



## *To Our Shareholders,*

We continue to build momentum after working our way through the challenges of 2010. Core earnings rebounded as several ongoing initiatives began to bear fruit: expense control, improvement in asset quality, and balance sheet deleveraging. As a result of these initiatives, we are increasingly positioned for growth and greater profitability, which we anticipate to continue in the upcoming quarters.

Net income for the third quarter of 2011 was \$602,000, or \$0.12 per diluted share, compared to \$777,000, or \$0.16 per diluted share for the second quarter of 2011, and \$26,000, or \$0.01 per diluted share for the 2010 third quarter. For the first nine months of 2011, Rurban reported net income of \$1.39 million, or \$0.29 per diluted share, compared to a net loss of \$9.03 million, or (\$1.86) per diluted share for the first nine months of 2010.

Excluding after-tax losses of \$18,000 and \$85,000 on the sale of foreclosed real estate in the third quarters of 2011 and 2010, respectively, core earnings from operations were \$620,000, or \$0.13 per diluted share for the 2011 third quarter compared to \$111,000, or \$0.02 per diluted share for the year-ago third quarter. Core earnings for the second quarter of 2011 were \$20,000, or \$0.00 per diluted share.

Elevated costs associated with the administration of problem assets are fairly well behind us, and we are focusing more intensively on improving efficiencies within the Bank. Operating expenses have been subjected to greater scrutiny, and I am pleased to report that we've saved approximately \$500,000 in assorted categories compared to last quarter.

Whereas many banks are struggling to grow revenue, we have been fairly successful in this area. As a result of improvements on the liability side, net interest income has continued its upward growth trend despite marginal loan growth. The lending environment is still quite competitive, and commercial loan demand remains weak. The balance sheet deleveraging we completed in the second quarter has improved our funding mix to a significant extent, although we don't anticipate additional savings on the funding side going forward. We regard our non-bank products as a major source of revenue growth, and we have been cross-training our staff to become more knowledgeable so that they can identify and respond more effectively to customer needs.

We are pleased with third quarter results and plan to build on this performance going forward. We plan to raise the bar each quarter as we continue to seek out greater efficiencies from our operations, higher revenues from our bank and non-bank businesses, and asset quality strong enough to mitigate enterprise risk but with enough flexibility so we can respond to market opportunities.

Mark A. Klein  
President and Chief Executive Officer

## *Highlights of the third quarter include:*

- Core earnings showed significant improvement in response to recent and ongoing initiatives.
- Net interest income continued its upward growth trend, primarily from improvements in funding mix.
- Core noninterest income is stabilizing following the loss of data processing fee income, and remains highly diversified.
- Third quarter mortgage loan originations were exceptionally robust; however, interest rate volatility continued to impact the valuation of mortgage servicing rights, reducing net revenue from mortgage banking.
- Corporate-wide expense reductions have more than offset the decline in RDSI revenue.
- Asset quality continues to trend in a strongly positive direction.
- Both the Bank and the holding company remain well-capitalized.

