FDEF 10-K 12/31/2007

Section 1: 10-K (FORM 10K)

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year Ended December 31, 2007

or

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

Commission File Number 0-26850

FIRST DEFIANCE FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

OHIO	**34-1803915**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
601 Clinton Street, Defiance, Ohio	**43512**
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: **(419) 782-5015**

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, Par Value $0.01 Per Share	**The Nasdaq Stock Market**
(Title of Class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

As of March 14, 2008, there were issued and outstanding 7,076,269 shares of the Registrant's common stock.

The aggregate market value of the voting stock held by non-affiliates of the Registrant computed by reference to the average bid and ask price of such stock as of June 30, 2007 was approximately $209.8 million

Documents Incorporated by Reference

Parts I and II of this Form 10-K incorporate by reference certain information from the registrant's Annual Report to shareholders for the period ended December 31, 2007. Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive Proxy Statement for the 2008 Annual Shareholders' Meeting.

PART I

Item 1. Business

First Defiance Financial Corp. ("First Defiance" or "the Company") is a unitary thrift holding company that, through its subsidiaries, First Federal Bank of the Midwest ("First Federal") and First Insurance & Investments ("First Insurance") ("the Subsidiaries"), focuses on traditional banking and property and casualty, life and group health insurance products. The Company's traditional banking activities include originating and servicing residential, commercial, and consumer loans and providing a broad range of depository services. The Company's insurance activities consist primarily of commissions relating to the sale of property and casualty, life and group health insurance and investment products.

At December 31, 2007, the Company had consolidated assets of $1.609 billion, consolidated deposits of $1.218 billion, and consolidated stockholder's equity of $166.0 million. The Company was incorporated in Ohio in June of 1995. Its principal executive offices are located at 601 N. Clinton Street, Defiance, Ohio 43512, and its telephone number is (419) 782-5015.

First Defiance's Internet site, www.fdef.com contains a hyperlink under the Investor Relations section to EDGAR where the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge as soon as reasonably practicable after First Defiance has filed the report with the SEC.

The Subsidiaries

The Company's core business operations are conducted through the Subsidiaries:

First Federal Bank of the Midwest: First Federal is a federally chartered stock savings bank headquartered in Defiance, Ohio. As of December 31, 2007, it conducts operations through 27 full service banking center offices in Allen, Defiance, Fulton, Hancock, Henry, Lucas, Ottawa, Paulding, Putnam, Seneca, Williams and Wood Counties in northwest Ohio and 1 full service banking center office in Allen county in northeast Indiana. First Federal opened this northest Indiana branch on August 6, 2007 in Fort Wayne, Indiana. On February 11, 2008, First Federal opened a banking center in Glandorf, Ohio, located in Putnam County. That office was First Federal's 27th banking center.

On January 21, 2005, First Defiance completed the acquisition of ComBanc, Inc. (ComBanc) and its subsidiary, the Commercial Bank, Delphos, Ohio. That acquisition added four branch offices located in Allen County, Ohio which is adjacent to First Defiance's existing footprint. On April 8, 2005, First Defiance completed the acquisition of the Genoa Savings and Loan Company, (Genoa) which added three offices in the metropolitan Toledo, Ohio area.

On October 2, 2007 First Defiance entered into an Agreement and Plan of Merger with Pavilion Bancorp, Inc. ("Pavilion"). Under the terms of the Agreement, First Defiance will acquire Pavilion and its wholly owned subsidiary, Bank of Lenawee, which is headquartered in Adrian, Michigan. First Defiance has agreed to purchase the outstanding shares of Pavilion for 1.4209 shares of First Defiance common stock plus $37.50 in cash. The acquisition will add eight banking offices in Hillsdale and Lenawee Counties in Southeast Michigan.

First Federal is primarily engaged in community banking. It attracts deposits from the general public through its offices and uses those and other available sources of funds to originate residential real estate loans, non-residential real estate loans, commercial loans, home improvement and home equity loans and consumer loans. In addition, First Federal invests in U.S. Treasury and federal government agency obligations, obligations of the State of Ohio and its political subdivisions, mortgage-backed securities which are issued by federal agencies, including REMICs and CMOs and corporate bonds. First Federal's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). First Federal is a member of the Federal Home Loan Bank (FHLB) System.

