STRUCTURING FOR GROWTH AND PERFORMANCE

2005 Annual Report

RURBAN FINANCIAL CORP.

CONTENTS

RFC RURBAN FINANCIAL CORP.

RURBAN FINANCIAL CORP.
401 Clinton Street, P.O. Box 467
Defiance, Ohio 43512
www.rurbanfinancial.net

STRUCTURING FOR GROWTH AND PERFORMANCE

Growth opportunities presented in 2005 and a few lingering past credit issues prolonged Rurban Financial Corp.'s return to strong profitability. While aggressively addressing these past credit issues through charge offs, additional reserves, and problem loan sales, Rurban Financial Corp. built a structure geared for growth and profitability going into 2006.

Two key acquisitions, one in Lima, Ohio and the other in the suburban Toledo market, expanded the banking footprint into larger markets and markets experiencing growth of both population and businesses. Both of these acquisitions should be accretive to earnings in 2006.

RDSI, Rurban's data processing company, also grew and invested in the future in 2005 as it added ten new data processing clients and opened two new item processing centers. These new item processing centers assisted RDSI in growing its item processing business by nine new client banks. RDSI also restructured its sales force to improve new business marketing and better meet the demands of its current client banks for new products.

These changes and actions were all part of a process of structuring the company for continuing profitable growth.

OUR MISSION

We are a leading provider of financial services whose mission is to attract, retain and grow profitable customer relationships.

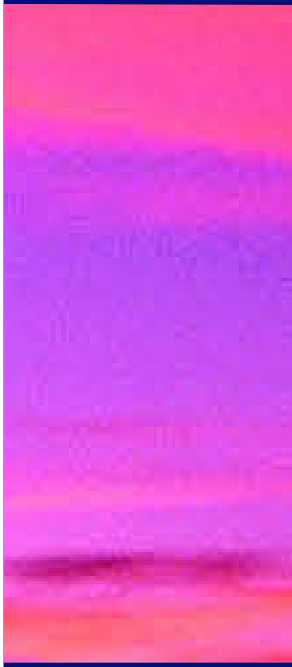
We exist to serve our customers. Our success is dependent on a relentless effort toward:

Building Relationships by providing consistent first-class customer experiences;

Building Teams by maintaining a work environment that will attract and retain quality people;

Building Value by consistently enhancing shareholder value;

Building Communities by being a socially responsible citizen in our communities, and by sharing our resources through leadership, support and involvement.



TO THE 2005 SHAREHOLDERS

Steven D. VanDemark, Chairman
Kenneth A. Joyce, President and Chief Executive Officer

Dear Shareholders:

Rurban Financial Corp. reported net income of $673,000 or $0.15 per diluted share for 2005. The real story for our company this past year was the activity behind these numbers, and we would like to share with you the importance of what was achieved during that period:

- In February 2005, the regulatory authorities released Rurban from the Written Agreement we entered into in July, 2002. Rurban enjoyed major improvements in asset quality, operations, and risk management policies and procedures. This has allowed Rurban to reinstate a growth strategy, as well as resume payment of a cash dividend to shareholders.
- Asset quality continued its improving trend. Non-performing assets were reduced from $15.4 million or 3.7% of total assets at December 31, 2004, to $8.9 million or 1.7% of total assets at year-end 2005, resulting from a combination of workouts and asset sales.
- Rurban completed the acquisition of two bank branches in June, 2005, marking our entry into Lima, Ohio and the surrounding Allen County market.
- Rurban completed the acquisition of The Exchange Bank and its five branches in the greater Toledo, Ohio market in December, 2005.
- The State Bank and Trust Company opened a loan production office in Fort Wayne, Indiana; a market that we believe presents good growth opportunities for us.
- These strategies enabled Rurban to grow its loan portfolio for the first time since 2002. Total loans increased 23.6% from a combination of acquisitions and organic growth, reaching $327.0 million at year-end 2005.
- Reliance Financial Services, N.A., completed a record year, generating $3.1 million in trust fees for 2005. Reliance currently manages $335 million in assets, providing a range of investment offerings that outperformed market indices for the majority of its products.
- RDSI increased revenue by 13.0% in 2005 from the addition of ten new clients for data processing services and nine new clients for item processing.

These achievements contributed to improved performance within Rurban's existing footprint and extended our company's reach to higher-growth areas that we believe should have an increasingly important impact in 2006 and beyond.

Release From Written Agreement

In July, 2002, Rurban Financial Corp. entered into a Written Agreement with the banking regulatory authorities as a result of deficiencies in asset quality, operations, and risk management policies and procedures. To improve asset quality and provide the additional capital required by regulators, Rurban sold six branches, exited non-core markets and reduced loans outstanding by over 50%, from $551.3 million at December 31, 2002, to $327.5 million at year-end 2005.

Rurban completed the requirements of the Agreement and was released from the Written Agreement's restrictions in February, 2005. Rurban's performance over this past year reflects the impact of this release, and the opportunity to pursue a growth strategy for the first time since 2002. In essence, we believe 2005 was a turnaround year for Rurban, as it marked the first time since 2002 that Rurban reported growth in its loan portfolio.

(Loans in Millions)	2002	2003	2004	2005
State Bank & Trust	$356.2	$260.2	$249.4	$265.7
RFCBC	$195.1	$24.4	$15.5	$3.7
Exchange Bank	-	-	-	$58.1
Total Loans	$551.3	$284.6	$264.9	$327.5

Asset Quality Improvements

This past year, major steps were taken to reduce problem assets to a more normalized level, and position the company for improved earnings. During 2005, Rurban reduced non-performing assets by $8.2 million, from a combination of workouts and a year-end sale of problem assets. The Exchange Bank at December 31, 2005 added $1.7 million of non-performing assets, bringing the total to $8.9 million. The following comparison demonstrates the improvement in Rurban's asset quality:

(Assets in Millions)	2002	2003	2004	2005*
Non-Performing Assets	$20.8	$19.9	$15.4	$8.9
Non-Performing Assets as a % of Total Assets	2.80%	4.57%	3.71%	1.67%

*Includes $1.7 million from the Exchange Bank acquisition.

Lima Acquisition

Rurban purchased two branches located in the Lima, Ohio market, in June, 2005. This acquisition was a milestone for Rurban. It signaled both the completion of Rurban's restructuring phase, and the first step of its expansion strategy. We entered the Lima market with a strong leadership team led by Lima area resident David Anderson. By year-end, we had grown the Lima Region's loan portfolio from $5.8 million at acquisition, to $15.0 million. It is interesting to note that the population of Allen County, where Lima is located, is greater than the population of State Bank and Trust's three other counties combined (Defiance, Fulton and Paulding).

Greg Klear, David Anderson, Beth Carrier and Rick Rosado

Our plan is to eventually create a separately-chartered community bank to serve Lima and the Allen County market. We believe community banking is what differentiates us from the regional banks and mega-banks that currently dominate the Lima market.

Greater Toledo Market Acquisition

Hank Thiemann, Mike Bogdan

In 2005, we acquired Exchange Bancshares, Inc., the holding company for The Exchange Bank. Following shareholder approval, Exchange Bank was acquired as of year-end 2005. Although its balance sheet is included as part of Rurban's consolidated financial statements, there was no income impact to recognize since Rurban assumed ownership on the last day of the year.

Exchange Bank is an important component of Rurban's expansion strategy as the greater Toledo metropolitan area offers growth opportunities in Wood and Lucas Counties. For example, Wood County is growing at 150% of the rate of Ohio overall. The two Exchange Bank branches in Luckey and Walbridge are mature offices with significant deposit and loan balances. The three branches in Holland, Sylvania and Perrysburg have excellent growth opportunities. We look forward to providing the clients of these offices with the same high-quality service on which Rurban's reputation is based.

Exchange Bank continues to operate as an independent community bank with its own separate charter and local directors. This is a continuing Rurban theme; we believe in the advantages provided by a local bank, satisfying local banking and community needs. The Exchange Bank management staff is experienced; Hank Thiemann, an executive with Rurban for six years, is heading the team. Lending activities are under the leadership of Mike Bogdan. Most recently, Mike worked for a regional bank in the Toledo market, where he headed a business lending team. Our expectation is that Exchange Bank will be accretive by the fourth quarter of 2006, and we will be working to accelerate that contribution.

Our operational expertise has provided us the opportunity to consolidate back office activities resulting in a 20% reduction in staffing levels with no decrease in customer service levels. The only significant differences customers will notice are the additional products and services we are now able to provide.

Fort Wayne, Indiana Loan Production Office

Fort Wayne, Indiana was identified by Rurban as one of the nearby markets that provides expansion opportunities. As a result, a loan production office was opened on the north side of Fort Wayne in September, 2005 to establish an initial presence in this market. We have an experienced commercial lender in place in this office with a sizable customer base in the Fort Wayne market. We also plan to add a mortgage lender to the Fort Wayne office to provide access to this larger housing market.

Trust Company Profitability

Reliance Financial Services, N.A., our trust and investment company, is one of our most profitable businesses with a return on capital employed in excess of 25%. This success is the result of a three-pronged focus:

- Excellent client experiences, including past performance in excess of applicable market indices for the majority of its investment products.

- A product mix that meets customer needs and strives to improve upon the competition.
- Cost controls to limit overhead expenses above what is necessary to satisfy clients.

Reliance has $335 million of assets under management. It is also one of the larger regional trust companies owned by a community bank. Reliance has succeeded by targeting clients with a minimum of $150,000 of investable assets. We believe this is a good starting point to develop a solid relationship, and we believe these clients are amazed by the level of service provided by Reliance. Additionally, as these clients grow in wealth, we believe they will use additional products and services over a lifetime of loyalty to Reliance. A typical regional bank trust company would not value this level of client wealth nor welcome them as we do at Reliance.

RDSI Growth

The growth of RDSI and its satisfied client base is a continuing success story. The following chart illustrates revenue and net income growth for that segment since 2002:

($000)	2002	2003	2004	2005
Revenue	$9,606	$10,552	$11,793	$13,197
Net Income	$1,512	$1,504	$1,921	$1,717

The past year, we achieved revenue growth, as we have done for 11 years in a row. During the year we made a number of investments that lowered the bottom-line profit contribution from RDSI in 2005, but which we expect will position the company for growth in future years.

During 2005, RDSI contracted to perform data processing services for ten new clients, in addition to nine new client banks added for item processing. RDSI added its first client in Arkansas, a new market for the company. As a result of increasing demand, we felt it was prudent to expand facilities and position RDSI for growth in future years. During 2005 RDSI consolidated multiple operations into a single new facility, and had the full year expense impact of two new item processing centers – one in Holland, Michigan and one near Columbus, Ohio. These two centers added approximately $315,000 of new expenses. We also incurred additional expenses for enhancing the disaster recovery process. RDSI was negatively affected by the comparison with 2004, when we received approximately $160,000 of tax credits which were not repeated in 2005. We continue to be excited about RDSI's growth potential as we look ahead and we continue to explore potential acquisition candidates for RDSI.

Stock Price Performance

The year 2005 was disappointing for banking stocks in general, and also for Rurban. Stock market performance in the banking sector was relatively flat for the year. Many banks were affected by the series of rate increases implemented over the year by the Federal Reserve, which caused margins to compress. The impact was exacerbated by the flattened yield curve, which further limited profit growth. Rurban's stock price, down 15% for the year, was affected by these industry factors, but also by our inability to generate a consistent level of profits throughout the year.

We are increasingly positive about the future direction of Rurban's growth and profit performance. We look forward to communicating our progress as the new year advances. Please join us for our Annual Meeting on April 20, 2006 at 10:00 a.m. held at the Eagles Lodge, Defiance, Ohio.

Sincerely,

Kenneth A. Joyce
President and CEO

Chairman of the Board

THE STATE BANK AND TRUST COMPANY

ALLEN, DEFIANCE, FULTON
and PAULDING COUNTIES

WHO WE ARE

The State Bank and Trust Company is a community bank serving clients for over 103 years. We maintain our community oriented focus with thirteen locations in Defiance, Paulding, Fulton, and Allen Counties, Ohio and Allen County, Indiana. The State Bank and Trust Company is proud to be known as “The Bank” in the communities we serve.

VALUE PROPOSITION

The financial services leader delivering sound advice, quality products, and superior customer service.

The State Bank and Trust’s focus is providing a unique and satisfying customer experience, exceeding our client’s expectations, and providing value added service to our clients through professionalism, knowledge, and care for our clients.

We know the way… assisting our clients with sound advice, quality products, and superior customer service in the markets we serve across Northwest and West Central Ohio, Southeast Michigan and Northeast Indiana.

STRUCTURING FOR THE FUTURE

While State Bank and Trust was under the Written Agreement, much of its energy and emphasis was directed towards correcting the deficiencies that resulted in the Written Agreement. Following the release of the Written Agreement in February, 2005, our emphasis has shifted to growth and business development.

The State Bank and Trust’s goals are market leadership, improved profitability, and continued commitment to the communities we serve. Our focus on these goals include initiatives to enhance the quality of our earning assets, increase loan production, and grow deposit relationships. The 2005 opening of a loan production office in Fort Wayne, Indiana and the acquisition of two branches in Lima, Ohio opened two new markets to assist in accomplishing these goals. We entered these markets with well-known and experienced bankers familiar with their communities, and as a result, we anticipate strong growth in these markets.

We understand that differentiating State Bank and Trust is the key ingredient to building a successful future. As a result, we are building a strategy that distinguishes us from our competitors. We compete in these markets with a strong pricing strategy, but our emphasis continues to be on the customer experience. To assist us in crafting an effective plan to provide a unique customer experience, we have engaged a marketing firm with experience in retailing to assist with our promotions and marketing efforts and to help ensure consistency of our differentiation strategy.

As part of this differentiation strategy, we are implementing changes to our retail delivery system including enhancements to our current facilities, improved merchandising, and more competitive hours. This is all supported by a recent branch analysis that allows us to align our business strategy and delivery channels to provide higher-level customer service. In the fourth quarter of 2006, we expect to open a relocated branch highlighting the retail orientation of our customer experience strategy.

Continued loan and deposit growth through strong client relationships is key to our strategic growth plans. We have implemented an organization-wide emphasis on sales and the effective monitoring of those efforts. These initiatives are being supported by a bank-wide incentive plan that directly rewards each employee for their contributions in fostering deep client relationships. This renewed spirit of proactively identifying client needs and recommending products and services to solve those needs supports our emphasis to provide a unique customer experience.

Outstanding customer service and a unique customer experience are the cornerstones of all our banking initiatives. We have identified a need by our clients for enhanced technology in their everyday banking. Our electronic banking volumes continue to increase as technology offerings improve and as clients seek more efficient ways to conduct their financial transactions. We will continue to offer our clients more ways to bank electronically and experience an enhanced visit either in person or on-line.

2005 ACCOMPLISHMENTS

The year 2005 saw the culmination of several years of effort to improve policies and procedures and improve loan quality. The result was the release of the Written Agreement, a key accomplishment during 2005. This accomplishment was the result of several years of effort to improve policies and procedures, and improve loan quality. Consequently, we have developed a keen sense of enthusiasm to capitalize on an organization that is sound and prepared for growth.

We began to structure for the future in 2005. In June, we completed the acquisition of two offices in Lima, Ohio. The following Lima Region section will discuss in more detail this key element of Rurban's expansion strategy. The second element of the new structure is the entry into the Fort Wayne, Indiana market. Fort Wayne is in the "full-service" expansion plans of Rurban and this entry begins the process and aids in our evaluation of this targeted market.