# Financial Highlights

## RURBAN FINANCIAL CORP. CONSOLIDATED STATEMENTS OF OPERATION - (Unaudited)

	Three Months Ended			Nine Months Ended	
	Sept. 2011	June 2011	Sept. 2010	Sept. 2011	Sept. 2010
<i>(Dollars in Millions except per share data)</i>					
Interest income	6,893	7,053	7,245	20,757	22,227
Interest expense	1,508	1,840	2,364	5,325	7,384
<b>Net Interest Income</b>	<b>5,385</b>	<b>5,213</b>	<b>4,881</b>	<b>15,432</b>	<b>14,843</b>
Provision for loan losses	297	898	899	1,695	8,789
<b>Net interest income after provision for loan losses</b>	<b>5,088</b>	<b>4,315</b>	<b>3,982</b>	<b>13,737</b>	<b>6,054</b>
Noninterest income					
Data service fees	743	1,304	2,044	2,959	8,683
Trust fees	629	669	651	1,993	1,884
Customer service fees	664	640	644	1,885	1,846
Net mortgage banking income	305	561	1,012	1,430	2,256
Net realized gain (loss) on sales of securities	-	1,871	-	1,871	451
Other income	135	52	184	296	692
<b>Total Noninterest Income</b>	<b>2,475</b>	<b>5,097</b>	<b>4,535</b>	<b>10,435</b>	<b>15,812</b>
Less: Non-core items	27	(2,230)	129	(2,103)	(366)
<b>Core Noninterest Income</b>	<b>2,502</b>	<b>2,867</b>	<b>4,664</b>	<b>8,332</b>	<b>15,446</b>
Noninterest expense					
Salaries and employee benefits	3,583	3,573	4,058	10,686	14,065
Net occupancy and equipment expense	1,258	1,235	1,359	3,788	7,063
FDIC Insurance expense	145	254	260	717	676
Software impairment expense	-	-	-	-	4,892
FHLB/ Repo prepayment penalty	-	1,083	-	1,083	-
Data processing fees	158	192	211	493	635
Professional fees	377	577	619	1,428	1,823
Other expenses	1,302	1,484	2,231	4,086	7,249
<b>Total Noninterest Expense</b>	<b>6,823</b>	<b>8,398</b>	<b>8,738</b>	<b>22,281</b>	<b>36,403</b>
Less: Non-core items	-	1,083	-	1,083	7,071
<b>Core Noninterest Expense</b>	<b>6,823</b>	<b>7,315</b>	<b>8,738</b>	<b>21,198</b>	<b>29,332</b>
<b>Income (loss) Before Taxes</b>	<b>740</b>	<b>1,014</b>	<b>(222)</b>	<b>1,891</b>	<b>(14,537)</b>
Income tax expense (benefit)	137	237	(248)	501	(5,508)
<b>Net Income (Loss)</b>	<b>\$ 602</b>	<b>\$ 777</b>	<b>\$ 26</b>	<b>\$ 1,390</b>	<b>\$ (9,029)</b>
<b>Core Earnings After Tax</b>	<b>\$ 620</b>	<b>\$ 20</b>	<b>\$ 111</b>	<b>\$ 717</b>	<b>\$ (2,538)</b>
<b>Common share data:</b>					
Basic & diluted earnings (loss)	\$ 0.12	\$ 0.16	\$ 0.01	\$ 0.29	\$ (1.86)
Core after-tax earnings (loss)	\$ 0.13	\$ 0.00	\$ 0.02	\$ 0.15	\$ (0.52)
Tangible Book Value	\$ 5.91	\$ 5.55	\$ 5.79	\$ 5.91	\$ 5.79
<b>Average shares outstanding:</b>					
Basic:	4,862	4,862	4,862	4,862	4,862
<b>Summary Balance Sheet</b>					
Total Assets	623,793	618,061	681,190	623,793	681,190
Loans HFI* (net of unearned inc.)	438,926	427,551	424,996	438,926	424,996
Total Deposits	514,349	495,870	522,321	514,349	522,321
Tangible Shareholders' Equity	28,813	27,089	28,276	28,813	28,276
<b>Selected Ratios</b>					
Return on Avg. Assets	0.38%	0.48%	0.02%	0.29%	(1.80%)
Return on Avg. Tangible Equity	8.53%	11.26%	0.37%	6.67%	(37.07%)
Net Interest Margin (Fully Tax Equiv.)	3.98%	3.83%	3.66%	3.79%	3.65%
Efficiency Ratio	83.10%	86.35%	87.75%	85.18%	93.53%
Tangible Equity/ Tangible Assets	4.76%	4.52%	4.31%	4.76%	4.31%
NPA's + 90 days/ Loans + OREO	2.11%	2.30%	2.82%	2.11%	2.82%
NCO's/ Avg. Loans (Ann.)	0.46%	0.97%	1.35%	0.67%	1.88%
* Held for Investment					

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Annual and quarterly shareholder reports, regulatory filings, press releases, and articles about Rurban Financial Corp. are available on our website at [www.rurbanfinancial.net](http://www.rurbanfinancial.net). Information may also be obtained by calling or emailing the Investor Relations Department.

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