RURBAN FINANCIAL CORPORATION

Moderator: Valda Colbart
April 22, 2005
10:00 a.m. CT

Operator: Good morning and welcome, ladies and gentlemen, to the Rurban Financial Corporation First Quarter Earnings conference call and Webcast. At this time I'd like to inform you that this conference is being recorded and that all participants are in a listen-only mode. We will open up the conference for questions and answers after the presentation.

I will now turn the conference over to Valda Colbart, Investor Relations. Please go ahead, ma'am.

Valda Colbart: Thank you. Good morning, everyone. I would like to remind you that this conference call is being broadcast over the Internet live and will also be archived and available at our Web site www.rurbanfinancial.net, until May 13th, 2005

Joining me on today's conference call is Ken Joyce, President and CEO; Jim Adams, our Chief Financial Officer and Executive Vice President; Rob Constien, President and CEO of the State Bank and Trust Company; Hank Thieman, President and CEO of RFCBC, Inc. We will be available to answer your questions following our brief opening remarks.

But before we get started I'd like to make our usual Safe Harbor statement and remind everyone that comments made during this conference call regarding Rurban's anticipated future performance are forward-looking and therefore involve risk and uncertainties that could cause the results or developments to differ significantly from those indicated in these statements. These risks and uncertainties include but are not limited to risk and uncertainties inherent in general and local banking, insurance and mortgage conditions, competitive factors specific to markets in which the company and its subsidiaries operate, future interest levels, legislative and regulatory decisions, or capital market conditions and other factors set forth in the company's filing with the Securities and Exchange Commission.

Rurban will be filing a registration statement on SEC Form S-4 and Rurban and Exchange Bancshares, Inc. will file a joint proxy statement prospectus and other relevant documents concerning the proposed merger transaction with the SEC. Investors and shareholders are urged to read the registration statement and the joint proxy statement prospectus carefully when they become available.

I will not turn the call over to Ken Joyce, President and CEO.

Ken Joyce: Thank you, Valda, and welcome to Rurban Financial Corp's First Quarter 2005 Webcast. Thank you for joining us this morning to discuss first quarter results.

This past quarter was an exciting one for Rurban. We resumed paying dividends in February as our financial condition improved and after we received permission to resume those payments from the regulators. A major milestone was reached in mid February when we were released from the written agreement indicating that we complied with the conditions of the agreement. The release will free our organization to use our excess capital to build franchise value and we can now turn our focus to growing our business.

Our earnings were down two cents from the fourth quarter of 2004 but up one cent from the comparable quarter of 2004. The real story is more complex – the real story is more complex than the modest changes reflected in our earnings per share. I will discuss this quarter's results and Jim Adams, our CFO, will talk about these same issues focusing on the financial results. I will take some time at the end of the Webcast to talk about our strategy in relationship to the two acquisitions that we recently announced.

Our loan quality continues to improve and we expect that improvement to continue through this year on a fairly consistent basis. We decreased our classified assets by $3 million, taking that number down to $22 million.

Our non-performing assets increased slightly this quarter. We took a number of marginal credits to non-accrual status where we can manage them more aggressively. In the short terms these actions will slightly increase or OREO but we will clear these from our books before yearend. We expect our non-performing assets to reach the high side of normal by yearend, given the present rate of improvement.

At out last Webcast we discussed our initiatives to improve loan growth including a new senior lender we hired to drive that growth and our efforts are gaining traction. Loan growth turned modestly upward in the latter part of this last quarter compared with month-end loan balances for the linked quarter.

Our net interest margin has shown substantial improvement at our banking subsidiary, up four basis points from the prior quarter and 19 from last year. This was a combined result of a declining level of non-performing assets and the positioning of our balance sheet to take advantage of the rising rate environment.

Although declining relative to the fourth quarter of 2004, our professional fees continue to be higher than normal as we wrap up some long-standing problem credit relationships. We should see these fees abate by the third or fourth quarter and we foresee some additional recoveries this year. We are beginning to improve the bank efficiency ratio with a target in the high 60's by yearend.

We had a strong improvement in our non-banking subsidiary this past quarter. Reliance Financial Services, our trust company, had a 4.5 percent increase on net income. This was accomplished despite a drop in the equity and bond markets lowering Reliance's revenue, which is driven largely by market values.

RDSI continues it growth with first quarter revenue up 9.8 percent over the comparable quarter in 2004. Income also showed strong growth but it was somewhat driven by termination fees from the loss of several clients due to mergers. However, sales continue to be strong as RDSI has signed six banks as data processing clients, and three item processing contracts in the first quarter.

I expect RDSI's net income to be slightly down in the next quarter as a result of expenses we are incurring for moving into a new building that will consolidate its operations. We are now spread around three separate locations in Defiance and this will put them all together in one location.