In late December, 2005, I was named President and CEO of The State Bank and Trust Company. My goal in 2006 is to re-channel the staff's passion and enthusiasm to expand customer relationships, identify untapped opportunities and implement specific initiatives that build value for all stakeholders.

The State Bank and Trust Company

Mark A. Klein
President and CEO

THE BANK THE STATE BANK AND TRUST COMPANY

LIMA REGION

WHO WE ARE

The birth of “The Bank” in Lima, Allen County occurred in June, 2005 with the purchase of two local banking centers with assets of nearly $60 million. The initial structure of the acquisition is as branches of The State Bank and Trust Company functioning as the Lima Region. The branch offices are conveniently located on Market Street and Elida Road. The Lima Region team is part of the same State Bank and Trust team that is committed to exceptional customer service and that same unique customer experience described earlier. The Lima Region has a commercial lending team in place that strives to exceed client expectations and is a key component of its future growth and profitability.

VALUE PROPOSITION

The financial services leader delivering sound advice, quality products, and superior customer service.

We know the way… in leading for success in the City of Lima and Allen County.

STRUCTURING FOR THE FUTURE

The City of Lima and Allen County deserves to have a bank that is guided by executive management that resides in the community and is solely focused on meeting the needs of the Lima Region. Our ultimate goal is for the Lima Region to become a separately chartered Community Bank whose mission is to fulfill all the financial service needs of its community.

The Lima Region has growth and profitability goals to achieve along the road to becoming a separate Community Bank. Key to these goals of the Lima Region is building quality loan balances with supporting deposit balances through creating rich and mutually rewarding relationships. Because of the orientation and strength of our Lima Region management team, our commercial loan and deposit products are leading the way for success. We expect our level of success to result in the Lima Region being profitable by mid-year 2006.

As the Lima Region gains momentum and continues to build relationships and profits, implementation of the new Community Bank will begin.

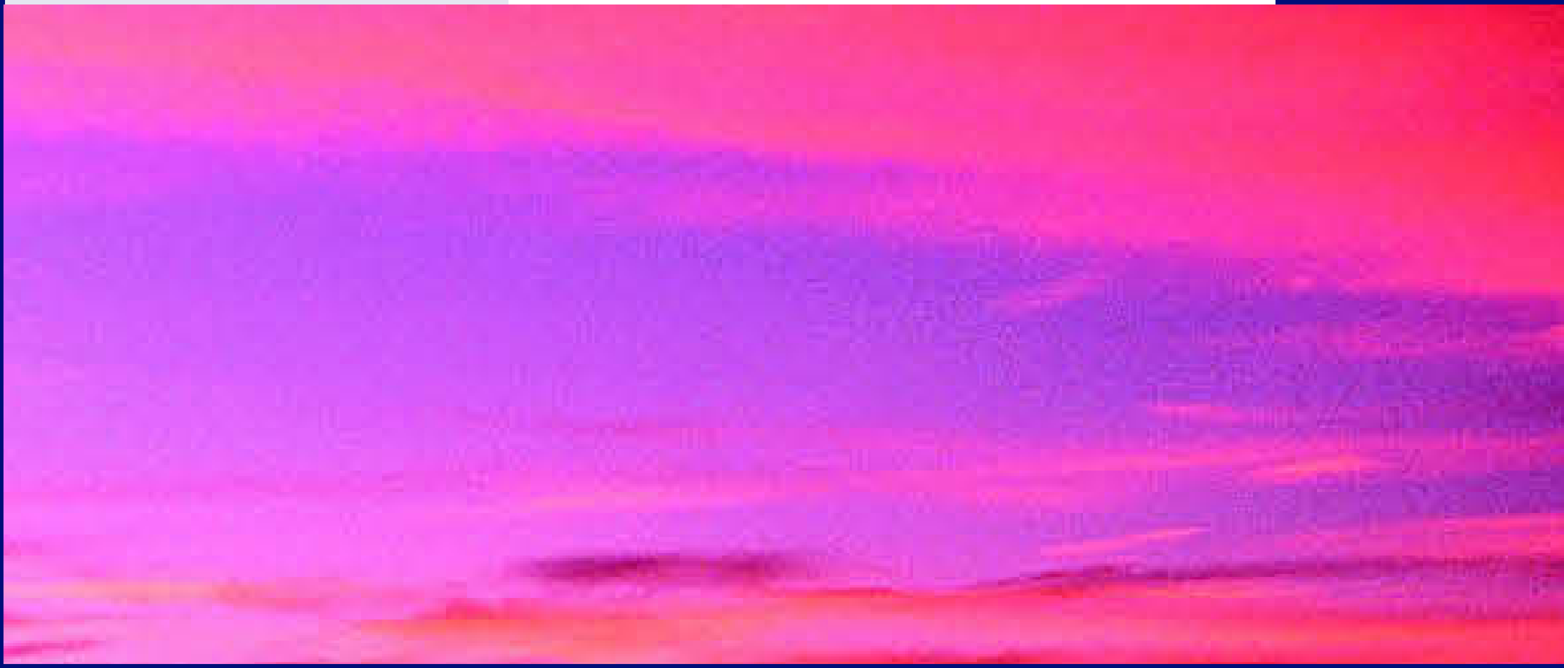
2005 ACCOMPLISHMENTS

With the support and effort of many individuals from Rurban's family of companies, the Lima branch acquisition was successfully converted into State Bank and Trust banking centers. We faced the typical challenges that come with any transition and now look forward to long term relationships with our clients in Lima.

We were also successful in attracting new team members who are adept and recognized in the Lima Region, with specific emphasis on commercial lending talent, the primary focus of our growth initiatives. The team's experience and expertise is paying immediate dividends as evidenced by our loan portfolio growing over 150% in little more than six months of operations in 2005.

The State Bank and Trust Company – Lima Region

David A. Anderson
Regional President



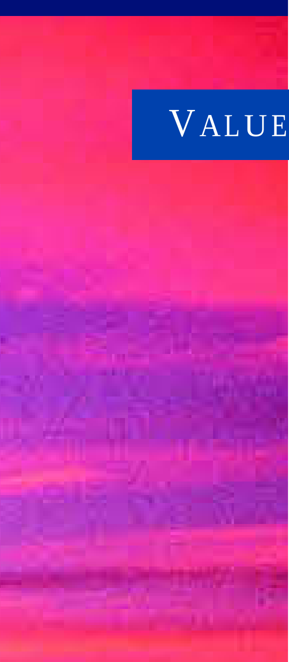
THE BANK EXCHANGE BANK

WOOD AND LUCAS COUNTIES

WHO WE ARE

The Exchange Bank, with branches in the metropolitan Toledo suburbs of Sylvania, Holland, Perrysburg, Walbridge, and Luckey, Ohio, was acquired by Rurban Financial Corp. on December 31, 2005. This acquisition provides exciting, new market opportunities in Wood and Lucas counties for the expansion of the Rurban Financial Corp. banking franchise. Exchange Bank will also be known as "The Bank" within its markets, further building on "The Bank" branding. Exchange Bank, with assets of $84 million, retained its name and independent charter through the acquisition. Exchange Bank is the model for the Lima Region as it is the alternative to "just another branch of a large regional banking organization."

Exchange Bank is looking forward to its 100th year anniversary in 2006 and recognizing its many loyal customers who have made it a success over the years. The staff at Exchange Bank has been especially proud of its community bank service and the personal attention, which will be enhanced with more products and services in 2006.



VALUE PROPOSITION

The financial services leader delivering sound advice, quality products, and superior customer service.

We know the way... leading for success in Lucas and Wood Counties.

STRUCTURING FOR THE FUTURE

Exchange Bank will be expanding its product and service offerings as it takes advantage of the experience and operations provided by Rurban Financial Corp.'s back office. The commercial lending program will be prudently expanded and the retail loan and deposit products made more competitive. New product introductions have already included internet banking; "single closing, construction to permanent" mortgage loans; and competitive, short-term Certificate of Deposits.

We expect Exchange Bank will grow in 2006 with several key new hires, expanded staff training, an emphasis on business development, initiatives to expand existing relationships, an updated menu of products, increased marketing and advertising, and special customer promotions.

Community offices will be updated with facility improvements and new equipment, including several ATMs. A market analysis was recently completed identifying several future locations for additional Exchange Bank community offices in Wood and Lucas counties, as well as opportunities to relocate some branches to enhance service.

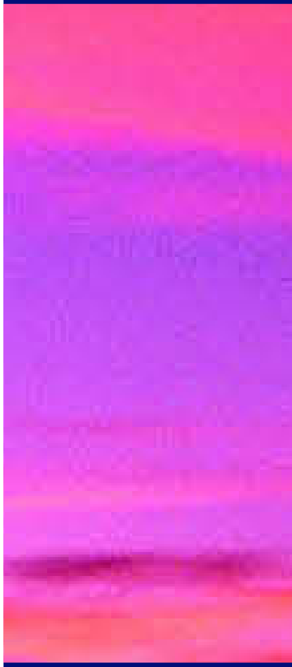
A key component of the growth goals and structuring of Exchange Bank is the emphasis on a unique customer experience. Consistent with all of Rurban's banking plans, Exchange Bank is building a strategy that distinguishes it from its competitors. We will be competing in these markets with a strong pricing strategy, but our emphasis will be on the customer experience. Our clients will see an improvement in our customer service standards with the goal of having a banking experience unique to our clients.

2005 ACCOMPLISHMENTS

The acquisition of Exchange Bancshares, Inc. was a concerted effort over many months, resulting in regulatory approval of the merger and closing of the transaction on the last day of 2005. During this process, Rurban's management worked with Exchange Bank's management and directors in a number of planned activities that resulted in a seamless merger into Rurban Financial Corp.

The Exchange Bank

Henry R. Thiemann
President and CEO



RELIANCE
FINANCIAL SERVICES, N.A.

WHO WE ARE

We grow and protect our client's wealth through investment management, trust and retirement plan services. There is more to life with Reliance because we are the local trusted professional that can help design and, more importantly, implement the day-to-day activities needed for a successful portfolio so that our clients' retirement or other goals are accomplished. Whether we are part of designing and implementing our clients' financial or estate plans; actively managing our clients' investment assets, retirement plans or IRAs; or serving as Trustee of our clients' trusts or executor of our clients' estates, Reliance Financial Services will be there with knowledge, professional advice, and a true concern for success.

VALUE PROPOSITION

"Growing and preserving your wealth."

Life is easier with Reliance at your side.

STRUCTURING AND GROWING THE BUSINESS

Being part of The Bank allows Reliance the opportunity to take advantage of growth in The Bank's market footprint. With The Bank's expansion into the Toledo and Lima markets we will expand our services to these areas. Our main initiative is to stay focused on core products while improving quality of offerings and the right client touch.

Reliance has a unique market segment that supplies a benefit to its clients. Most of the regional banks assign their smaller balance trust customers an "800" number for their account administration. Reliance views each client as unique and makes a point of personal attention and advice. This approach, along with the professionalism and knowledge of the Reliance staff, provides a differentiated positioning for Reliance and its continuing formula for success.

2005 ACCOMPLISHMENTS

In 2005, Reliance achieved a number of milestones. We attained the highest net income and highest gross revenue in our history. In addition, our return on equity for the year was in excess of 25%. Finally, our new sales for the year 2005 set a company record and we are excited about the potential our future growth initiatives offer.

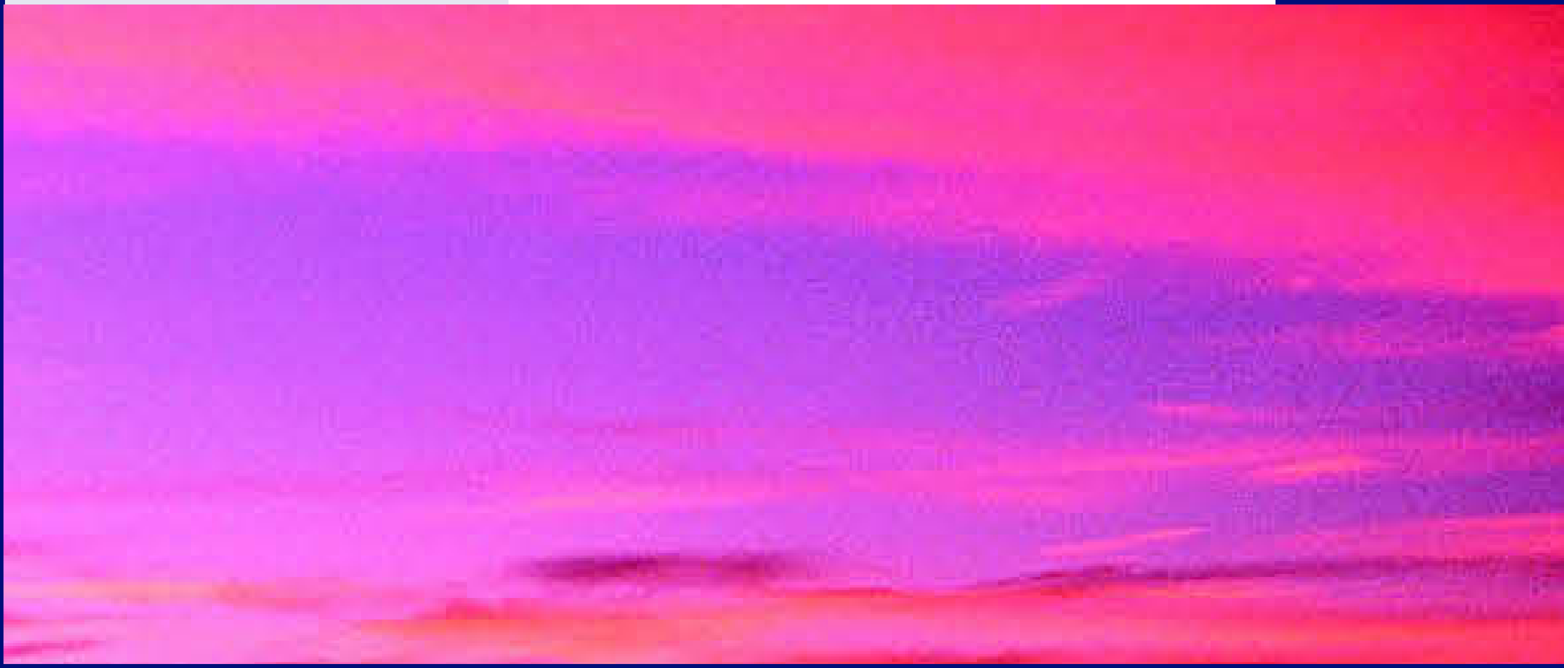
These corporate successes were only achieved because Reliance provided the investment returns to make our clients successful. We are proud of our portfolio investment returns as most of Reliance's managed portfolios exceeded established benchmark indices. We believe these successes, combined with the personal touch is a formula for continuing the success of Reliance.

PERFORMANCE GOALS FOR 2006 AND BEYOND

Our expansion plans into the suburban Toledo and Lima markets will utilize Reliance's excellent potential for growth. In addition, introducing Reliance in the Lima and suburban Toledo banking centers will enhance the products the banks offer, as well as provide an opportunity to enhance Reliance's growth and income. Throughout all our growth initiatives, we will strive to maintain our highest quality service and excellent regulatory compliance, with our very experienced and knowledgeable staff.

Reliance Financial Services, N.A.

