issue for this acquisition was $5.5 million or $11.78 per share. The value of the 456,116 common shares was determined by the market price as of December 31, 2005.

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Rurban Financial Corp.
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The following table summarizes the estimated fair values of the assets and liabilities acquired as of December 31, 2005.

Cash and cash equivalents	$ 2,292,907
Investments	16,703,037
Loans	56,147,296
Core deposits	2,578,606
Goodwill	2,825,301
Premises and equipment	4,121,433
Other assets	497,079
Total assets acquired	$ 85,165,659
Deposits	$ 68,132,043
Debt	3,740,000
Other liabilities	1,312,051
Total liabilities assumed	73,184,094
Net assets acquired	$ 11,981,565

The only significant intangible asset acquired was the core deposit base, which has a useful life of eight and one half years and will be amortized using the straight-line method. The $2.8 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 Exchange had taken place at the beginning of each period.

	Year Ended December 31,	
($ 000 s)	2005	2004
Net interest income	$ 15,424	$ 15,572
Net income	$ (1,286)	$ 1,933
Per share combined:		
Basic net income	$ (0.26)	$ 0.39
Diluted net income	$ (0.26)	$ 0.38

Lima Branches

On June 17, 2005, the Company acquired certain assets and certain liabilities of two branches in Lima, Ohio from Liberty Savings Bank. The Company paid a net premium of approximately $4.7

Rurban Financial Corp.
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million. As a result of this acquisition, the Company will have an opportunity to increase its loan and deposit base. The Company also expects to reduce costs through economies of scale.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of June 17, 2005.

Loans	$ 5,887,339
Core deposits	752,574
Goodwill	3,947,768
Accrued interest receivable	28,962
Premises and equipment	1,239,000
Total assets acquired	11,855,643
Deposits	60,383,141
Accrued interest payable	62,114
Other liabilities	46,432
Total liabilities assume	60,491,687
Net liabilities assumed	$ (48,636,044)

The difference between book value of assets acquired and liabilities assumed from Liberty Savings Bank was paid to the Company in cash, which was used to fund loan growth and purchase investment securities.

The only significant intangible asset acquired was the core deposit base, which has a useful life of approximately eight years and will be amortized using the straight-line method. The $3.9 million in goodwill was assigned entirely to the banking segment of the business and is expected to be deductible for tax purposes.

The operating information from the purchased branches was not available from the sellers and therefore, the proforma information is omitted.

RURBAN FINANCIAL CORP.
ANNUAL REPORT ON FORM 10-K
FOR FISCAL YEAR ENDED DECEMBER 31, 2006
INDEX TO EXHIBITS

Exhibit No.	Description	Location
2.1	Branch Purchase and Assumption Agreement dated as of March 15, 2005 between Liberty Savings Bank, FSB and State Bank and Trust Company	Incorporated herein by reference to Exhibit 2 to the Company s Current Report on Form 8-K filed March 21, 2005 (File No. 0-13507).
2.2	Agreement and Plan of Merger, dated as of April 13, 2005, by and between Rurban Financial Corp. and Exchange Bancshares, Inc.	Incorporated herein by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K filed April 14, 2005 (File No. 0-13507).
2.3	Stock Purchase Agreement, dated as of May 19, 2006, by and among Rurbanc Data Services, Inc., Lance Thompson and Robert Church	Incorporated herein by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K filed May 24, 2006 (File No. 0-13507).
2.4	Agreement and Plan of Merger, dated as of December 31, 2006, by and among The State Bank and Trust Company, The Exchange Bank and Reliance Financial Services, N.A.	Filed herewith.
3.1	Amended Articles of Registrant, as amended	Incorporated herein by reference to Exhibit 3(a)(i) to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1989 (File No. 0-13507).
3.2	Certificate of Amendment to the Amended Articles of Rurban Financial Corp.	Incorporated herein by reference to Exhibit 3(b) to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1993 (File No. 0-13507).
3.3	Certificate of Amendment to the Amended Articles of Rurban Financial Corp.	Incorporated herein by reference to Exhibit 3(c) to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-13507).