We made two additional announcement since the last Webcast. We entered into an agreement to acquire two branches in Lima, Ohio, with approximately $60 million in deposits. We expect this transaction to close by mid June and we believe the acquisition will be accretive in 2006.

We also announced entering into an agreement to acquire Exchange Bancshares, the holding company for the Exchange Bank. The Exchange Bank operates in Toledo market with branches in Luckey, Walbridge, Sylvania, Holland and Perrysburg. The bank had total assets of approximately 91 million as of the end of December 2004.

I will discuss our strategy relative to these two acquisitions following Jim Adams' discussion about our first quarter results.

Jim, who is our Chief Financial Officer, will now provide some detail behind the numbers. Jim, you want to take it from here?

Jim Adams: Thank you, Ken, and good morning.

Ken has already recapped the events driving the forward momentum of the company during the first quarter so I'll focus my comments on quarterly earnings.

First, let's start with a comparison of the first quarter of '05 with the same period a year ago, then we'll delve into a comparison of the first quarter of '05 with the fourth quarter of 2004.

As you're already aware, for the first quarter of this year net income totaled $638,000, an increase of 4.3 percent over last year and on a per diluted share basis an increase of almost eight percent. Driving the increase in earnings from the first quarter of last year was the continued improvement in credit quality, which was combined with strong quarterly earnings from our data processing subsidiary, RDSI.

Let me provide some additional detail. Since the end of the first quarter of 2004 classified assets have declined by approximately $24 million and non-performing assets – which are non-performing loans, plus 90-days past due loans, plus OREO – have declined by $2.3 million. As a result of the credit quality improvement the corporation did not deem it necessary to provide any additional amounts to its low lost reserve during the current quarter whereas during the first quarter of 2004 we had provided an additional $150,000.

Data service fees from our data processing subsidiary, RDSI, advanced nicely from the first quarter of last year and were aided by termination fees for a few banks that were acquired and left our processing family. The temporary reduction in future data service revenues created by these terminations will have a minimal impact on earnings for the second and third quarters and will be more than offset by the revenue increases related to the signing of six new data processing and item processing customers during the first quarter of this year.

During the current quarter we continued to see a slight improvement in our net interest income from a widening net interest margin despite a $14 million decline in average earning assets since the first quarter of ’04. And as Ken had indicated, we are encouraged by the loan growth we’ve seen developing since the latter part of this quarter. Non-interest income was bolstered by the strong earnings performance of RDSI, as previously discussed.

We are also pleased with the bottom line earnings of Reliance Financial Services, our trust subsidiary. Although their top line performance declined by 4.6 percent due to falling equity and bond markets plus the one-time new business fees reported in the first quarter of 2004 of over $46,000, their bottom line contributed to overall corporate earnings increase by 4.6 percent.

Customer service fees, principally fees earned on transaction accounts, declined by $77,000 or roughly 15 percent, as a function of lower transaction account balances being serviced. Non-interest expenses for the quarter totaled $6-and-a-half million and reflected an increase of 3.7 percent for the same period a year ago. Driving this increase were higher equipment and occupancy costs associated with upgrading technology investments and expanding processing centers at RDSI.

In addition, professional fees advanced almost 11 percent or $50,000 from the first quarter of 2004. These costs were partially driven by continued resolution of credit quality issues plus certain legal costs associated with the previously-discussed merger and acquisition activity.

The other discretionary expense category that reflected a sizable increase was employee expenses. The bulk of these expenses relate to employee training throughout the organization, which we believed was instrumental in ultimately getting the written agreement lifted. This category is also impacted by the extensive training and development work associated with the implementation of SOX 404 throughout the corporation.

Now let's compare the first quarter of '05 with the fourth quarter of '04. First quarter earnings declined almost 11 percent or $76,000 from the fourth quarter of 2004 principally due to a reduction of $529,000 on the loan loss provision recorded during the fourth quarter of last year. This was partially offset by an increase in fee income and the reduction in non-interest expenses.

The decline experienced in net interest income from the fourth quarter was principally a result of a decrease in average earning assets between quarters. Non-interest income increased by slightly over five percent or $218,000 from the fourth quarter of '04, principally driven by continued improvements in revenues from our data processing subsidiary, RDSI, up $161,000 or six percent, and Reliance Financial Services Trust fees up $65,000 or nine percent.

The other income category also reflected a sizable increase from fourth quarter 2004 levels and was a result of a recovery of roughly $40,000 in legal fees paid in prior years. Non-interest expense declined modestly from fourth quarter levels reflecting lower salary and benefit costs, which primarily related to non-executive incentive compensation accrued during the fourth quarter of '04. Additionally, professional fees were down by almost $76,000 from the fourth quarter.

