



## *To Our Shareholders,*

With the majority of the issues relating to RDSI on their way to resolution, our team has been able to devote additional time and attention to a wider range of activities that are more profit- and efficiency-driven. Balance sheet growth remains a high priority and one of the most difficult to achieve in this banking environment.

The diversification of our loan portfolio provides a wide range of lending opportunities, and we are selective in terms of matching the lender to the market. Although we don't retain the vast majority of residential real estate loans, so the balance sheet impact is modest, our lenders in the Columbus market have been achieving record originations, even against local banks that have been in the market much longer than State Bank. We are also ramping up SBA lending and agriculture in specific markets where we believe we can fill a void. We are seeing more activity in our markets than in earlier quarters, and have a solid loan pipeline in place in varying stages of approval and closure.

The nearly 20 percent improvement in asset quality we've achieved over the past year is beginning to contribute to performance enhancements throughout our organization in terms of lower credit administration costs and lower foregone interest income. But the most compelling aspect of the improving trend, particularly in the current quarter, is that we are seeing less deterioration within our loan portfolio, and as a consequence, fewer additions to delinquent and nonperforming status. As a result, we were able to reduce our loan loss provision with some confidence, and we are cautiously optimistic that this lower level of provision can be sustained.

Our quest for efficiency enhancements continues. The \$2.8 million reduction of RDSI expenses brought us nearly in line with RDSI's current revenue base, and we are positive on a cash flow basis. On the banking side, we identified five positions in our operations area dedicated to reducing retail error rates and reviewing compliance with policies and procedures. We implemented process improvements that eliminated the need for redundancy, and were able to reduce our staff by five without any loss of accuracy or compliance.

Overall, we are moving ahead incrementally to build a more efficient and more profitable organization. The improvements are gradual but we see the opportunities for advancement more clearly every quarter. We are continuing to evolve into a more disciplined organization with the objectives of controlled growth, consistent profitability, and higher returns to shareholders.

Mark A. Klein  
President and Chief Executive Officer

## *Highlights of the first quarter include:*

- RDSI's revenue has stabilized after a year spent transitioning its former data processing clients to a new vendor. The majority of revenue is currently derived from thirty item processing clients serviced by RDSI's DCM division which is an efficient, low-cost provider; in addition, RDSI provides data services to Rurban/State Bank, its single core processing client.
- Substantial progress has been made at each subsidiary – State Bank and RDSI – to reduce expenses and enhance efficiencies. Excluding nonrecurring items, noninterest expense dropped by \$3.4 million year-over-year. Approximately half of the savings was derived from a workforce reduction of 84 FTE employees, of which 79 were from RDSI, and the remaining five from State Bank.
- Non-performing assets declined \$3.0 million since March 31, 2010 and now stand at 1.99 percent of assets. Major improvements were derived from declines in residential real estate and commercial ("C&I") non-performing loans, partially offset by an increase in commercial real estate ("CRE") non-performing loans. The disposition this quarter of a major foreclosed property ("Other Real Estate Owned" or "OREO") caused OREO to decline by \$0.7 million; only \$0.9 million of OREO remains on Rurban's books at March 31, 2011.
- First quarter is traditionally the slowest quarter of the year for residential mortgage sales. Still, mortgage banking activity remains a significant source of Rurban's non-interest income. Net mortgage banking income, including gains on sale and loan fees, was \$0.57 million for the 2011 first quarter, down 26.8 percent from the year-ago first quarter. The pace of refinancing activity is slowing compared to the year-earlier quarter; mortgage originations were \$28.0 million, a decline of \$2.4 million, or 7.1 percent, from the 2010 first quarter.
- State Bank's capital ratios have strengthened modestly over the past year, and ratios all remain in excess of the threshold for a well-capitalized bank. Capital ratios for the bank holding company have declined since the 2010 first quarter as a result of losses incurred during 2010 by RDSI, Rurban's nonbank subsidiary. With write-offs completed at RDSI, Rurban's ratios are beginning to strengthen.

# Financial Highlights

## RURBAN FINANCIAL CORP. CONSOLIDATED BALANCE SHEETS

	March 2011 (Unaudited)	December 2010	March 2010 (Unaudited)
<b>ASSETS</b>			
Cash and due from banks	\$ 38,090,470	\$ 30,417,813	\$ 37,404,242
Available-for-sale securities	131,052,629	132,762,058	108,855,099
Loans held for sale	5,423,901	9,055,268	12,469,633
Loans, net of unearned income	422,166,393	427,544,414	444,082,134
Allowance for loan losses	(6,593,279)	(6,715,397)	(6,075,126)
Premises and equipment, net	14,361,382	14,622,541	16,308,680
Purchased software	947,061	1,021,036	4,307,523
Federal Reserve and Federal Home Loan Bank Stock	3,748,250	3,748,250	3,748,250
Foreclosed assets held for sale, net	921,660	1,538,307	1,613,937
Accrued interest receivable	2,363,645	2,068,965	2,963,119
Goodwill	16,733,830	16,733,830	21,414,790
Core deposits and other intangibles	2,387,920	2,585,132	4,777,379
Cash value of life insurance	11,951,006	13,211,247	12,896,092
Mortgage Servicing Rights	3,316,228	3,190,389	2,136,535
Other assets	8,096,914	8,503,832	8,901,310
<b>Total assets</b>	<b>\$ 654,968,010</b>	<b>\$ 660,287,685</b>	<b>\$ 673,803,597</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Deposits			
Non interest bearing demand	\$ 64,027,818	\$ 62,745,906	\$ 61,699,862
Interest bearing NOW	107,940,091	105,708,472	88,805,006
Savings	48,983,184	47,662,315	43,772,462
Money Market	77,481,943	84,635,537	93,022,350
Time Deposits	214,528,353	214,925,512	211,645,981
<b>Total deposits</b>	<b>512,961,389</b>	<b>515,677,742</b>	<b>498,945,661</b>
Notes payable	3,218,211	3,290,471	3,380,935
Advances from Federal Home Loan Bank	16,679,942	22,807,351	32,659,210
Repurchase Agreements	49,499,424	45,785,254	49,111,099
Trust preferred securities	20,620,000	20,620,000	20,620,000
Accrued interest payable	2,195,926	1,971,587	1,200,836
Other liabilities	3,528,328	4,111,182	7,031,313
<b>Total liabilities</b>	<b>608,703,220</b>	<b>614,263,587</b>	<b>612,949,054</b>
Shareholders' Equity			
Common stock	12,568,583	12,568,583	12,568,583
Additional paid-in capital	15,258,113	15,235,206	15,229,669
Retained earnings	18,813,030	18,802,106	33,567,379
Accumulated other comprehensive income (loss)	1,394,375	1,187,514	1,258,223
Treasury stock	(1,769,311)	(1,769,311)	(1,769,311)
<b>Total shareholders' equity</b>	<b>46,264,790</b>	<b>46,024,098</b>	<b>60,854,543</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 654,968,010</b>	<b>\$ 660,287,685</b>	<b>\$ 673,803,597</b>