First Insurance & Investments: First Insurance & Investments (First Insurance) is a wholly owned subsidiary of First Defiance. First Insurance is an insurance agency that does business in the Defiance, Ohio area. First Insurance offers property and casualty insurance, life insurance, group health insurance, and investment products.

On February 28, 2007, First Defiance completed the acquisition of Huber, Harger, Welt and Smith (HHWS), an insurance agency headquarted in Bowling Green, Ohio. HHWS was integrated into First Insurance. That acquisition added one office located in Wood County, Ohio.

Securities

First Defiance's securities portfolio is managed in accordance with a written policy adopted by the Board of Directors and administered by the Investment Committee. The Chief Financial Officer, the Chief Operating Officer, and the Chief Executive Officer of First Federal can each approve transactions up to $1 million. Two of the three officers are required to approve transactions between $1 million and $5 million. All transactions in excess of $5 million must be approved by the Board of Directors.

First Defiance's investment portfolio includes 24 CMO and REMIC issues totaling $23.3 million, all of which are fully amortizing securities. Management does not believe the risks associated with any of its CMO or REMIC investments are significantly different from risks associated with other pass-through mortgage-backed securities. First Defiance does not invest in off-balance sheet derivative securities.

Management determines the appropriate classification of debt securities at the time of purchase. Debt securities are classified as held-to-maturity when First Defiance has the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are stated at amortized cost. Debt securities not classified as held-to-maturity and equity securities are classified as available-for-sale. Available-for-sale securities are stated at fair value.

The amortized cost and fair value of securities at December 31, 2007 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. For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

	Contractually Maturing								Total	
	Under 1 Year	Weighted Average Rate	1 - 5 Years	Weighted Average Rate	6-10 Years	Weighted Average Rate	Over 10 Years	Weighted Average Rate	Amount	Yield
	(Dollars in Thousands)									
Mortgage-backed securities	$ 6,783	5.22%	$ 14,880	5.15%	$ 4,834	5.16%	$ 1,001	5.27%	$ 27,498	5.19%
REMICs and CMOs	3,429	4.40	18,669	4.94	1,080	4.75	2	5.00	23,180	4.85
U.S. government and federal agency obligations	13,050	5.37	4,210	4.99	7,374	5.40	– -	–	24,634	5.32
Obligations of states and political subdivisions (1)	1,013	4.93	7,959	4.56	1,550	5.13	17,625	4.58	28,147	4.62
Trust preferred stock	–		–		–		9,723	7.08	9,723	7.08
Total	$24,275		$ 45,718		$ 14,838		$ 28,351		$ 113,182	
Unamortized premiums/ (discounts)									(298)	
Unrealized loss on securities available for sale									603	
Total									$ 113,487	

(1) Tax exempt yield based on effective tax rate of 35%. Actual coupon rate is approximately equal to the weighted average rate disclosed in the table times 65%.

The carrying value of investment securities is as follows:

	December 31		
	2007	2006	2005
	(In Thousands)		
Available-for-sale securities:			
U. S. treasury and federal agency obligations	**24,918**	36,043	41,065
Obligations of state and political subdivisions	**28,819**	25,254	23,818
CMOs, REMICS and mortgage-backed securities	**49,991**	41,207	40,395
Trust preferred stock	**8,642**	8,178	7,801
Total	**$ 112,370**	$ 110,682	$ 113,079
Held-to-maturity securities:			
Mortgage-backed securities	**$ 817**	$ 1,081	$ 1,330
Obligations of state and political subdivisions	**300**	360	445
Total	**$ 1,117**	$ 1,441	$ 1,775

For additional information regarding First Defiance’s investment portfolio refer to Note 5 to the consolidated financial statements.

Interest-Bearing Deposits

First Defiance had interest-earning deposits in the FHLB of Cincinnati amounting to $1.4 million and $2.4 million at December 31, 2007 and 2006, respectively. Also at December 31, 2007, there were $10.2 million in federal funds sold, held at other financial institutions.