Craig A. Kuhlman
President and CEO



RDSI Banking Systems

WHO WE ARE

RDSI is one of the largest regional providers of data processing services for the banking industry. RDSI services approximately 60 banks in Arkansas, Illinois, Indiana, Michigan, Missouri, and Ohio. In addition, RDSI provides check processing and imaging services to 24 of its client banks through four capture centers in Ohio and Michigan.

VALUE PROPOSITION

RDSI is a technology leader, secure provider and a trusted advisor, while providing the best overall value and outstanding service to the financial community.

STRUCTURING AND GROWING THE BUSINESS

RDSI has implemented organizational and operational changes to improve performance at all levels. We expect the results of these changes to be realized in 2006 with improved efficiency and better customer service. The organizational changes focus on functions to be performed for the client, allowing RDSI to better use its resources, raise client service levels, and improve cross training. Utilization of a new telephone system, a standard call tracking system and improved reporting are also part of the plan for continuing improvement in service levels.

A new Client Relations Department has been created, which is focused on customer satisfaction and relationships. This structural change is being implemented to ensure that RDSI's customers and product growth are maintained while improving the customer relationships which have been built over the years.

We have expanded both our New Customer and Client Base sales organizations to respond to the increasing demand for more products and services. While we continue to be successful in our immediate geographic market, we look to expand our market to surrounding states that meet our target customer model.

2005 ACCOMPLISHMENTS

RDSI enjoyed a phenomenal year of growth in 2005, both in data processing and item processing clients. During 2005, ten new data processing clients and nine new item processing and imaging clients entered into contracts. This success is a testimony to an excellent reputation earned daily in the markets we serve. RDSI has recently expanded its market region with the signing of a new client in Arkansas. RDSI will now serve banking clients in six states across the Midwest.

During 2005, RDSI continued to take advantage of the opportunities within our item processing and imaging area resulting from Check 21 legislation. RDSI completed the installation of newly introduced "remote image capture" devices over the course of the year. These devices allow for the capturing of check images at the individual client bank branches, eliminating the need to transport the physical checks to a processing center. These devices allow RDSI to provide item processing and imaging services to client banks where RDSI has no physical presence locally. The client banks benefit by lowering their transportation costs and providing a longer "same day" deposit acceptance without the need for early "cut-offs." This capability will allow RDSI to expand its geographic item processing service and take advantage of Check 21 opportunities.

The product offerings of RDSI continue to expand as technology provides faster or less expensive ways of doing business. The offerings also include new products requested by clients. Some of these new products introduced in 2005 include:

- ITI Interface to Third Party Internet Banking Suppliers
- Internet Banking Interface to Quicken and Quickbooks
- Enhanced Bank Regulatory Reporting
- Event Based Messaging from Client Banks to their Customers
- Branch Image Capture of Checks – A Check 21 Enabler
- Demand Deposit Health Savings Accounts

In 2005, we began implementation of a program to enhance our disaster recovery system to provide "near seamless" services to our clients in a disaster situation. When completed in 2006, the enhanced disaster recovery system will allow expedited data recovery, while providing backup for non-core services such as email and internet banking that have become critical components to the way businesses and banking customers do business.

RDSI consolidated three operations in three separate buildings into one Defiance, Ohio operation. The new building provides state of the art operations and security. Having all operations in one facility improved efficiencies resulting in improved service for our clients.

PERFORMANCE GOALS FOR 2006 AND BEYOND

We believe RDSI has laid the foundation for continuing success in 2006. With our new facility, organizational changes, and the number of new clients already signed for next year, RDSI is poised to continue to grow shareholder value in the upcoming year.

RDSI continues to see significant opportunity in our item processing and imaging area. A number of our client banks will be making decisions about their item processing as Check 21 moves to maturity and wider implementation. RDSI is positioned to provide an outsourced item processing option to those client banks, decreasing related costs such as transportation, and providing improved services to their banking customers.

RDSI Banking Systems

John D. Weimerskirk
President

OFFICERS AND DIRECTORS

Front Row: Thomas Callan, Rita Kissner, and Thomas Buis
Back Row: Steve VanDemark, J. Michael Walz, Thomas Sauer, John Compo, Kenneth Joyce, Richard Hardgrove, Robert Fawcett, and John Fahl

RURBAN FINANCIAL CORP.

DIRECTORS

STEVEN D. VANDEMARK
Chairman of the RFC Board
General Manager
The Defiance Publishing Company

THOMAS A. BUIS
Insurance Consultant
Retired President Spencer-Patterson Insurance

THOMAS M. CALLAN
Retired President
Defiance Stamping Company

JOHN R. COMPO
Chairman and President
Compo Corporation

JOHN FAHL
Retired
Cooper Tire and Rubber Company

ROBERT A. FAWCETT, JR.
Insurance Agent
Fawcett, Lammon, Recker and Associates Ins. Agency Inc.

RICHARD L. HARDGROVE
Retired President and
Chief Executive Officer
Sky Bank
Retired Deputy Superintendent
of Banks, Ohio

KENNETH A. JOYCE
President and
Chief Executive Officer
Rurban Financial Corp.

RITA A. KISSNER
Retired
Mayor of Defiance

THOMAS L. SAUER
President
City Beverage Company

J. MICHAEL WALZ, D.D.S.
Defiance Dental Group

OFFICERS

KENNETH A. JOYCE
President and
Chief Executive Officer

DUANE L. SINN
Executive Vice President
Chief Financial Officer

CYNTHIA E. BATT
Senior Vice President
Risk Manager and
Compliance Officer

BRUCE C. FACKLER
Vice President
Internal Auditor

KEETA J. DILLER
Vice President
Corporate Secretary

STACEY L. CLEMENS
Assistant Vice President
BSA/CRA Officer

VALDA L. COLBART
Officer
Investor Relations

THE STATE BANK AND TRUST COMPANY

DIRECTORS

STEVEN D. VANDEMARK
Chairman of the SBT Board
General Manager
The Defiance Publishing Company

THOMAS A. BUIS
Insurance Consultant
Retired President
Spencer-Patterson Insurance

THOMAS M. CALLAN
Retired President
Defiance Stamping Company

JOHN R. COMPO
Chairman and President
Compo Corporation

JOHN FAHL
Retired
Cooper Tire and Rubber Company

ROBERT A. FAWCETT, JR.
Insurance Agent
Fawcett, Lammon, Recker and
Associates Ins. Agency Inc.

RICHARD L. HARDGROVE
Retired President and
Chief Executive Officer
Sky Bank
Retired Deputy Superintendent
of Banks, Ohio

KENNETH A. JOYCE
President and
Chief Executive Officer
Rurban Financial Corp.

RITA A. KISSNER
Retired
Mayor of Defiance

MARK A. KLEIN
President and
Chief Executive Officer
The State Bank and Trust Company

THOMAS L. SAUER
President
City Beverage Company

J. MICHAEL WALZ, D.D.S.
Defiance Dental Group

PAULDING COUNTY ADVISORY BOARD

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Manager
Paulding-Putnam Electric Cooperative

JOHN HENRY KAUSER
President
Kauser Trucking, Inc.

DR. JOHN M. SAXTON
Owner
Saxton Chiropractic

RHONDA STABLER
Manager
CNY Oil Company

JAMES A. STAHL
Partner
Stahl-Phlipot Insurance Agency

REX L. WILLIAMSON
President
Williamson Insurance Agency

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President and
Chief Executive Officer

JONATHAN R. GATHMAN
Executive Vice President
Senior Lender

DUANE L. SINN
Executive Vice President
Chief Financial Officer

CYNTHIA E. BATT
Senior Vice President
Compliance Officer

STACEY L. CLEMENS
Assistant Vice President
BSA/CRA Officer

SARAH S. MEKUS
Officer
Corporate Secretary

LIMA REGION

DAVID A. ANDERSON
Regional President

GREGORY W. KLEAR
Senior Vice President
Chief Operating Officer

RICK ROSADO
Senior Vice President
Commercial Services Officer

AGRICULTURAL BANKING

TIMOTHY P. MOSER
Senior Vice President
Agricultural Services Manager

RITA M. SWITZER
Assistant Vice President
Loan Assistant Supervisor

COMMERCIAL BANKING

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Senior Vice President
Business Development Officer

ROY “BUD” A. WILLIAMS
Senior Vice President
Commercial Services Officer

DANIEL P. GRUBE
Assistant Vice President
Commercial Services Officer

JEFFREY R. STARNER
Officer
Commercial Services Officer

FORT WAYNE LOAN PRODUCTION OFFICE

DAVID A. BOYD
Executive Vice President
Manager

RETAIL BANKING

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Vice President
District Sales Manager and
Product Development

RONALD B. COLES
Vice President
Consumer Lending Manager

ROSALIND L. ALLEN
Assistant Vice President
Sales Manager

LOIS F. CURRY
Assistant Vice President
Sales Manager

THERESA M. GINEMAN
Assistant Vice President
Sales Manager

ELIZABETH J. HENDERSON
Assistant Vice President
District Sales Manager

DIANNE T. JONES
Assistant Vice President
District Sales Manager

AMY J. KAUSER
Assistant Vice President
Sales Manager

NICHOLE T. WICHMAN
Assistant Vice President
Sales Manager

THE EXCHANGE BANK

DIRECTORS

J. MICHAEL WALZ, D.D.S.
Chairman of the EB Board
Defiance Dental Group

JOSEPH R. HIRZEL
Owner
Hirzel Canning Company

KENNETH A. JOYCE
President and
Chief Executive Officer
Rurban Financial Corp.

MARION LAYMAN
Retired
The Exchange Bank

DAVID MARSH
Owner
Marsh Funeral Home

HENRY R. THIEMANN
President and
Chief Executive Officer
The Exchange Bank

OFFICERS

HENRY R. THIEMANN
President and
Chief Executive Officer

MICHAEL D. BOGDAN
Executive Vice President
Senior Lender

SUSAN L. BEYER
Assistant Vice President
Operations Manager

PAMELA A. MASLAK
Assistant Vice President
Compliance/BSA Security Officer

KEETA J. DILLER
Corporate Secretary

DUANE L. SINN
Chief Financial Officer

RETAIL BANKING

KEITH R. CLINE
Assistant Vice President
Community Office Manager

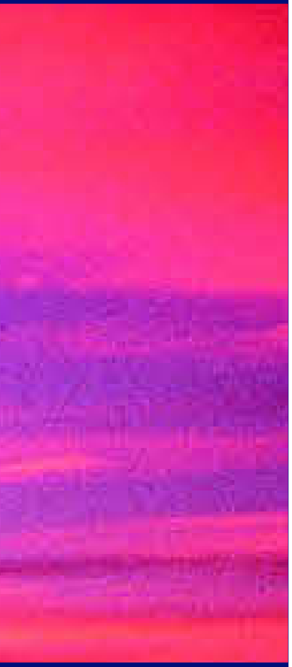
RUBEN V. PERALES
Assistant Vice President
Community Office Manager

JANE E. SCHMENK
Assistant Vice President
Community Office Manager

KIRK D. STONEROCK
Assistant Vice President
Commercial Services Officer

DONALD O. TRUMBULL
Assistant Vice President
Community Office Manager

ROCHELLE M. WHEELER
Assistant Vice President
Loan Administration Supervisor



RURBAN OPERATIONS CORP.

DIRECTORS

JEFFREY D. SEWELL
Chairman of the ROC Board
President and
Chief Executive Officer
Rurban Operations Corp.

DAVID A. ANDERSON
President
The State Bank and Trust Company
Lima Region

KENNETH A. JOYCE
President and
Chief Executive Officer
Rurban Financial Corp.

MARK A. KLEIN
President and
Chief Executive Officer
The State Bank and Trust Company

DUANE L. SINN
Executive Vice President
Chief Financial Officer
Rurban Financial Corp.

HENRY R. THIEMANN
President and
Chief Executive Officer
The Exchange Bank

OFFICERS

JEFFREY D. SEWELL
President and
Chief Executive Officer

ANNE M. GREGORY
Corporate Secretary

BRANCH OPERATIONS/ RETAIL BANKING

MARGARET S. THOMPSON
Assistant Vice President
Branch Operations Administrator

CREDIT ADMINISTRATION

ROBERT L. FINTEL
Senior Vice President
Credit Administration Manager

ARNOLD H. RUHE
Vice President
Collections and Resource Recovery Officer

PAMELA A. HURST
Assistant Vice President
Collections and Resource Recovery Officer

DAWN M. HUTCHESON
Assistant Vice President
Loan Accounting Manager

FINANCIAL SERVICES

BRENT L. BEARD
Vice President
Controller

KEETA J. DILLER
Vice President
Accounting Supervisor

CAROL M. ROBBINS
Vice President
Asset Liability/Financial Analysis Manager

HUMAN RESOURCES AND TRAINING

MICHELLE R. BAKER
Vice President
Human Resources Manager

LAURA W. KLINE
Assistant Vice President
Human Resources Specialist and Training Coordinator

CHRISTINE R. HUBBARD
Officer
Special Projects

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Vice President
Residential Mortgage Manager

SUSAN A. ERHART
Assistant Vice President
Mortgage Loan Processor/Underwriter

OPERATIONS DEPOSIT

KIM M. GILMORE
Vice President
Operations Manager

CONNIE S. GRUENHAGEN
Assistant Vice President
Deposit Operations Supervisor

TECHNOLOGY AND FACILITIES

CURTIS J. ALDRICH
Assistant Vice President
Technology Banking Manager

MARC H. BEACH
Assistant Vice President
Facilities Manager

JOHN A. PERO
Assistant Vice President
Technology Manager

RELIANCE FINANCIAL SERVICES, N.A.

DIRECTORS

JEFFREY D. SEWELL
Chairman of the RFS Board
President and
Chief Executive Officer
Rurban Operations Corp.

DAVID A. ANDERSON
President
The State Bank and Trust Company
Lima Region

KENNETH A. JOYCE
President and
Chief Executive Officer
Rurban Financial Corp.

MARK A. KLEIN
President and
Chief Executive Officer
The State Bank and Trust Company

CRAIG A. KUHLMAN
President and
Chief Executive Officer
Reliance Financial Services, N.A.

HENRY R. THIEMANN
President and
Chief Executive Officer
The Exchange Bank

OFFICERS

CRAIG A. KUHLMAN
President and
Chief Executive Officer

DAVID A. BELL
Executive Vice President
Trust Support Manager

ROBERT J. HANSON, JR.
Senior Vice President
Customer Relationship Manager

DALE M. GROCKI
Vice President
Senior Trust Administrator

ELIZABETH D. ZARTMAN
Vice President
Trust Systems Manager

GWENDOLYN L. ANDERSON
Assistant Vice President
Network Systems Manager and
Corporate Secretary

TRACY A. BAUGHMAN
Assistant Vice President
Senior Investment Administrator

PAMELA D. BOYD
Assistant Vice President
Financial Advisor

SUSAN K. SIMPSON
Assistant Vice President
Senior Trust Administrator

RDSI BANKING SYSTEMS

DIRECTORS

KENNETH A. JOYCE
Chairman of the RDSI Board
Chief Executive Officer
RDSI Banking Systems

DONALD E. DEWITT
Retired

GARY A. KOESTER
President
Koester Metals Inc.

JOHN W. SCHOCK
President and
Chief Executive Officer
FMS

JEFFREY D. SEWELL
President and
Chief Executive Officer
Rurban Operations Corp.