## STOCK INFORMATION AND INVESTOR MATERIALS

Rurban offers its shareholders convenient, economical and powerful investment techniques to increase their investment in RBNF common stock. These plans provide a method of investing cash dividends and voluntary cash payment in additional shares of common stock without payment of brokerage commissions or services charges. Individuals who wish to purchase RBNF stock for the first time may also participate in this plan. For additional information about the plan and prospectus, please contact Registrar and Transfer Company at 1-800-368-5948, or [www.rurbanfinancial.net](http://www.rurbanfinancial.net), or Anthony Cosentino at Rurban Financial Corp., at 1-800-273-5820. You may also reach the Investor Relations Department by email at [rfcin@rurban.net](mailto:rfcin@rurban.net).

Annual and quarterly shareholder reports, regulatory filings, press releases, and articles about Rurban Financial Corp. which have appeared in various publications are available on our website at [www.rurbanfinancial.net](http://www.rurbanfinancial.net), or may be obtained by contacting the Investor Relations Department by email at [rfcin@rurban.net](mailto:rfcin@rurban.net), or by calling 1-800-273-5820.

## RURBAN FINANCIAL CORP. CONSOLIDATED STATEMENTS OF OPERATION - UNAUDITED

	Three Months Ended March 31	
	2011	2010
<b>Interest income</b>		
Loans		
Taxable	\$ 5,852,367	\$ 6,411,582
Tax-exempt	11,494	18,915
Securities		
Taxable	610,524	702,255
Tax-exempt	335,969	319,063
Other	83	31,448
<b>Total interest income</b>	<b>6,810,437</b>	<b>7,483,263</b>
<b>Interest expense</b>		
Deposits		
Other borrowings	1,049,393	1,374,291
Retail Repurchase Agreements	24,629	38,083
Federal Home Loan Bank advances	425,519	426,967
Trust preferred securities	133,016	352,817
Other	344,578	386,624
<b>Total interest expense</b>	<b>1,977,135</b>	<b>2,578,782</b>
<b>Net interest income</b>	<b>4,833,302</b>	<b>4,904,481</b>
Provision for loan losses		
	498,840	1,391,433
<b>Net interest income after provision for loan losses</b>	<b>4,334,462</b>	<b>3,513,048</b>
<b>Non-interest income</b>		
Data service fees	912,254	4,029,406
Trust fees	695,321	642,786
Customer service fees	580,942	587,401
Net gain on sales of loans	467,909	717,014
Net realized gain on sales of securities	-	451,474
Investment securities recoveries	-	73,774
Loan servicing fees	161,406	122,208
Gain (loss) on sale or disposal of assets	(100,209)	(28,652)
Other income	145,203	155,981
<b>Total non-interest income</b>	<b>2,862,826</b>	<b>6,751,392</b>
<b>Non-interest expense</b>		
Salaries and employee benefits	3,530,106	5,103,540
Net occupancy expense	584,057	586,223
FDIC Insurance expense	317,639	218,903
Equipment expense	711,051	2,165,101
Software impairment expense	-	568,535
Data processing fees	143,744	194,786
Professional fees	473,536	642,810
Marketing expense	55,976	77,601
Printing and office supplies	76,148	161,102
Telephone and communication	156,640	386,206
Postage and delivery expense	344,309	570,433
State, local and other taxes	143,568	121,039
Employee expense	95,884	279,925
Other expenses	427,033	683,860
<b>Total non-interest expense</b>	<b>7,059,691</b>	<b>11,760,064</b>
<b>Income (loss) before income tax expense</b>	<b>137,597</b>	<b>(1,495,624)</b>
Income tax expense (benefit)	126,672	(647,686)
<b>Net income (loss)</b>	<b>\$ 10,925</b>	<b>\$ (847,938)</b>
Earnings (loss) per common share:		
Basic	\$ 0.00	\$ (0.17)
Diluted	\$ 0.00	\$ (0.17)

## Forward Looking Statements

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 national and regional banking 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, except as required by law. All subsequent written and oral forward-looking statements attributable to Rurban or any person acting on our behalf are qualified by these cautionary statements.