Residential Loan Servicing Activities

Servicing mortgage loans for investors involves a contractual right to receive a fee for processing and administering loan payments on mortgage loans that are not owned by the Company and are not included on the Company's balance sheet. This processing involves collecting monthly mortgage payments on behalf of investors, reporting information to those investors on a monthly basis and maintaining custodial escrow accounts for the payment of principal and interest to investors and property taxes and insurance premiums on behalf of borrowers. At December 31, 2007, First Federal serviced 8,580 loans totaling $715.5 million. The vast majority of the loans serviced for others are fixed rate conventional mortgage loans.

As compensation for its mortgage servicing activities, the Company receives servicing fees, usually 0.25% per annum of the loan balances serviced, plus any late charges collected from delinquent borrowers and other fees incidental to the services provided. In the event of a default by the borrower, the Company receives no servicing fees until the default is cured.

The following table sets forth certain information regarding the number and aggregate principal balance of the mortgage loans serviced by the Company, including both fixed and adjustable rate loans, at various interest rates:

	December 31								
	2007			2006			2005		
Rate	Number of Loans	Aggregate Principal Balance	Percentage of Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance	Percentage of Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance	Percentage of Aggregate Principal Balance
	(Dollars in Thousands)								
Less than 5.00%	**759**	**$ 57,448**	**8.03%**	810	$ 65,938	9.91%	865	$ 74,784	12.41%
5.00% - 5.99%	**3,222**	**249,600**	**34.89**	3,473	280,779	42.20	3,689	310,665	51.56
6.00% - 6.99%	**3,897**	**363,018**	**50.74**	3,129	278,651	41.87	2,356	190,172	31.56
7.00% - 7.99%	**620**	**41,918**	**5.86**	582	36,158	5.43	465	21,766	3.61
8.00% - 8.99%	**70**	**3,164**	**0.44**	86	3,476	0.52	108	4,483	0.75
9.00% and over	**12**	**339**	**0.04**	17	437	0.07	28	641	0.11
Total	**8,580**	**$ 715,487**	**100.00%**	8,097	$ 665,439	100.00%	7,511	$ 602,511	100.00%

Loan servicing fees decrease as the principal balance on the outstanding loan decreases and as the remaining time to maturity of the loan shortens. The following table sets forth certain information regarding the remaining maturity of the mortgage loans serviced by the Company as of the dates shown.

	2007				2006				2005			
Maturity	Number of Loans	% of Number of Loans	Unpaid Principal Amount	% of Unpaid Principal Amount	Number of Loans	% of Number of Loans	Unpaid Principal Amount	% of Unpaid Principal Amount	Number of Loans	% of Number of Loans	Unpaid Principal Amount	% of Unpaid Principal Amount
	(Dollars in Thousands)											
1–5 years	**546**	**6.36%**	**$ 35,049**	**4.90%**	559	6.90%	$ 40,545	6.09%	546	7.27%	$ 40,710	6.76%
6–10 years	**1,041**	**12.13**	**48,412**	**6.77**	659	8.14	26,342	3.96	602	8.01	27,965	4.64
11–15 years	**1,991**	**23.21**	**134,243**	**18.76**	2,408	29.74	163,796	24.61	2,573	34.26	177,564	29.47
16–20 years	**830**	**9.67**	**68,412**	**9.56**	992	12.25	81,262	12.21	1,006	13.39	83,444	13.85
21–25 years	**590**	**6.88**	**49,132**	**6.87**	338	4.17	28,604	4.30	207	2.76	17,254	2.86
More than 25 years	**3,582**	**41.75**	**380,239**	**53.14**	3,141	38.80	324,890	48.83	2,577	34.31	255,574	42.42
Total	**8,580**	**100.00%**	**$715,487**	**100.00%**	8,097	100.00%	$ 665,439	100.00%	7,511	100.00%	$ 602,511	100.00%