STEVEN D. VANDEMARK
General Manager
The Defiance Publishing Company

JOHN D. WEIMERSKIRK
President
RDSI Banking Systems

OFFICERS

KENNETH A. JOYCE
Chairman and
Chief Executive Officer

JOHN D. WEIMERSKIRK
President

JAMES M. BREMER
Executive Vice President
Chief Information Officer

JON A. BRENNEMAN
Executive Vice President
Chief Marketing Officer

KURT A. KRATZER
Executive Vice President
Regional Sales Manager

GARY A. SAXMAN
Executive Vice President
Chief Operating Officer

JOSEPH A. BUERKLE
Senior Vice President
Systems Infrastructure Manager

DAVID E. HARRINGTON
Senior Vice President
Client Relations Manager

TIMOTHY PEARSON
Senior Vice President
Product Manager

PETER J. SCHWAGER
Senior Vice President
Information Services Manager

AMY S. EISENHOUR
Vice President
Client Services Manager

LEON R. ERICKSON
Vice President
Application Services Manager

RITA A. ERICKSON
Vice President
Item Processing Manager

TERRANCE L. GORE
Vice President
Regional Sales Manager

R. SCOTT LERCH
Vice President
Network Services Manager

KAREN L. OSKEY
Vice President
Marketing Manager

STEPHEN K. RILEY
Vice President
Computer Operations Manager

DEAN M. STOECKLIN
Vice President
Client Relations Manager

STEVEN E. STRUBLE
Vice President
Client Service Manager

CRAIG M. BROWN
Assistant Vice President
Senior Product Specialist

DANIEL D. FERRIS
Assistant Vice President
Project Manager

JEAN M. NIENBERG
Assistant Vice President
Defiance Item Processing
Operations Manager

DANA S. SMITH
Assistant Vice President
Assistant Computer
Operations Manager

VALDA L. COLBART
Corporate Secretary

RFCBC, INC.

DIRECTORS

JOHN FAHL
Chairman of the RFCBC Board
Retired
Cooper Tire and Rubber Company

KENNETH A. JOYCE
President and
Chief Executive Officer
Rurban Financial Corp.

HENRY R. THIEMANN
President and
Chief Executive Officer
RFCBC, Inc.

STEVEN D. VANDEMARK
General Manager
The Defiance Publishing Company

J. MICHAEL WALZ, D.D.S.
Defiance Dental Group

OFFICERS

HENRY R. THIEMANN
President and
Chief Executive Officer

C. ROBERT GREEN, JR.
Senior Vice President
Special Assets Manager

KEETA J. DILLER
Corporate Secretary

FINANCIAL HIGHLIGHTS

(Dollars in thousands except per share data)	Year Ended December 31				
	2005	2004	2003	2002	2001
EARNINGS					
Interest income	$21,422	$20,028	$27,774	$48,591	$56,519
Interest expense	9,368	7,951	13,972	24,813	30,778
Net interest income	12,054	12,077	13,802	23,778	25,741
Provision for loan losses	583	(399)	1,202	27,531	8,733
Non-interest income	17,471	16,691	34,687	13,779	14,162
Non-interest expense	28,187	25,324	28,678	30,479	28,018
Provision (credit) for income taxes	81	1,109	6,303	(7,044)	899
Net income (loss)	673	2,734	12,305	(13,408)	2,253
PER SHARE DATA (1)					
Basic earnings	$0.15	$0.60	$2.71	($2.95)	$0.50
Diluted earnings	0.15	0.60	2.70	(2.95)	0.50
Cash dividends declared	0.20	N/A	N/A	0.26	0.47
AVERAGE BALANCES					
Average shareholders' equity	$51,083	$49,279	$44,599	$44,674	$52,708
Average total assets	433,367	417,801	549,371	791,091	722,827
RATIOS					
Return on average shareholders' equity	1.32%	5.55%	27.59%	(30.01)%	4.27%
Return on average total assets	0.16	0.65	2.24	(1.69)	0.31
Cash dividend payout ratio (cash dividends divided by net income)	133.33	N/A	N/A	N/A	95.80
Average shareholders' equity to average total assets	11.79	11.79	8.12	5.65	7.29
PERIOD END TOTALS					
Total assets	$530,542	$415,349	$435,312	$742,317	$746,209
Total investments and Fed Funds sold	139,353	108,720	117,699	129,109	101,140
Total loans and leases	327,048	264,481	284,104	487,475	600,291
Loans held for sale	224	113	219	63,536	440
Total deposits	384,838	279,624	317,475	636,035	610,860
Notes payable	939	3,080	10,328	6,000	0
Advances from FHLB	45,500	56,000	39,000	47,850	54,275
Trust Preferred Securities	20,620	10,310	10,000	10,000	10,000
Shareholders' equity	54,451	50,306	48,383	36,382	50,829
Shareholders' equity per share (1)	$10.83	$11.01	$10.60	$7.97	$11.14

(1) Per share data restated for 5% stock dividend declared in 2001.

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, 2005 and 2004 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2005. 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, 2005 and 2004 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

Cincinnati, Ohio
February 13, 2006

Rurban Financial Corp.

Consolidated Balance Sheets
December 31

Assets

	2005	2004
Cash and cash equivalents	$ 12,650,839	$ 10,617,766
Interest-bearing deposits	150,000	150,000
Available-for-sale securities	139,353,329	108,720,491
Loans held for sale	224,000	112,900
Loans, net of unearned income	327,048,229	264,480,789
Allowance for loan losses	(4,699,827)	(4,899,063)
Premises and equipment	13,346,632	7,740,442
Federal Reserve and Federal Home Loan Bank stock, at cost	3,607,500	2,793,000
Foreclosed assets held for sale, net	2,309,900	720,000
Interest receivable	3,010,355	1,984,452
Goodwill	8,917,373	2,144,304
Core deposits and other intangibles	3,742,333	542,978
Purchased software	3,916,913	4,564,474
Cash value of life insurance	10,443,487	9,146,816
Other	6,521,213	6,529,397
Total assets	$ 530,542,276	$ 415,348,746

See Notes to Consolidated Financial Statements

Rurban Financial Corp.

Consolidated Balance Sheets
December 31

Liabilities and Stockholders' Equity

	2005	2004
Liabilities		
Deposits		
Demand	$ 52,073,751	$ 37,831,810
Savings, interest checking and money market	124,206,115	87,795,630
Time	208,558,046	153,996,874
Total deposits	384,837,912	279,624,314
Short-term borrowings	10,680,420	11,559,151
Notes payable	938,572	3,079,656
Federal Home Loan Bank advances	45,500,000	56,000,000
Trust preferred securities	20,620,000	10,310,000
Interest payable	1,373,044	994,114
Deferred income taxes	1,140,001	523,111
Other liabilities	11,001,679	2,952,605
Total liabilities	476,091,628	365,042,951
Commitments and Contingent Liabilities		
Stockholders' Equity		
Common stock, $2.50 stated value; authorized 10,000,000 shares; issued 5,027,433 shares; outstanding 2005 – 5,027,433 shares, 2004 – 4,568,388 shares	12,568,583	11,439,255
Additional paid-in capital	14,835,110	11,003,642
Retained earnings	28,702,817	28,943,736
Accumulated other comprehensive loss	(1,655,862)	(803,189)
Treasury stock, at cost		
Common; 2005 – 0 shares, 2004 – 7,314 shares	—	(277,649)
Total stockholders' equity	54,450,648	50,305,795
Total liabilities and stockholders' equity	$ 530,542,276	$ 415,348,746

Rurban Financial Corp.

Consolidated Statements of Income
Years Ended December 31

	2005	2004	2003
Interest Income			
Loans			
Taxable	$ 16,593,703	$ 16,151,220	$ 24,305,358
Tax-exempt	64,609	65,711	89,356
Securities			
Taxable	4,337,477	3,567,819	2,805,614
Tax-exempt	265,959	164,541	172,063
Other	160,240	78,549	401,459
Total interest income	21,421,988	20,027,840	27,773,850
Interest Expense			
Deposits	5,651,372	4,554,093	10,024,718
Notes payable	334,713	386,450	596,418
Federal funds purchased	67,300	13,896	—
Federal Home Loan Bank advances	2,039,851	1,877,284	2,276,439
Trust preferred securities	1,275,168	1,118,751	1,074,722
Total interest expense	9,368,404	7,950,474	13,972,297
Net Interest Income	12,053,584	12,077,366	13,801,553
Provision (Credit) for Loan Losses	583,402	(399,483)	1,202,000
Net Interest Income After Provision (Credit) for Loan Losses	11,470,182	12,476,849	12,599,553
Non-interest Income			
Data service fees	11,841,765	10,478,245	8,971,632
Trust fees	3,133,550	3,042,297	2,602,270
Customer service fees	1,859,547	1,985,389	2,179,036
Net gains (losses) on loan sales	(436,971)	40,603	415,851
Net realized gains on sales of available-for-sale securities	25,300	241,008	23,632
Loan servicing fees	306,929	367,753	394,647
Gain on sale of branches	—	—	19,900,945
Other	741,340	535,336	199,343
Total non-interest income	$ 17,471,460	$ 16,690,631	$ 34,687,356

See Notes to Consolidated Financial Statements

Rurban Financial Corp.

Consolidated Statements of Income
Years Ended December 31

	2005	2004	2003
Non-interest Expense			
Salaries and employee benefits	$ 13,518,749	$ 12,993,449	$ 13,428,366
Net occupancy expense	1,214,169	981,700	1,183,569
Equipment expense	5,148,458	4,336,573	4,201,260
Data processing fees	411,465	371,153	435,700
Professional fees	2,730,337	2,252,677	4,171,758
Marketing expense	445,656	339,968	397,137
Printing and office supplies	524,473	423,030	472,193
Telephone and communications	682,807	637,528	716,227
Postage and delivery expense	313,379	347,494	540,339
Insurance expense	218,484	292,418	568,946
Employee expense	994,735	796,556	951,997
State, local and other taxes	572,456	591,142	617,036
Other	1,412,030	960,643	993,807
Total non-interest expense	28,187,198	25,324,331	28,678,335
Income Before Income Tax	754,444	3,843,149	18,608,574
Provision for Income Taxes	81,353	1,108,857	6,303,342
Net Income	$ 673,091	$ 2,734,292	$ 12,305,232
Basic Earnings Per Share	$ 0.15	$ 0.60	$ 2.71
Diluted Earnings Per Share	$ 0.15	$ 0.60	$ 2.70

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, 2003	$ 11,439,255	$11,009,733	$ 13,904,212	$ (320,765)	$ 664,911	$ (315,014)	$ 36,382,332
Comprehensive income							
Net income			12,305,232				12,305,232
Change in unrealized gain (loss) on securities available for sale, net of reclassification adjustment and tax effect					(463,829)		(463,829)
Total comprehensive income							11,841,403
Stock options exercised (1,208 treasury shares)		(465)				2,214	1,749
ESOP shares earned				157,272			157,272
Balance, December 31, 2003	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 (loss)							(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
Treasury stock retired (4,358 treasury shares)	(10,962)	(225,934)				236,896	-
Exchange Acquisition	1,140,290	4,061,560					5,201,850
Balance, December 31, 2005	$ 12,568,583	$14,835,110	$ 28,702,817	$ -	$ (1,655,862)	$ -	$ 54,450,648

See Notes to Consolidated Financial Statements

Rurban Financial Corp.

Consolidated Statements of Cash Flows
Years Ended December 31

	2005	2004	2003
Operating Activities			
Net income	$ 673,091	$ 2,734,292	$ 12,305,232
Items not requiring (providing) cash			
Depreciation and amortization	3,108,693	2,492,661	2,310,122
Provision (credit) for loan losses	583,402	(399,483)	1,202,000
ESOP shares earned	—	163,493	157,272
Amortization of premiums and discounts on securities	218,221	469,148	1,049,838
Amortization of intangible assets	131,826	102,009	125,790
Deferred income taxes	384,337	3,344,719	3,083,200
FHLB Stock Dividends	(116,800)	(93,400)	(120,400)
(Gain) loss from sale of loans	436,971	(40,603)	(415,851)
Gain on sale of branches	—	—	(19,900,945)
(Gain) loss on sale of foreclosed assets	214,642	(33,758)	248,951
(Gain) losses on sales of fixed assets	18,817	—	(79,084)
Net realized gains on available-for-sale securities	(25,300)	(241,008)	(23,632)
Changes in			
Proceeds from sale of loans held for sale	5,481,329	5,709,084	39,124,752
Originations of loans held for sale	(6,029,400)	(5,562,628)	(38,927,654)
Interest receivable	(513,229)	16,280	1,965,989
Other assets	(1,241,089)	(707,055)	3,218,909
Interest payable and other liabilities	899,500	(2,256,287)	237,820
Net cash provided by operating activities	4,225,011	5,697,464	5,562,309
Investing Activities			
Net change in interest-bearing deposits	—	110,000	—
Purchases of available-for-sale securities	(38,373,878)	(88,396,063)	(133,540,054)
Proceeds from maturities of available-for-sale securities	17,107,354	62,537,668	121,586,538
Proceeds from sales of available-for-sale securities	5,154,173	23,086,736	17,634,708
Net change in loans	(4,562,982)	13,852,870	127,071,877
Purchase of premises and equipment	(2,975,180)	(3,652,078)	(2,851,908)
Proceeds from sales of premises and equipment	93,216	—	1,561,574
Purchase bank owned life insurance	—	(8,000,000)	—
Proceeds from sale of foreclosed assets	1,565,223	1,592,373	2,577,604
Purchase of Federal Home Loan and Federal Reserve Bank stock	—	(383,300)	—
Proceeds from sale of Federal Home Loan Bank stock	—	428,600	1,041,400
Proceeds from assumption of net liabilities in business acquisition	50,928,950	—	—
Payments for assumption of liabilities in branch sales	—	—	(74,680,022)
Net cash provided by investing activities	28,936,876	1,176,806	60,401,717

See Notes to Consolidated Financial Statements

Rurban Financial Corp.

Consolidated Statements of Cash Flows
Years Ended December 31

	2005	2004	2003
Financing Activities			
Net increase (decrease) in demand deposits, money market, interest checking and savings accounts	$ (6,940,715)	$ (17,178,739)	$ 33,380,843
Net decrease in certificates of deposit	(16,360,869)	(20,671,696)	(121,226,188)
Net increase in securities sold under agreements to repurchase	2,021,269	135,397	3,923,754
Net increase (decrease) in federal funds purchased	(2,900,000)	7,500,000	—
Proceeds from Federal Home Loan Bank advances	20,500,000	66,500,000	10,000,000
Repayment of Federal Home Loan Bank advances	(34,500,000)	(49,500,000)	(18,850,000)
Proceeds from notes payable	—	1,219,863	10,097,881
Proceeds from trust preferred	10,310,000	—	—
Repayment of notes payable	(2,381,084)	(8,467,806)	(10,133,450)
Proceeds from stock options exercised	36,595	29,525	1,749
Dividends paid	(914,010)	—	—
Net cash used in financing activities	(31,128,814)	(20,433,456)	(92,805,411)
Increase (Decrease) in Cash and Cash Equivalents	2,033,073	(13,559,186)	(26,841,385)
Cash and Cash Equivalents, Beginning of Year	10,617,766	24,176,952	51,018,337
Cash and Cash Equivalents, End of Year	$ 12,650,839	$ 10,617,766	$ 24,176,952
Supplemental Cash Flows Information			
Interest paid	$ 8,989,474	$ 9,303,363	$ 14,596,442
Income taxes paid (net of refunds)	$ (1,021,302)	$ (717,666)	$ (1,602,512)
Note payable in lieu of cash as consideration in branch sale	$ —	$ —	$ 4,363,168
Common stock and payable issued for net assets in Acquisition	$ 11,826,130	$ —	$ —
Transfer of loans to foreclosed assets	$ 3,247,539	$ 888,063	$ 2,256,831

Rurban Financial Corp.