At this time I'll turn the meeting back to Ken. Ken.

Ken Joyce: All right, well thank you, Jim.

We have made a number of announcements over the last few weeks and I'll take a few minutes to elaborate on the strategy behind the announced actions. As part of our strategic planning process we have identified five and possibly six communities where we want to have a banking presence in northwest Ohio. Lima is one of these markets because it has a significant population base within our market area with an industrial base that plays to the strengths of our commercial banking strategy.

We also feel that it is not well represented by community banks and we have an opportunity to take market share in that particular market.

In a related press release we announced that we had hired David Anderson, who was a senior lender with a competitor bank. We have known David for several years and he is well known and well respected in the Lima market. He has been named regional president and I believe that he will be a rainmaker in the Lima market. We will supply the support to make him successful in that market.

We plan to make this region into an independent bank within the next 12 to 18 months, as we discussed at our annual meeting yesterday. Currently there are no locally-headquartered community banks in the Lima market.

We have met with the staff of the two branches that we are acquiring and they are talented and eager to join our team. We are excited about this opportunity and the potential it will bring to Rurban.

Just as exciting is a recent announcement to acquire the Exchange Bank, which will remain a separate bank within the Rurban family with its own charter. We anticipate that we will obtain regulatory approval and close the deal sometime late in the third quarter of this year.

This bank operates in the Toledo market, which is another of our strategic target markets for banking entry.

We have identified the new president for this bank and we are searching for a talented senior lender that will serve as a rainmaker for this market. We are very familiar with this market and we believe that it offers the ability for profitable growth and increased franchise value.

We want to be a community bank in this market, not simply branches of an out-of-area bank. We have very specific plans to grow this market which we will discuss in the upcoming months.

We will now open the lines for questions from our investing community.

Valda, if you will please start this process.

Valda Colbart: Thank you, Ken.

It's now time for the question-and-answer session. If you are using a speakerphone, please pick up the handset before pressing any numbers. If you have a question we would like you to press star-one on your push-button telephone, that's star-one if you have a question. And if for some reason someone asks the same question you would like to and you need to withdraw that, just press star-two.

So again, if you have a question please press star-one on your push-button telephone. And we will take the questions in the order they are received. We'll stand by for just a few moments.

While we're waiting to see if we have any questions we would like to remind everyone we'd be happy to email you directly regarding Rurban Financial Corp's corporate events, earnings, press releases, and key presentations. If you'd like to take advantage of this please visit our Web site at www.rurbanfinancial.net and click on investor relations, and then email alert service to sign up.

Operator: And we do have a question from George Geissbuhler at Sweney Cartwright.

George Geissbuhler: Two questions, guys.

Male: Yes.

George Geissbuhler: Congratulations first on the two acquisitions here. The Luckey, do you expect that to be accretive to earnings right off the bat or how's that going to …

Ken Joyce: We do. It clearly will be accretive in 2006. And we expect that acquisition to close – we're targeting at the end of September right now, George.

George Geissbuhler: Do they – do they still have a branch in Perrysburg? I've forgotten whether that …

Ken Joyce: Yes, they do.

George Geissbuhler: OK.

Ken Joyce: Yes, they do. And we're – we may have some transaction costs, it's hard to predict what they might be in the fourth quarter we might pick up from that closing. But other than that we expect that to be an accretive deal. And it will take us, you know, a year or two to get it really, really to the profit levels that we hope to get it to but it will clearly be accretive and we're excited about that addition.

George Geissbuhler: And are you allowed to say who you bought the branches from in Lima? That's just more curiosity than …

Ken Joyce: Yes, we've already announced that, Liberty Savings Bank.

George Geissbuhler: OK.

Ken Joyce: Yes.

George Geissbuhler: And they had two branches there, they're both from Liberty then?

Ken Joyce: Yes, they're down in the Dayton market and they've actually got branches in a number of states. So they've elected to leave that market and we're very excited about getting in there.

George Geissbuhler: That's all I had and good luck and good job.

Ken Joyce: OK, George, take care now.

George Geissbuhler: Thanks a lot.

Operator: And again, just a reminder to press star-one if you have a question.

Ken Joyce: Well, seeing no questions on the board we will end this session. Valda.

Valda Colbart: Thank you, again, for your time to listen in on the progress of your company. The future really is bright for Rurban and I continue to be a buyer of the stock.

I encourage anyone to contact Ken Joyce, Jim Adams, or myself, Valda, if you have any further questions or if we can help in any way.

Thank you again, and good bye.

Operator: And that does conclude today's conference. Thank you for your participation.

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