Exhibit No.	Description	Location
3.4	Amended and Restated Articles of Rurban Financial Corp. *[Note: filed for purposes of SEC reporting compliance only this document has not been filed with the Ohio Secretary of State.]*	Incorporated herein by reference to Exhibit 3(d) to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-13507).
3.5	Amended and Restated Regulations of Rurban Financial Corp.	Incorporated herein by reference to Exhibit 3.5 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507).
4.1	Indenture, dated as of September 15, 2005, by and between Rurban Financial Corp. and Wilmington Trust Company, as Debenture Trustee, relating to Floating Rate Junior Subordinated Deferrable Interest Debentures	Incorporated herein by reference to Exhibit 4.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 (File No. 0-13507).
4.2	Amended and Restated Declaration of Trust of Rurban Statutory Trust II, dated as of September 15, 2005	Incorporated herein by reference to Exhibit 4.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2005 (File No. 0-13507).
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).
10.1*	Rurban Financial Corp. Stock Option Plan	Incorporated herein by reference to Exhibit 10(u) to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0-13507).
10.2*	Rurban Financial Corp. Plan to Allow Directors to Elect to Defer Compensation	Incorporated herein by reference to Exhibit 10(v) to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1996 (File No. 0- 13507).
10.3*	Form of Non-Qualified Stock Option Agreement with Five-Year Vesting under Rurban Financial Corp. Stock Option Plan	Incorporated herein by reference to Exhibit 10(w) to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-13507).
10.4*	Form of Non-Qualified Stock Option Agreement with Vesting After One Year of Employment under Rurban Financial Corp. Stock Option Plan	Incorporated herein by reference to Exhibit 10(a) to the Company s Current Report on Form 8-K filed March 21, 2005 (File No. 0-13507).

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Exhibit No.	Description	Location
10.5*	Form of Incentive Stock Option Agreement with Five-Year Vesting under Rurban Financial Corp. Stock Option Plan	Incorporated herein by reference to Exhibit 10(x) to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1997 (File No. 0-13507).
10.6*	Form of Incentive Stock Option Agreement with Vesting After One Year of Employment under Rurban Financial Corp. Stock Option Plan	Incorporated herein by reference to Exhibit 10(c) to the Company s Current Report on Form 8-K filed March 21, 2005 (File No. 0-13507).
10.7*	Form of Stock Appreciation Rights under Rurban Financial Corp. Stock Option Plan	Incorporated herein by reference to Exhibit 10(b) to the Company s Current Report on Form 8-K filed March 21, 2005 (File No. 0-13507).
10.8*	Employees Stock Ownership and Savings Plan of Rurban Financial Corp.	Incorporated herein by reference to Exhibit 10(y) to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 1999 (File No. 0-13507).
10.9*	Rurban Financial Corp. Employee Stock Purchase Plan	Incorporated herein by reference to Exhibit 10(z) to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (File No. 0-13507).
10.10*	Employment Agreement, executed March 6, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Kenneth A. Joyce	Incorporated herein by reference to Exhibit 10.10 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507).
10.11*	First Amendment to Employment Agreement, executed May 19, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Kenneth A. Joyce	Incorporated herein by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (File No. 0-13507).
10.12*	Supplemental Executive Retirement Plan Agreement, executed March 13, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Kenneth A. Joyce	Incorporated herein by reference to Exhibit 10.11 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507).
10.13*	Schedule identifying other substantially identical Supplemental Executive Retirement Plan Agreements with executive officers of Rurban Financial Corp. and its subsidiaries	Incorporated herein by reference to Exhibit 10.12 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507).

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Exhibit No.	Description	Location
10.14*	First Amendment to Supplemental Executive Retirement Plan Agreement, executed May 16, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Kenneth A. Joyce	Incorporated herein by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (File No. 0-13507).
10.15*	Schedule identifying other substantially identical First Amendments to Supplemental Executive Retirement Plan Agreements with executive officers of Rurban Financial Corp. and its subsidiaries	Incorporated herein by reference to Exhibit 10.3 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (File No. 0-13507).
10.16*	Change in Control Agreement, executed March 9, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Duane L. Sinn	Incorporated herein by reference to Exhibit 10.13 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507).
10.17*	Schedule identifying other substantially identical Change in Control Agreements with executive officers of Rurban Financial Corp. and its subsidiaries	Incorporated herein by reference to Exhibit 10.14 to the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (File No. 0-13507).
10.18*	First Amendment to Change in Control Agreement, executed May 17, 2006 and effective as of March 1, 2006, by and between Rurban Financial Corp. and Duane L. Sinn	Incorporated herein by reference to Exhibit 10.4 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (File No. 0-13507).
10.19*	Schedule identifying other substantially identical First Amendments to Change in Control Agreements with executive officers of Rurban Financial Corp. and its subsidiaries	Incorporated herein by reference to Exhibit 10.5 to the Company s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2006 (File No. 0-13507).
10.20*	Non-Qualified Deferred Compensation Plan effective as of January 1, 2007	Filed herewith.
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.
23.1	Consent of BKD, LLP	Filed herewith.
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.

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Exhibit No.	Description	Location
32.1	Section 1350 Certification Principal Executive Officer and Principal Financial Officer	Filed herewith.

* Management contract or compensatory plan or arrangement.