Notes to Consolidated Financial Statements
December 31, 2005 and 2004

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"), Exchange Bank ("Exchange"), RFCBC, Inc. ("RFCBC"), Rurbanc Data Services, Inc. ("RDSI"), Rurban Statutory Trust I ("RST I"), and Rurban Statutory Trust II ("RST II"). State Bank owns all of the outstanding stock of Reliance Financial Services, 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. RFCBC operates as a loan subsidiary that continues to administer classified loans that were not included in the sale of branches in 2003. RDSI provides data processing services to financial institutions located in Ohio, Michigan, Indiana, and Missouri. RFS offers a diversified array of trust and financial services to customers nationwide. RST I and RST II are trust's which were organized in 2000 and 2005, respectively, to manage the Company's trust preferred securities. Rurban Life, which used to provide credit life and disability insurance to customers, was liquidated in 2004.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, State Bank, Exchange, RFCBC, RDSI, 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.

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.

Allowance for Loan Losses

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

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

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

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

Premises and Equipment

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

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 seven 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.

Treasury Stock

Treasury stock is stated at cost. Cost is determined by the first-in, first-out method.

Stock Options

At December 31, 2005, the Company has a stock-based employee compensation plan, which is described more fully in Note 19. The Company accounts for this plan under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the grant date. The following table illustrates the effect on 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	2003
Net income, as reported	$ 673,091	$ 2,734,292	$ 12,305,232
Less: Total stock-based employee compensation cost determined under the fair value based method, net of income taxes	(655,615)	(196,730)	(63,108)
Pro forma net income	$ 17,476	$ 2,537,562	$ 12,242,124
Earnings per share:			
Basic – as reported	$ 0.15	$ 0.60	$ 2.71
Basic – pro forma	$ 0.00	$ 0.56	$ 2.69
Diluted – as reported	$ 0.15	$ 0.60	$ 2.70
Diluted – pro forma	$ 0.00	$ 0.56	$ 2.69

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.

Reclassifications

Certain reclassifications have been made to the 2004 and 2003 financial statements to conform to the 2005 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, 2005, was $1,774,000.

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, 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
December 31, 2004:				
U.S. Treasury and government agencies	$ 64,483,532	$ 2,848	$ (838,900)	$ 63,647,480
Mortgage-backed securities	40,703,975	64,949	(452,420)	40,316,504
State and political subdivision	4,691,938	97,459	(90,890)	4,698,507
Equity securities	8,000	—	—	8,000
Other securities	50,000	—	—	50,000
	$109,937,445	$ 165,256	$ (1,382,210)	$108,720,491

The amortized cost and fair value of securities available for sale at December 31, 2005, 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	$ 8,510,593	$ 8,510,562
One to five years	16,621,488	16,466,355
Five to ten years	66,773,830	65,606,804
After ten years	13,362,223	13,086,721
	105,268,134	103,670,442
Mortgage-backed securities and equity securities	36,594,077	35,682,887
Totals	$ 141,862,211	$ 139,353,329

The carrying value of securities pledged as collateral, to secure public deposits and for other purposes, was $80,968,923 at December 31, 2005, and $79,517,341 at December 31, 2004.

Gross gains of $34,050, $251,846 and $42,051 and gross losses of $8,750, $10,838 and $18,419 resulting from sales of available-for-sale securities were realized for 2005, 2004 and 2003, respectively. The tax expense for net security gains for 2005, 2004 and 2003 was $9,000, $82,000 and $8,000, 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, 2005, was $117,021,071, which is approximately 84% 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.

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)

Securities with unrealized losses at December 31, 2004 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	$56,657,342	$ (838,900)	$ —	$ —	$56,657,342	$ (838,900)
Mortgage-backed securities	22,520,674	(239,195)	11,950,258	(213,225)	34,470,932	(452,420)
State and political subdivisions	1,963,998	(90,890)	—	—	1,963,998	(90,890)
	$81,142,014	$(1,168,985)	$11,950,258	$ (213,225)	$93,092,272	$(1,382,210)

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31 include:

	2005	2004
Commercial	$ 79,359,126	$ 58,498,557
Commercial real estate	68,071,738	64,107,549
Agricultural	40,236,664	41,239,895
Residential real estate	89,086,024	63,828,237
Consumer	48,876,788	31,948,581
Leasing	1,661,126	5,127,639
Total loans	327,291,466	264,750,458
Less		
Net deferred loan fees, premiums and discounts	(243,237)	(269,669)
Loans, net of unearned income	$ 327,048,229	$ 264,480,789
Allowance for loan losses	$ (4,699,827)	$ (4,899,063)

Activity in the allowance for loan losses was as follows:

	2005	2004	2003
Balance, beginning of year	$ 4,899,063	$ 10,181,135	$ 17,693,841
Balance, Exchange Bank	910,004	—	—
Provision (credit) charged (credited) to expense	583,402	(399,483)	1,202,000
Recoveries	1,716,815	2,106,470	3,139,534
Losses charged off	(3,409,457)	(6,989,059)	(11,854,240)
Balance, end of year	$ 4,699,827	$ 4,899,063	$ 10,181,135

Individual loans determined to be impaired were as follows:

	2005	2004	2003
Year-end impaired loans with no allowance for loan losses allocated	$ 1,676,128	$ 975,000	$ 153,000
Year-end loans with allowance for loan losses allocated	4,460,129	10,411,000	19,685,000
Total impaired loans	$ 6,136,257	$ 11,386,000	$ 19,838,000
Amount of allowance allocated	$ 1,992,807	$ 1,265,000	$ 5,651,000
Average of impaired loans during the year	$ 10,036,150	$ 14,313,000	$ 18,633,000
Interest income recognized during impairment	$ 223,782	$ 433,242	$ 1,186,762
Cash-basis interest income recognized	$ 232,008	$ 455,872	$ 153,000

At December 31, 2005, 2004, and 2003 accruing loans delinquent 90 days or more totaled $5,200, $11,000, and $0, respectively. Non-accruing loans at December 31, 2005, 2004, and 2003 were $6,270,000, $13,384,000, and $18,352,000, respectively.

Note 5: Assets and Liabilities Held for Sale

On December 30, 2002, an agreement was signed to sell the branches of RFCBC which comprised the Citizens Savings Bank division. As of December 31, 2002, these branches had total loans of $63,536,309, total fixed assets (net of accumulated depreciation) of $909,205 and total deposits of $68,175,660. When this transaction was closed in March 2003, assets sold and liabilities transferred to the buyer included loans of approximately $57,200,000, fixed assets (net of accumulated depreciation) of approximately $869,000, and deposits of approximately $70,800,000. A net gain of $7,776,166 was recorded on this transaction.

On June 6, 2003 additional branches of RFCBC which comprised the Peoples Banking Company and First Bank of Ottawa divisions were sold. Assets sold and liabilities transferred to the buyer included loans of approximately $76,600,000, fixed assets (net of accumulated depreciation) of approximately $1,400,000 and deposits of approximately $166,200,000. A net gain of $12,124,779 was recorded on this transaction.

The Company does not maintain a separate statement of operations for each division.

Note 6: Premises and Equipment

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

	2005	2004
Land	$ 1,558,946	$ 684,825
Buildings and improvements	11,145,608	5,260,531
Equipment	11,367,868	8,599,360
	24,072,422	14,544,716
Less accumulated depreciation	(10,725,790)	(6,804,274)
Net premises and equipment	$ 13,346,632	$ 7,740,442

Note 7: Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2005, 2004 and 2003 were:

	2005	2004	2003
Balance as of January 1	$ 2,144,304	$ 2,144,304	$ 2,323,643
Goodwill acquired during the year-Lima	3,947,768	—	—
Goodwill acquired during the year-Exchange	2,825,301	—	—
Goodwill written off related to sales of branches	—	—	(179,339)
Balance as of December 31	$ 8,917,373	$ 2,144,304	$ 2,144,304

All goodwill is allocated to the banking segment of the business.

Note 8: Other Intangible Assets

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2005 and 2004, were:

	2005		2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Core deposits	$ 708,435	$ (385,643)	$ 708,435	$ (313,668)
Lima core deposits	752,574	(47,036)	-	-
Exchange core deposits	2,578,606	-	-	-
Purchased software	8,531,302	(4,614,389)	7,984,840	(3,420,366)
Other	200,627	(65,230)	200,627	(52,416)
	$ 12,771,544	$ (5,112,298)	$ 8,893,902	$ (3,786,450)

Amortization expense for core deposits and other for the years ended December 31, 2005, 2004 and 2003, was $131,825, $102,009 and $125,790, respectively. Amortization expense for purchased software for the years ended December 31, 2005, 2004 and 2003 was $1,234,279, $1,036,796 and $850,754, respectively. Purchased software was reclassified in 2004 to intangible assets. Estimated amortization expense for each of the following five years is:

	Core Deposits And Other	Purchased Software
2006	468,188	1,184,240
2007	456,806	985,017
2008	447,366	818,025
2009	439,773	542,949
2010	434,320	129,770

Note 9: Interest-Bearing Deposits

Interest-bearing deposits in denominations of $100,000 or more were $59,267,000 on December 31, 2005, and $44,713,000 on December 31, 2004. Certificates of deposit obtained from brokers totaled approximately $3,933,000 and $11,388,000 at December 31, 2005 and 2004, respectively.

At December 31, 2005, the scheduled maturities of time deposits were as follows:

2006	138,786,242
2007	52,788,505
2008	11,139,954
2009	3,133,428
2010	1,865,142
Thereafter	844,775
	$ 208,558,046

Of the $3.9 million in brokered deposits held at State Bank at December 31, 2005, $3.6 million mature within the next year.

Note 10: Short-Term Borrowings

	2005	2004
Federal funds purchased	$ 4,600,000	$ 7,500,000
Securities sold under repurchase agreements	6,080,420	4,059,151
Total short-term borrowings	$ 10,680,420	$ 11,559,151

Securities sold under agreements to repurchase consist of obligations of the Company to other parties and are used by the Company to facilitate cash management transactions with commercial customers. The obligations are secured by agency securities and such collateral is held by The Federal Home Loan Bank. The maximum amount of outstanding agreements at any month end during 2005 and 2004 totaled $6,600,000 and $5,014,000, respectively, and the monthly average of such agreements totaled $5,182,000 and $3,853,000, respectively. The agreements at December 31, 2005 and 2004, mature within one month.

At December 31, 2005, the Company had $20.9 million in federal funds lines, of which, $4.6 million was drawn on. At December 31, 2004, The Company had $18.0 in federal funds lines, of which, $7.5 million was drawn on.

Note 11: Notes Payable

Notes payable at December 31, include:

	2005	2004
Note payable in the amount of $9,000,000, secured by the common stock of RDSI and substantially all assets of RFCBC, principal payments of $300,000 quarterly together with interest at prime plus 2.5% (paid in 2005)	$ —	$ 2,000,000
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.	19,879	—
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	48,837	306,002
Note payable in the amount of $1,708,711, of which, 47.328% was sold to Farmers and Merchants 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	629,856	773,654
Revolving Demand Note payable in the amount of $250,000, unsecured and assumed from Exchange Bancshares, monthly payments of interest at prime plus 0%, maturing April 30, 2006 (paid off in January 2006)	240,000	—
	$ 938,572	$ 3,079,656

Aggregate annual maturities of notes payable at December 31, 2005, are:

	Debt
2006	451,681
2007	173,257
2008	175,577
2009	138,057
2010	—
	$ 938,572

Note 12: Federal Home Loan Bank Advances

The Federal Home Loan Bank advances were secured by mortgage loans and investment securities totaling $92,319,715 at December 31, 2005. Advances, at interest rates from 2.84 to 6.25 percent, are subject to restrictions or penalties in the event of prepayment.

Aggregate annual maturities of Federal Home Loan Bank advances at December 31, 2005, are:

	Debt
2006	16,500,000
2007	—
2008	5,000,000
2009	1,000,000
2010	4,000,000
Thereafter	19,000,000
	$ 45,500,000

Note 13: Trust Preferred Securities

On September 15, 2005, RST II, a wholly owned subsidiary of the Company, closed a pooled private offering of 10,000 Capital Securities with a liquidation amount of $1,000 per security. The proceeds of the offering were loaned to the Company in exchange for junior subordinated debentures with terms similar to the Capital Securities. The sole assets of RST II are the junior subordinated debentures of the Company and payments thereunder. The junior subordinated debentures and the back-up obligations, in the aggregate, constitute a full and unconditional guarantee by the Company of the obligations of RST II under the Capital Securities. Distributions on the Capital Securities are payable quarterly at the rate of 5.89% and are included in interest expense in the consolidated financial statements. The interest rate changes quarterly and is based on the 3-Month LIBOR. These securities are considered Tier 1 capital (with certain limitations applicable) under current regulatory guidelines. As of December 31, 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, 2004 and 2003, 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. The Company has the option to defer distributions on the junior subordinated debentures from time to time for a period not to exceed 10 consecutive semi-annual periods.

The Company elected to defer the semi-annual distributions that would have been due on March 7, 2003, September 7, 2003 and March 7, 2004. On September 3, 2004, the Company received permission from the Federal Reserve Bank and the Ohio Department of Financial Institutions to pay the previously accrued and deferred trust preferred interest on the Company's junior subordinated debentures to the Trustee, and the Company subsequently paid such accrued and deferred trust preferred interest on September 7, 2004 in the amount of $2.2 million.

Note 14: Income Taxes

The provision for income taxes includes these components:

	For The Year Ended December 31,		
	2005	2004	2003
Taxes currently payable (refundable)	$ (302,984)	$ (2,235,862)	$ 3,220,142
Deferred income taxes	384,337	3,344,719	3,083,200
Income tax expense	$ 81,353	$ 1,108,857	$ 6,303,342

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,		
	2005	2004	2003
Computed at the statutory rate (34%)	$ 256,511	$ 1,306,670	$ 6,326,915
Increase (decrease) resulting from			
Tax exempt interest	(103,015)	(72,091)	(78,962)
Nondeductible expenses and other	(72,143)	(125,722)	55,389
Actual tax expense	$ 81,353	$ 1,108,857	$ 6,303,342

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

	At December 31, 2005	At December 31, 2004
Deferred tax assets		
Allowance for loan losses	$ 1,438,141	$ 1,313,891
Accrued compensation and benefits	363,428	388,745
Net deferred loan fees	91,756	91,688
Unrealized losses on available-for-sale securities	852,695	413,756
Purchase accounting adjustments	212,434	-
NOL carry over	531,704	-
Other	67,647	29,971
	3,557,805	2,238,051
Deferred tax liabilities		
Depreciation	(1,677,950)	(1,742,905)
Mortgage servicing rights	(51,222)	(51,222)
Mark to market adjustment	(852,695)	(413,756)
Purchase accounting adjustments	(1,553,898)	(97,190)
Prepaids	(147,841)	(192,113)
FHLB stock dividends	(362,576)	(263,976)
Other	(51,624)	-
	(4,697,806)	(2,761,162)
Net deferred tax liability	$ (1,140,001)	$ (523,111)

The NOL carry over begins to expire in 2004.

Note 15: Other Comprehensive Loss

Other comprehensive loss components and related taxes are as follows:

	For The Year Ended December 31, 2005	2004	2003
Unrealized gains (losses) on securities available for sale	$ (1,266,627)	$ (1,280,615)	$ (679,139)
Reclassification for realized amount included in income	(25,300)	(241,008)	(23,632)
Other comprehensive income (loss), before tax effect	(1,291,927)	(1,521,623)	(702,771)
Tax benefit	(439,254)	(517,352)	(238,942)
Other comprehensive loss	$ (852,673)	$ (1,004,271)	$ (463,829)

Note 16: 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, 2005, that the Company, State Bank and Exchange Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2005, 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 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, 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
As of December 31, 2004						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 61.9	22.0%	$ 22.5	8.0%	$ —	N/A
State Bank	39.4	15.3	20.7	8.0	25.8	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	58.4	20.7	11.3	4.0	—	N/A
State Bank	36.3	14.0	10.3	4.0	15.5	6.0
Tier I Capital (to Average Assets)						
Consolidated	58.4	14.2	16.5	4.0	—	N/A
State Bank	36.3	9.3	15.6	4.0	19.5	5.0

On July 9, 2002, the Company and State Bank announced they entered into a Written Agreement (Agreement) with the Federal Reserve Bank of Cleveland and the Ohio Division of Financial Institutions on July 5, 2002. The Agreement was the result of an examination of State Bank as of December 31, 2001, which was conducted in March and April 2002.

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

The Company is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2005, approximately $14.8 million of retained earnings were available for dividend declaration without regulatory approval.

Note 17: Related Party Transactions

Certain directors, executive officers and principal shareholders of the Company, including associates of such persons, are loan customers. A summary of the related party loan activity, for loans aggregating $60,000 or more to any one related party, follows for the years ended December 31, 2005 and 2004:

	2005	2004
Balance, January 1	$ 3,959,000	$ 2,065,000
New loans	5,915,000	7,277,000
Repayments	(5,206,000)	(7,205,000)
Other changes	(2,274,000)	1,822,000
Balance, December 31	$ 2,394,000	$ 3,959,000

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 by the State Bank at December 31, 2005 and 2004 totaled $1,076,000 and $1,539,000, respectively.

Note 18: Employee Benefits

The Company has retirement savings 401(k) plans covering substantially all employees. Employees contributing up to 6% of their compensation receive a Company match of 50% of the employee's contribution. Employee contributions are vested immediately and the Company's matching contributions are fully vested after three years. Employer contributions charged to expense for 2005, 2004 and 2003 were $257,600, $238,000 and $258,000, respectively.

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 $240,000, $319,000 and $145,000 for 2005, 2004 and 2003, respectively. In 2005, previously accrued benefits under the agreements in the amount of $346,000 were reversed and credited to expense as a result of termination 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 $1,919,253 at December 31, 2005 and $1,861,391 less policy loans of $1,014,523 at December 31, 2004. The policy loans of $1,014,523 were paid off in November 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 $8,524,234 at December 31, 2005 and $8,299,948 at December 31, 2004.

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, 2005, 2004 and 2003, were 556,607, 580,740 and 664,086, respectively. All shares were allocated in 2005 and 2004. In 2003, the Company had unearned shares of 16,308 with a fair value of $225,866.

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, 2005, 2004 and 2003 was $445,000, $430,000 and $440,000, respectively.

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Note 19: Stock Option Plan

The Company maintains the Rurban Financial Corp. Stock Option Plan under which the Company may grant options that vest over five years to selected employees for up to 441,000 shares of common stock. The exercise price of each option is equal the fair value of the Company's stock on the date of grant. An option's maximum term is ten years.

A summary of the status of the plan at December 31, 2005, 2004 and 2003, and changes during the years then ended is presented below:

	2005		2004		2003	
	Shares Subject to Outstanding Awards	Weighted-Average Exercise Price	Shares Subject to Outstanding Awards	Weighted-Average Exercise Price	Shares Subject to Outstanding Awards	Weighted-Average Exercise Price
Outstanding beginning of year	339,227	$13.46	183,584	$13.07	241,289	$13.02
Granted	54,000	13.48	177,000	13.85	--	
Exercised	(2,929)	12.49	(2,509)	11.77	(158)	11.07
Forfeited	(32,411)	13.81	(18,848)	13.52	(57,547)	12.89
Outstanding, end of year	357,886	13.44	339,227	13.46	183,584	13.07
Options exercisable, end of year	337,886	13.50	192,140	13.29	168,901	13.17

The fair value of options granted is estimated on the date of the grant using an option-pricing model with the following weighted-average assumptions:

	2005 (1)	2004
Dividend yields	0.00% - 1.53%	0.00%
Volatility factors of expected market price of common stock	23.74% -27.73%	24.52%
Risk-free interest rates	4.46% - 4.52%	1.24%
Expected life of options	10 years	10 years
Weighted-average fair value of options granted during the year	$4.03 – $6.97	$ 4.79

(1) There were two grants in 2005; March 16, 2005 and December 21, 2005.

The following table summarizes information about stock options under the plan outstanding at December 31, 2005:

Options Outstanding					Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price		Number Exercisable	Weighted-Average Exercise Price	
$9.90 to $12.87	142,822	3.68 years	$	12.24	127,822	$	12.30
$13.30 to $14.15	189,024	8.26 years	$	13.88	184,024	$	13.88
$15.20 to $16.78	26,040	3.03 years	$	16.76	26,040	$	16.76

Note 20: Earnings Per Share

Earnings per share (EPS) is computed as follows:

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

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

	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.

	Year Ended December 31, 2003		
	Income	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Net income available to common shareholders	$ 12,305,232	4,545,320	$ 2.71
Effect of dilutive securities			
Stock options	—	6,829	
Diluted earnings per share			
Income available to common shareholders and assumed conversions	$ 12,305,232	4,552,149	$ 2.70

Options to purchase 29,778 common shares at $15.20 to $16.78 per share were outstanding at December 31, 2003, 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.

Note 21: Leases

The Company's subsidiary, RDSI, has 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 $249,504, $126,600 and $99,600 for the years ended December 31, 2005, 2004 and 2003, respectively.

Future minimum lease payments under operating leases are:

2006	$ 261,600
2007	261,600
2008	261,600
2009	261,600
2010	261,600
Thereafter	732,696
Total minimum lease payments	$ 2,040,696

Note 22: 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, 2005		December 31, 2004	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Cash and cash equivalents	$ 12,650,839	$ 12,651,000	$ 10,617,766	$ 10,618,000
Interest-bearing deposits	150,000	150,000	150,000	150,000
Available-for-sale securities	139,353,329	139,353,000	108,720,491	108,720,000
Loans including loans held for sale, net	322,572,403	320,313,000	259,694,626	259,181,000
Stock in FRB and FHLB	3,607,500	3,608,000	2,793,000	2,793,000
Accrued interest receivable	3,010,355	3,010,000	1,984,452	1,984,000
Financial liabilities				
Deposits	$384,837,912	$ 383,785,000	$279,624,314	$ 277,854,000
Securities sold under agreements to repurchase	6,080,420	6,080,000	4,059,151	4,059,000
Federal funds purchased	4,600,000	4,600,000	7,500,000	7,500,000
Note payable	938,572	939,000	3,079,656	3,080,000
FHLB advances	45,500,000	46,046,000	56,000,000	58,231,000
Trust preferred securities	20,620,000	20,537,000	10,310,000	11,298,000
Accrued interest payable	1,373,044	1,373,000	994,114	994,000

For purposes of the above disclosures of estimated fair value, the following assumptions were used as of December 31, 2005 and 2004. The estimated fair value for cash and cash equivalents, interest-bearing deposits, FRB and FHLB stock, accrued interest receivable, demand deposits, savings accounts, interest checking accounts, certain money market deposits, short-term borrowings and interest payable is considered to approximate cost. The estimated fair value for securities is based on quoted market values for the individual securities or for equivalent securities. The estimated fair value for loans receivable, including loans held for sale, net, is based on estimates of the rate State Bank would charge for similar loans at December 31, 2005 and 2004 applied for the time period until the loans are assumed to reprice or be paid. The estimated fair value for fixed-maturity time deposits as well as borrowings is based on estimates of the rate State Bank would pay on such liabilities at December 31, 2005 and 2004, 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, 2005 and 2004 and are not considered significant to this presentation.

Note 23: Commitments and Credit Risk

State Bank and Exchange grants 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 13% and 16% of the portfolio as of December 31, 2005 and 2004, 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.

	2005	2004
Loan commitments and unused lines of credit	$ 69,584,000	$ 49,242,000
Standby letters of credit	—	—
Commercial letters of credit	657,000	392,000
	$ 70,241,000	$ 49,634,000

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

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.

The Company's loan workout subsidiary, RFCBC, sold approximately $8.4 million of troubled loans in December 2005. These loans were sold with recourse expiring 60 days after the closing date or February 10, 2006.

Note 24: Future Change in Accounting Principle

The Financial Accounting Standards Board recently issued Statement No. 123(R) "*Share-Based Payment*," which requires the compensation cost relating to share-based payment transactions be recognized in financial statements. The Company expects to first apply the new statement during its first quarter ending in 2006. The Company has determined to use the modified prospective method and no material impact is expected.

Note 25: Condensed Financial Information (Parent Company Only)

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

Condensed Balance Sheets

	2005	2004
Assets		
Cash and cash equivalents	$ 15,590,954	$ 326,775
Investment in common stock of banking subsidiaries	58,870,748	53,846,585
Investment in nonbanking subsidiaries	6,277,462	5,776,392
Other assets	2,529,825	1,500,072
Total assets	$ 83,268,989	$ 61,449,824
Liabilities		
Trust preferred securities	$ 20,000,000	$ 10,000,000
Notes payable	240,000	—
Borrowings from nonbanking subsidiaries	620,000	310,000
Other liabilities	7,958,341	834,029
Total liabilities	28,818,341	11,144,029
Stockholders' Equity	54,450,648	50,305,795
Total liabilities and stockholders' equity	$ 83,268,989	$ 61,449,824

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Condensed Statements of Income

	2005	2004	2003
Income			
Interest income	$ 2,126	$ 1,875	$ 2,014
Dividends from subsidiaries			
Banking subsidiaries	7,153,134	2,185,720	5,169,456
Nonbanking subsidiaries	1,513,000	995,043	1,150,000
Total	8,666,134	3,180,763	6,319,456
Other income	1,091,721	1,128,316	2,496,981
Total income	9,759,981	4,310,954	8,818,451
Expenses			
Interest expense	1,364,168	1,155,729	1,263,741
Other expenses	2,514,712	2,206,457	3,176,605
Total expenses	3,878,880	3,362,186	4,440,346
Income Before Income Tax and Equity in Undistributed Income of Subsidiaries	5,881,101	948,768	4,378,105
Income Tax Benefit	(946,911)	(757,526)	(660,060)
Income Before Equity in Undistributed Income of Subsidiaries	6,828,012	1,706,294	5,038,165
Equity in Undistributed (Excess Distributed) Income of Subsidiaries			
Banking subsidiaries	(6,383,468)	131,679	6,901,065
Nonbanking subsidiaries	228,547	896,319	366,002
Total	(6,154,921)	1,027,998	7,267,067
Net Income	$ 673,091	$ 2,734,292	$ 12,305,232

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Condensed Statements of Cash Flows

	2005	2004	2003
Operating Activities			
Net income	$ 673,091	$ 2,734,292	$ 12,305,232
Items not requiring (providing) cash			
Equity in (undistributed) excess distributed net income of subsidiaries	6,192,398	(1,027,998)	(7,267,067)
Other assets	(15,230)	(1,059,391)	220,878
Other liabilities	629,444	(1,049,450)	1,283,113
Net cash provided by (used in) operating activities	7,479,703	(402,547)	6,542,156
Investing Activities			
Investment in RST II	(310,000)	—	—
Repayment of note payable	—	—	(6,000,000)
Repayment of policy loan	(1,014,523)		
Proceeds from liabilities assumed in business acquisition	3,029	—	—
Net cash provided by (used in) investing activities	(1,321,494)	—	(6,000,000)
Financing Activities			
Cash dividends paid	(914,010)	—	—
Payment of registration costs and other acquisition costs	(326,615)	—	—
Proceeds from subordinated debenture	10,310,000	—	—
Proceeds from exercise of stock options	36,595	29,525	1,749
Net cash provided by (used in) financing activities	9,105,970	29,525	1,749
Net Change in Cash and Cash Equivalents	15,264,179	(373,022)	543,905
Cash and Cash Equivalents at Beginning of Year	326,775	699,797	155,892
Cash and Cash Equivalents at End of Year	$ 15,590,954	$ 326,775	$ 699,797
Supplemental cash flow information:			
Common stock and payable issued for net assets in acquisition	$ 11,826,130		

Note 26: 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. 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.

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	11,841,765	3,207,051	17,471,460	—	17,471,460
Other revenue-other segments	—	1,354,001	1,739,287	3,093,288	(3,093,288)	—
Net interest income and other revenue	16,029,680	12,961,025	3,627,627	32,618,332	(3,093,288)	29,525,044
Noninterest expense	16,319,085	10,297,698	4,663,703	31,280,486	(3,093,288)	28,187,198
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)	$ 13,427,694	$ (217,829)	$(1,120,559)	$ 12,089,306	$ (11,940)	$ 12,077,366
Other revenue-external customers	3,169,122	10,478,245	3,031,324	16,678,691	11,940	16,690,631
Other revenue-other segments	—	1,314,942	1,995,973	3,310,915	(3,310,915)	—
Net interest income and other revenue	16,596,816	11,575,358	3,906,738	32,078,912	(3,310,915)	28,767,997
Noninterest expense	15,258,307	8,965,124	4,441,815	28,635,246	(3,310,915)	25,324,331
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	1,742,705	1,921,737	(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

2003	Banking	Data Processing	Other	Total Segments	Intersegment Elimination	Consolidated Totals
Income Statement Information:						
Net interest income (expense)	$ 15,293,092	$ (286,906)	$(1,204,633)	$ 13,801,553	$ —	$ 13,801,553
Other revenue-external customers	23,047,951	8,971,632	2,667,773	34,687,356	—	34,687,356
Other revenue-other segments	—	1,580,426	3,249,904	4,830,330	(4,830,330)	—
Net interest income and other revenue	38,341,043	10,265,152	4,713,044	53,319,239	(4,830,330)	48,488,909
Noninterest expense	20,308,343	7,986,031	5,214,291	33,508,665	(4,830,330)	28,678,335
Significant noncash items:						
Depreciation and amortization	585,735	1,592,380	132,007	2,310,122	—	2,310,122
Provision for loan losses	1,202,000	—	—	1,202,000	—	1,202,000
Income tax expense	5,968,819	774,902	(440,379)	6,303,342	—	6,303,342
Segment profit	11,655,187	1,504,220	(854,175)	12,305,232	—	12,305,232
Balance sheet information:						
Total assets	435,203,288	8,434,735	3,577,550	447,215,573	(11,903,701)	435,311,872
Goodwill and intangibles	2,789,291	—	—	2,789,291	—	2,789,291
Premises and equipment expenditures	529,051	2,252,992	69,865	2,851,908	—	2,851,908

NOTE 27: Quarterly Financial Information (Unaudited)

The following tables summarize selected quarterly results of operations for 2005 and 2004.

December 31, 2005	March	June	September	December
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	0	352,000	(382,000)	613,402
Noninterest income	4,410,525	4,418,686	4,385,971	4,256,279
Noninterest expense	6,519,900	7,244,940	7,010,438	7,411,919
Income tax expense	249,070	(137,232)	247,824	(278,308)
Net income	638,465	(113,702)	492,184	(343,854)
Earnings per share				
Basic	0.14	(0.02)	0.11	(0.08)
Diluted	0.14	(0.02)	0.11	(0.08)
Dividends per share	.05	.05	.05	.05

December 31, 2004	March	June	September	December
Interest income	$ 5,113,877	$ 4,849,118	$ 5,063,851	$ 5,000,994
Interest expense	2,129,697	1,939,239	1,909,352	1,972,186
Net interest income	2,984,180	2,909,879	3,154,499	3,028,808
Provision for loan losses	150,000	(340,000)	319,517	(529,000)
Noninterest income	4,335,014	4,082,884	4,080,007	4,192,724
Noninterest expense	6,289,199	6,564,712	5,910,528	6,559,892
Income tax expense	267,973	59,008	305,819	476,055
Net income	612,022	709,043	698,642	714,585
Earnings per share				
Basic	0.13	0.16	0.15	0.16
Diluted	0.13	0.16	0.15	0.16
Dividends per share	—	—	—	—

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.

During the second and fourth quarters of 2004 a reduction to the provisions for loan losses were recorded as a result from the continued improvement in credit quality.

NOTE 28: BUSINESS ACQUISITIONS

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 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.

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.

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	2003
Net interest income	$ 15,424	$ 15,572	$ 17,660
Net income	$ (1,286)	$ 1,933	$ 12,240
Per share – combined:			
Basic net income	$ (0.26)	$ 0.39	$ 2.45
Diluted net income	$ (0.26)	$ 0.38	$ 2.44

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 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, 2005.

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, 2005. 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

On April 14, 2005, the Securities and Exchange Commission ("SEC") announced the adoption of a new rule that delays the dates for compliance with Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS No. 123R). SFAS No. 123R was previously scheduled to become mandatory for public entities, such as the Company, that do not file as small business issuers as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The SEC's new rule allows these public entities to implement SFAS No. 123R at the beginning of the next fiscal year that begins after June 15, 2005. SFAS No. 123R prohibits companies from using APB 25 for the accounting of stock options and requires that grants of stock options be charged to expense. The Company will adopt SFAS No. 123R effective the first quarter of 2006.

SFAS No. 123R permits public companies to adopt its requirements using one of two methods. The "modified prospective" method recognizes compensation expense beginning with the effective date for all stock options granted after the effective date and for all stock options that become vested after the effective date. The "modified retrospective" method includes the requirements of the "modified prospective" method described above, but also permits entities to restate prior period results based on the amounts previously recognized under SFAS No. 123 for purpose of pro forma disclosures. The Company has determined to use the modified prospective method and no material impact is expected.

Acquisitions

Lima Branches

On June 17, 2005, the Company acquired certain assets and certain liabilities of two branches in Lima, Ohio. The Company paid a net premium of approximately $4.7 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 deposit intangible	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 assumed	60,491,687
Net liabilities assumed	$ (48,636,044)

The difference between book value of assets acquired and liabilities assumed from the Lima branch acquisition 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 deductible for tax purposes.

Exchange Bancshares, Inc.

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, 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 was approximately $6.5 million or $22.00 per share based on 50% of the shares outstanding of Exchange as of December 31, 2005. Exchange had 586,644 shares outstanding as of December 31, 2005. The 456,116 shares of Company stock issued 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.

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 deposit intangible	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 purchased 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.

EARNINGS SUMMARY

Net income for 2005 was $673,000, or $0.15 per diluted share, compared with net income of $2.7 million or $0.60 per diluted share and net income of $12.3 million or $2.70 per diluted share, reported for 2004 and 2003, respectively. Cash dividends per share were $0.20 in 2005. No cash dividends were paid in 2004 or 2003.

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 our 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. Net income in 2003 was primarily a result of the gains associated with the sale of selected branches undertaken in order to replenish capital levels and to rebuild the Company.

CHANGES IN FINANCIAL CONDITION

At December 31, 2005, total assets were $530.5 million, an increase of $115.2 million from December 31, 2004. The increase was primarily attributable to the acquisition of two branches in Lima, Ohio on June 17, 2005 and the acquisition of Exchange Bancshares on December 31, 2005. The impact of these acquisitions on the balance sheet is discussed in more detail in Note 28 of the Notes to the Company’s Consolidated Financial Statements for the year ended December 31, 2005. The year-to-year increase was minimally impacted by a decrease of $2.1 million in notes payable as a result of RFCBC paying off a $2.0 million note.

Significant Events of 2005

2005

In addition to the discussion which follows of the results of operations which affected the income statement and balance sheet, several other significant events occurred during 2005 and 2004.

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.

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 June 17, 2005.

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.

RESULTS OF OPERATIONS

	Year Ended December 31, 2005	2004	% Change	Year Ended December 31, 2004	2003	% Change
	(dollars in thousands except per share data)					
Total Assets	$530,542	$415,349	+28%	$415,349	$435,312	-5%
Total Securities	$139,353	$108,720	+28%	$108,720	$107,699	1%
Loans Held for Sale	224	113	N/A	113	219	N/A
Loans (Net)	322,348	259,582	+24%	259,582	273,923	-5%
Allowance for Loan Losses	4,700	4,899	-4%	4,899	10,181	-52%
Total Deposits	384,838	279,624	+38%	279,624	317,475	-12%
Total Revenues (Net)	29,525	28,768	+3%	28,768	48,489	-41%
Net Interest Income	12,054	12,077	-	12,077	13,802	-12%
Loan Loss Provision (credit)	583	(399)	N/A	(399)	1,202	+133%
Noninterest Income	17,471	16,691	+5%	16,691	34,687	-52%
Non-interest Expense	28,187	25,324	+11%	25,324	28,678	-12%
Net Income	673	2,734	N/A	2,734	12,305	N/A
Basic Earnings per Share	$0.15	$0.60	N/A	$0.60	$2.71	N/A
Diluted Earnings per Share	$0.15	$0.60	N/A	$0.60	$2.70	N/A

Net Interest Income

	Year Ended December 31, 2005	2004	% Change	Year Ended December 31, 2004	2003	% Change
	(dollars in thousands)					
Net Interest Income	$12,054	$12,077	-	$12,077	$13,802	-12%

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.

Net interest income declined $1.7 million from $13.8 million in 2003 to $12.1 million in 2004. The net interest margin for 2004 was 3.19% compared to 2.72% for the previous year. The 47 basis point increase in the net interest margin for 2004 was largely due to a 65 basis point decrease in the cost of funds partially offset by a decrease in the yield on earning assets of 18 basis points. The major reason for the reduction in net interest income was due to a reduced level of earning assets combined with declines in average loan balances due to the Company's exit from out of market loans. Contributing to the decrease in the cost of funds were the results of the Company's disciplined approach to pricing decisions on deposits and a repositioning of the balance sheet to benefit from an increasing interest rate environment.

Loan Loss Provision

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.

The provision for loan losses was $(399,000) in 2004 compared to $1.2 million in 2003. The allowance for loan losses at December 31, 2004 was 1.85% of loans compared to 3.58% at December 31, 2003. The decrease in the provision was the result of the continued review and determination of the level of reserves necessary to absorb probable losses in the loan portfolio. Non-performing loans decreased to $14.4 million at December 31, 2004 versus $18.4 million at December 31, 2003. Further evidencing the loan quality, and therefore the lower loan loss provision in 2004, was the significant reduction in classified assets of the Company. Classified assets which are defined as substandard and doubtful loans, decreased 50% from December 31, 2003 and totaled $30.5 million at December 31, 2004.

Non-interest Income

	Year Ended December 31,			Year Ended December 31,		
	2005	2004	% Change	2004	2003	% Change
	(dollars in thousands)					
Total Non-interest Income	$ 17,471	$ 16,691	+5%	$ 16,691	$ 34,687	-52%
- Data Service Fees	$ 11,842	$ 10,478	+13%	$ 10,478	$ 8,972	+17%
- Trust Fees	$ 3,133	$ 3,042	+3%	$ 3,042	$ 2,602	+17%
- Deposit Service Fees	$ 1,860	$ 1,985	-6%	$ 1,985	$ 2,179	-9%
- Gains on Sale of Loans	$ (437)	$ 41	N/A	$ 41	$ 416	-90%
- Gains on Sale of Branches	$ -	$ -	N/A	$ -	$ 19,901	N/A
- Gains (losses) on Sale of Securities	$ 25	$ 241	N/A	$ 241	$ 24	N/A
- Other	$ 1,048	$ 904	+16%	$ 904	$ 593	+52%

Total non-interest income increased $780,000 to $17.5 million in 2005 from $16.7 million in 2004. The increase is primarily driven by data servicing fees increasing $1.4 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 $91,000 or 3% to $3.1 million in 2005 from $3.0 million in 2004. The primary reason for this 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.

Total non-interest income decreased $18.0 million to $16.7 million in 2004 from $34.7 million in 2003. The decrease was primarily the result of recording approximately $20.0 million in net pre-tax gains from the branch sales in 2003. Data service fees increased $1.5 million or 17% to $10.5 million in 2004 compared to $9.0 million in 2003 as a result of RDSI's continued expansion of its customer base. Trust fees at Reliance increased $440,000 or 17% to $3.0 million in 2004 compared to $2.6 million in 2003 through development of innovative wealth management products and customer sales efforts.

Rurbanc Data Services, Inc. ("RDSI")

	Year Ended December 31,			Year Ended December 31,		
	2005	2004	% Change	2004	2003	% Change
	(Dollars in thousands)					
Data Service Fees	$ 11,842	$ 10,478	+13%	$ 10,478	$ 8,972	+17%

Data service fees increased $1.4 million or 13% to $11.8 million in 2005 from $10.5 million in 2004 and $1.5 million or 17% from 2003 to 2004. The increases in 2005 and 2004 were mainly driven by RDSI's entry into the item processing market, additions of new bank clients and the result of customer account growth at client banks.

RDSI provides data processing services for 60 community banks in Ohio, Michigan, Indiana and Missouri. RDSI differentiates itself from its competition through the quality of its products and the excellence of its 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 hour 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.

RDSI's growth comes from both new and existing clients. Equally important is the organic growth of existing client banks, both in their number of customer accounts and in the breadth of services provided. Network services, internet banking, imaging, and other technical services are a rapidly growing part of RDSI's revenue.

Non-interest Expense

	Year Ended December 31,			Year Ended December 31,		
	2005	2004	% Change	2004	2003	% Change
	(dollars in thousands)					
Total Non-interest Expense	$28,187	$25,324	+11%	$25,324	$28,678	-12%
- Salaries & Employee Benefits	$13,519	$12,993	+4%	$12,993	$13,428	-3%
- Professional Fees	$2,730	$2,253	+21%	$2,253	$4,172	-46%
- All Other	$11,938	$10,078	+18%	$10,078	$11,078	-9%

Non-interest expense for 2005 was $28.2 million, up $2.9 million or 11% from $25.3 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 the current-year period 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.

Non-interest expense for 2004 was $25.3 million, down $3.4 million or 12% from $28.7 million for 2003. Professional fees decreased $1.9 million due to a decreased level of consulting, legal and auditing fees associated with the Company's problem loan workouts. 2003 also included an operating expenses associated with branches that were sold during 2003.

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							
	12/31/05	% of Total	12/31/04	% of Total	% Inc/(Dec)	12/31/03	% of Total	% Inc/(Dec)
	(dollars in thousands)							
Commercial	$79,359	24%	$58,499	22%	36%	$89,471	31%	(35)%
Commercial r.e.	68,072	21%	64,107	24%	6%	62,340	22%	3%
Agricultural	40,236	12%	41,240	16%	(2)%	36,722	13%	12%
Residential	89,086	27%	63,828	24%	40%	46,718	16%	37%
Consumer	48,877	15%	31,949	12%	53%	37,310	13%	(14)%
Leases	1,661	1%	5,127	2%	(68)%	11,774	5%	(56)%
Loans	$327,291		$264,750		24%	$284,335		(7)%
Loans held for sale	224		113			219		
Total	$327,515		$264,863			$284,554		

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, has set the stage for growth in 2006.

In 2004, loans declined $20 million to $265 million due to restructuring the loan portfolio for quality and actively pursuing a strategy to build on the Company's long held expertise in agricultural lending and lending to small and mid-sized businesses in our market area.

Asset Quality

	Period Ended December 31, (dollars in millions)				
	12/31/05	12/31/04	Change in Dollars/ Percentages	12/31/03	Change in Dollars/ percentages
Non-performing loans	$ 6.3	$ 14.4	$ -8.1	$ 18.4	$ -4.0
Non-performing assets	$ 8.9	$ 15.4	$ -6.5	$ 19.9	$ -4.5
Non-performing assets/loans plus OREO	2.70%	5.80%	-3.10%	6.96%	-1.16%
Non-performing assets/total assets	1.67%	3.71%	-2.04%	4.57%	-0.86%
Net chargeoffs	$ 1.7	$ 4.9	$ -3.2	$ 8.7	$ -3.8
Net chargeoffs/total loans	0.52%	1.81%	-1.29%	3.06%	-1.25%
Loan loss provision (credit)	$ .6	$ (.4)	$ +1.0	$ 1.2	$ -1.6
Allowance for loan losses	$ 4.7	$ 4.9	$ -0.2	$ 10.2	$ -5.3
Allowance/loans	1.44%	1.85%	-0.41%	3.58%	-1.73%
Allowance/non-performing loans	75%	34%	+41%	55%	-21%
Allowance/non-performing assets	53%	32%	+21%	51%	-19%

Asset quality statistics reflect a decrease in both nonperforming assets and chargeoffs during 2005 compared to 2004 and a decrease from 2004 compared to 2003. Non-performing assets at December 31, 2005 were $8.9 million or 1.67% of total assets, versus $15.4 million or 3.71% at December 31, 2004 and $19.9 million or 4.57% at year-end 2003. Annual net chargeoffs for 2005 were $1.7 million or 0.52% of total loans compared to $4.9 million or 1.81% for 2004. Management believes that the above ratios will be in line with the Company's peers within the next 12 to 16 months.

Allowance for Loan Losses

The Company grades its loans using an eight grade system. Problem loans are classified as either:

- Grade 5 – Special Mention: Potential weaknesses that deserve management's close attention
- Grade 6 – Substandard: Inadequately protected, with well-defined weakness that jeopardize liquidation of debt
- Grade 7 – Doubtful: Inherent weaknesses well-defined and high probability of loss (impaired)
- Grade 8 – Loss: Considered uncollectible. May have recovery or salvage value with future collection efforts (these loans are either fully reserved or charged off)

The Company's **allowance for loan losses** has four components. Those components are shown in the following table. Commercial, commercial real estate and agricultural loans of over $100,000 are individually reviewed and assessed regarding the need for an individual allocation.

	12/31/05			12/31/04			Increase (Decrease)		
	Loan Balance	Allocation $	Allocation %	Loan Balance	Allocation $	Allocation %	Loan Balance	Allocation $	Allocation %
Allocations for individual loans graded doubtful (impaired)	$ 6.1	$ 2.0	32.79%	$ 11.4	$ 1.3	11.40%	$ -5.3	$0.7	21.39%
Allocations for individual loans graded substandard	7.7	0.5	6.49	15.5	1.0	6.45	-7.8	-0.5	0.04
Allocations for individual loans graded special mention*	12.2	0.4	3.28	13.6	0.4	2.94	-1.4	-	0.34
"General" allowance based on chargeoff history of nine categories of loans	301.5	1.8	0.60	224.4	2.2	0.98	77.1	-0.4	-0.38
TOTAL	$327.5	$4.7	1.44%	$264.9	$4.9	1.85%	$ 62.6	$-0.2	-0.41%

* The Company changed its methodology during 2003. Special Mention loans are allocated at 3%.

In 2005, the amount of loans classified as doubtful decreased $5.3 million to $6.1 million and substandard loans decreased $7.8 million to $7.7 million. Allowance allocations on doubtful loans increased $0.7 million and allowance allocations on substandard loans decreased $0.5 million. The allowance for loan losses at December 31, 2005 was $4.7 million or 1.44% of loans compared to $4.9 million or 1.85% at December 31, 2004.

The Company's workout efforts continue to be successful as is apparent in the reduction of problem loan balances in 2005. The amount of substandard loans has declined by 50% from $15.5 million in 2004 to $7.7 in 2005 million reflective of the results of the Company's workout efforts. In the fourth quarter of 2005, RFCBC sold $8.4 million in problem loans significantly improving asset quality.

Management's estimate of the allowance for loan losses includes judgments related to the following factors:

- Borrower financial information received;
- Physical inspections of collateral securing loans performed, new appraisals of collateral securing loans received, and other information regarding borrower collateral levels; and
- Consideration of exposures to industries potentially most affected by current risks in the economic and political environment.

CAPITAL RESOURCES

Stockholders' equity at December 31, 2005 was $54.5 million or 12.56% of average total assets compared to $50.3 million or 12.04% of average total assets at December 31, 2004. The Company, State Bank, and Exchange Bank each exceeded the "well-capitalized" regulatory capital benchmarks at December 31, 2005.

Total consolidated regulatory (risk-based) capital was $67.8 million at December 31, 2005 and $61.9 million at December 31, 2004. As of December 31, 2005, $17.1 million of the $20 million of trust preferred securities qualified as tier 1 capital.

Planned Purchases of Premises and Equipment

Management plans to purchase additional premises and equipment to meet the current and future needs of the Company's customers. These purchases, including buildings and improvements and furniture and equipment (which includes computer hardware, software, office furniture and license agreements), are currently expected to total approximately $4.6 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 $152.4 million at December 31, 2005 compared to $119.6 million at December 31, 2004. The acquisition of the Lima branches provided additional liquidity as the company assumed $60 million in deposits and $5.9 million in loans. The Company views this level of liquidity as appropriate.

The Company's residential first mortgage portfolio of $89.1 million at December 31, 2005 and $63.8 million at December 31, 2004, 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, 2005, 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 2005, 2004 and 2003 follows.

The Company experienced positive cash flows from operating activities in 2005, 2004 and 2003. Net cash from operating activities was $4.2 million, $5.7 million and $5.6 million for the years ended December 31, 2005, 2004 and 2003, respectively.

Net cash flow from investing activities was $28.9 million, $1.2 million and $60.4 million for the years ended December 31, 2005, 2004 and 2003, respectively. The changes in net cash from investing activities for 2005 include the proceeds received for the Lima branch and Exchange acquisitions. The changes in net cash from investing activities for 2004 include a reduction in loan growth. The changes in net cash from investing activities for 2003 include a reduction in loan growth and cash payments for the net liabilities from the branch sales. In 2005, 2004 and 2003, the Company received $5.2 million, $23.1 million and $17.6 million, respectively, from sales of securities available for sale, while proceeds from repayments, maturities and calls of securities were $17.1 million, $62.5 million and $121.6 million in 2005, 2004 and 2003, respectively.

Net cash flow from financing activities was $(31.1) million, $(20.4) million, and $(92.8) million for the years ended December 31, 2005, 2004 and 2003, respectively. The net cash decrease was primarily due to a reduction in total deposits of $(23.3) million, $(37.9) million and $(87.8) million for the years ended December 31, 2005, 2004 and 2003, respectively. Other significant changes in 2005, 2004 and 2003 included $(14.0) million, $17.0 million and $(8.9) 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 $77.9 million residential first mortgage loans of the Company's $89.1 million portfolio qualify to collateralize FHLB borrowings and have been pledged to meet FHLB collateralization requirements as of December 31, 2005. In addition to residential first mortgage loans, $14.4 million in investment securities are pledged to meet FHLB collateralization requirements. Based on the current collateralization requirements of the FHLB, approximately $20.1 million of additional borrowing capacity existed at December 31, 2005.

At December 31, 2005, the Company had $20.9 million in federal funds lines. As of December 31, 2004, the Company had $18.0 million in federal funds lines. Federal funds borrowed were $4.6 million at December 31, 2005 and $7.5 million at December 31, 2004. The company also had $60.9 in unpledged securities that may be used to pledge for additional borrowings.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

	Payment due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 – 3 years**	**3 – 5 Years**	**More than 5 years**
Long-Term Debt Obligations	$45,500,000	$16,500,000	5,000,000	$5,000,000	$19,000,000
Other Debt Obligations	21,558,572	451,681	486,891	0	20,620,000
Capital Lease Obligations	0	0	0	0	0
Operating Lease Obligations	2,040,696	261,600	523,200	523,200	732,696
Purchase Obligations	0	0	0	0	0
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP	208,558,046	138,786,242	63,928,459	4,998,570	844,775
Total	$277,657,314	$155,999,523	$69,938,550	$10,521,770	$41,197,471

The Company's contractual obligations as of December 31, 2005 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 $45.5 million. Other debt obligations are comprised of Trust Preferred securities of $20.6 million and Notes Payable of $1.0 million. The operating lease obligation is a lease on the State Bank operations building (formerly the RDSI-South building) of $99,600 a year and the RDSI-North building of $162,000 a year. Other long-term liabilities are comprised of time deposits of $208.6 million.

ASSET LIABILITY MANAGEMENT

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

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

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

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

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

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

Quantitative Market Risk Disclosure. The following table provides information about the Company's financial instruments used for purposes other than trading that are sensitive to changes in interest rates as of December 31, 2005. 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)

	2006	2007	2008	2009	2010	Thereafter	Total
Rate-sensitive assets							
Variable rate loans	$60,603	$11,792	$5,792	$3,111	$1,730	$1,930	$84,958
Average interest rate	7.51%	7.05%	7.02%	7.01%	6.97%	6.96%	7.37%
Adjustable rate loans	$24,720	$19,834	$14,301	$14,188	$9,623	$48,215	$130,881
Average interest rate	6.22%	6.18%	6.01%	5.95%	5.99%	5.93%	6.04%
Fixed rate loans	$37,928	$21,925	$13,593	$9,130	$6,400	$22,700	$111,676
Average interest rate	5.95%	5.97%	6.08%	5.90%	5.75%	5.40%	5.84%
Total loans	$123,251	$53,551	$33,686	$26,429	$17,753	$72,845	$327,515
Average interest rate	6.77%	6.29%	6.21%	6.06%	6.00%	5.79%	6.32%
Fixed rate investment securities	$88,439	$10,973	$8,621	$5,597	$310	$15,720	$129,660
Average interest rate	4.08%	3.74%	4.12%	4.04%	3.90%	4.36%	4.09%
Variable rate investment securities	$4,031	$3,063	$1,938	$589	$231	$3,449	$13,301
Average interest rate	4.54%	4.45%	4.32%	4.21%	4.40%	4.53%	4.47%
Federal Funds Sold & Other	$0	$0	$150	$0	$0	$0	$150
Average interest rate	0.00%	0.00%	2.64%	0.00%	0.00%	0.00%	2.64%
Total rate sensitive assets	$215,721	$67,587	$44,395	$32,615	$18,294	$92,014	$470,626
Average interest rate	5.63%	5.79%	5.71%	5.68%	5.94%	5.50%	5.65%
Rate sensitive liabilities:							
Demand - non interest-bearing	$10,440	$10,441	$10,441	$10,441	$10,310	$0	$52,073
Demand - interest bearing	$9,972	$9,972	$9,972	$9,972	$9,872	$0	$49,760
Average interest rate	1.19%	1.19%	1.19%	1.19%	1.19%	0.00%	1.19%
Money market accounts	$8,440	$8,440	$8,440	$8,440	$8,356	$0	$42,116
Average interest rate	1.18%	1.22%	1.22%	1.22%	1.22%	0.00%	1.21%
Savings	$7,538	$7,413	$7,413	$7,413	$7,373	$0	$37,150
Average interest rate	0.59%	0.59%	0.59%	0.59%	0.59%	0.00%	0.59%
Certificates of deposit	$137,036	$51,616	$10,266	$2,799	$1,178	$844	$203,739
Average interest rate	3.15%	3.69%	3.30%	3.28%	3.92%	3.93%	3.30%
Fixed rate FHLB advances	$5,000	$0	$5,000	$1,000	$4,000	$19,000	$34,000
Average interest rate	2.84%	0.00%	5.53%	4.52%	6.25%	3.96%	4.31%
Variable rate FHLB advances	$11,500	$0	$0	$0	$0	$0	$11,500
Average interest rate	4.33%	0.00%	0.00%	0.00%	0.00%	0.00%	4.33%
Fixed rate Notes Payable	$240	$0	$20	$679	$0	$20,620	$21,559
Average interest rate	7.25%	0.00%	0.00%	6.50%	0.00%	8.25%	8.17%
Variable rate Notes Payable	$0	$0	$0	$0	$0	$0	$0
Average interest rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Fed Funds Purchased & Repos	$10,680	$0	$0	$0	$0	$0	$10,680
Average interest rate	3.40%	0.00%	0.00%	0.00%	0.00%	0.00%	3.40%
Total rate sensitive liabilities	$200,846	$87,882	$51,552	$40,744	$41,089	$40,464	$462,577
Average interest rate	2.79%	2.47%	1.71%	1.10%	1.36%	6.14%	2.62%

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

Comparison of 2005 to 2004:	First Year	Years 2 – 5	Thereafter	Total
Total rate-sensitive assets:				
At December 31, 2005	$ 215,721	$ 162,891	$ 92,014	$ 470,626
At December 31, 2004	131,266	151,944	93,317	376,527
Increase (decrease)	$ 84,455	$ 10,947	$ (1,303)	$ 94,099
Total rate-sensitive liabilities:				
At December 31, 2005	$ 200,846	$ 221,267	$ 40,464	$ 462,577
At December 31, 2004	$ 152,986	$ 174,129	$ 33,459	$ 360,574
Increase (decrease)	$ 47,860	$ 47,138	$ 7,005	$ 102,003

The above table reflects expected maturities, not expected repricing. The contractual maturities adjusted for anticipated prepayments and anticipated renewals at current interest rates, as shown in the preceding table, are only part of the Company's interest rate risk profile. Other important factors include the ratio of rate-sensitive assets to rate sensitive liabilities (which takes into consideration loan repricing frequency but not when deposits may be repriced) and the general level and direction of market interest rates. For core deposits, the repricing frequency is assumed to be longer than when such deposits actually reprice. For some rate sensitive liabilities, their repricing frequency is the same as their contractual maturity. For variable rate loans receivable, repricing frequency can be daily or monthly. For adjustable rate loans receivable, repricing can be as frequent as annually for loans whose contractual maturities range from one to thirty years. While increasingly aggressive local market competition in lending rates has pushed loan rates lower; the Company's increased reliance on non-core funding sources has restricted the Company's ability to reduce funding rates in concert with declines in lending rates during 2003. In 2005 and 2004, maturities of non-core funding sources positively impacted net interest income and the net interest margin. The tax equivalent net interest income as a percentage of average interest earning assets increased from 2.72% in 2003 to 3.19% in 2004 but declined to 3.14% in 2005.

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.

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," "will continue," "is anticipated," "estimated," "project," or similar expressions are intended to identify, "forward looking statements" 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, 2005.

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.

CORPORATE INFORMATION

STOCK LISTING
Rurban Financial Corp.'s common stock is traded on the NASDAQ National Market under the ticker symbol RBNF.

STOCK TRANSFER AGENT
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
(800) 368-5948

CORPORATE ADDRESS
Rurban Financial Corp.
401 Clinton Street
Defiance, OH 43512
www.rurbanfinancial.net

MARKET MAKERS
Friedman, Billings, Ramsey and Co., Inc.

Hill, Thompson, Magid, and Co.

Howe Barnes Investments, Inc.

Keefe, Bruyette and Woods, Inc.

McDonald Investments Inc.

Robert W. Baird and Co., Inc.

Sweney Cartwright and Co.

INVESTOR RELATIONS
Ms. Valda Colbart
P.O. Box 467
Defiance, OH 43512
(419) 784-2759 or
(800) 273-5820
rfcinv@rurban.net

FORM 10-K
The Annual Report on Form 10-K, as required to be filed with the Securities and Exchange Commission, will be made available free of charge to interested shareholders via *www.nasdaq.com* and *www.rurbanfinancial.net,* or by written request to:

Keeta Diller
RFC Corporate Secretary
401 Clinton St.
Defiance, OH 43512

SUBSIDIARIES
The State Bank and Trust Company

The Exchange Bank

Rurban Operations Corp.

Reliance Financial Services, N.A.

RDSI (Rurbanc Data Services, Inc.)

RFCBC, Inc.

OWNERSHIP OPPORTUNITIES
Dividend Reinvestment Plan (DRIP): This powerful investment technique allows you to reinvest your dividends auto-matically. Receive free custodial services, quarterly statements, 1099, dividend reinvestment and more. Contact Ms. Valda Colbart at *rfcinv@rurban.net* or (419) 784-2759 or (800) 368-5948 for additional information.

SHAREHOLDER DIRECT STOCK PURCHASE PROGRAM
DRIP participants or stockholders utilizing Registrar and Transfer custodial services may purchase stock in their account at any time free of charge. Simply complete a request card and stock will be purchased for you.

For more information, call (800) 368-5948 or (419) 784-2759.

RBNF E-MAIL ALERT SERVICE
You can receive our news releases by e-mail. This service is available free of charge through our website. Simply go to *www.rurbanfinancial.net* and click on "Investor Relations," then "Email Notification."

CORPORATE GOVERNANCE
The Rurban Financial Corp. Code of Conduct and Ethics, as required by the Sarbanes-Oxley Act, is available via *www.rurbanfinancial.net* or by requesting a copy from Investor Relations.

Certain statements within this document, which are not statements of historical fact, constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve risks and uncertainties and actual results may differ materially from those predicted by the forward-looking statements. These risks and uncertainties include, but are not limited to, risks and uncertainties inherent in the national and regional banking, insurance and mortgage industries, competitive factors specific to markets in which Rurban and its subsidiaries operate, future interest rate levels, legislative and regulatory actions, capital market conditions, general economic conditions, geopolitical events, the loss of key personnel and other factors.

Forward-looking statements speak only as of the date on which they are made, and Rurban undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made. All subsequent written and oral forward-looking statements attributable to Rurban or any person acting on our behalf are qualified by these cautionary statements.

Any other risk factors will be disclosed in the Company's filing with the Securities and Exchange Commission.

RURBAN FINANCIAL CORP.
401 Clinton Street, P.O. Box 467
Defiance, Ohio 43512

www.rurbanfinancial.net