Lending Activities

General **–** A savings bank generally may not make loans to one borrower and related entities in an amount which exceeds 15% of its unimpaired capital and surplus, although loans in an amount equal to an additional 10% of unimpaired capital and surplus may be made to a borrower if the loans are fully secured by readily marketable securities. Real estate is not considered "readily marketable collateral." Certain types of loans are not subject to these limits. In applying these limits, loans to certain borrowers may be aggregated. Notwithstanding the specified limits, a savings bank may lend to one borrower up to $500,000 "for any purpose". At December 31, 2007, First Federal's limit on loans-to-one borrower was $25.6 million and its five largest loans (including available lines of credit) or groups of loans to one borrower, including related entities, were $20.7 million, $16.0 million, $13.6 million, $13.5 million and $13.5 million. All of these loans or groups of loans were performing in accordance with their terms at December 31, 2007.

Loan Portfolio Composition **–** The net increase in net loans receivable over the prior year was $49.5 million, $61.8 million, and $285.6 million in 2007, 2006, and 2005, respectively. First Defiance acquired net loans of $117.5 million in the ComBanc acquisition and $66.9 million in the Genoa acquisition in 2005. The loan portfolio contains no foreign loans. The Company's loan portfolio is concentrated geographically in its northwest Ohio market area. Management has identified lending for income generating rental properties as an industry concentration. Total loans for income generating property totaled $336.8 million at December 31, 2007, which represents 26% of the Company's loan portfolio.

The following table sets forth the composition of the Company's loan portfolio by type of loan at the dates indicated.

	December 31									
	2007		2006		2005		2004		2003	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in Thousands)									
Real estate:										
One to four family residential	**$ 231,921**	**17.9%**	$ 250,808	20.1%	$ 275,497	23.2%	$187,775	20.9%	$ 162,111	21.6%
Five or more family residential	**56,774**	**4.4**	57,263	4.6	50,040	4.2	39,049	4.4	30,322	4.0
Nonresidential real estate	**545,077**	**42.1**	522,597	41.9	501,943	42.2	376,115	42.0	311,101	41.4
Construction	**13,146**	**1.0**	17,339	1.4	21,173	1.8	15,507	1.7	16,830	2.3
Total real estate loans	**846,918**	**65.4**	848,007	68.0	848,653	71.4	618,446	69.0	520,364	69.3
Other:										
Consumer finance	**37,401**	**2.9**	43,320	3.5	54,657	4.6	45,213	5.1	39,808	5.3
Commercial	**283,072**	**21.8**	232,914	18.7	171,289	14.4	141,644	15.8	120,677	16.0
Home equity and improvement	**128,080**	**9.9**	122,789	9.8	113,000	9.5	90,839	10.1	70,038	9.3
Mobile home	**342**	–	450	–	640	.1	299	–	449	0.1
Total non-real estate loans	**448,895**	**34.6**	399,473	32.0	339,586	28.6	277,995	31.0	230,972	30.7
Total loans	**1,295,813**	**100.0%**	1,247,480	100.0%	1,188,239	100.0%	896,441	100.0%	751,336	100.0%
Less:										
Loans in process	**5,085**		6,409		8,782		6,341		6,079	
Deferred loan origination fees	**1,032**		1,182		1,303		1,232		1,158	
Allowance for loan losses	**13,890**		13,579		13,673		9,956		8,844	
Net loans	**$1,275,806**		$1,226,310		$1,164,481		$878,912		$ 735,255	

In addition to the loans reported above, First Defiance had $5.8 million, $3.4 million, $5.3 million, $2.3 million and $5.9 million in loans classified as held for sale at December 31, 2007, 2006, 2005, 2004 and 2003, respectively. The fair value of such loans, which are all single-family residential mortgage loans, approximated their carrying value for all years presented.

Contractual Principal, Repayments and Interest Rates – The following table sets forth certain information at December 31, 2007 regarding the dollar amount of gross loans maturing in First Defiance's portfolio, based on the contractual terms to maturity. Demand loans, loans having no stated schedule of repayments and no stated maturity and overdrafts are reported as due in one year or less.

	Due Less than 1	Due 1-2	Due 3-5	Due 5-10	Due 10-15	Due 15+	
	Years After December 31, 2007						Total
	(In Thousands)						
Real estate	$ 116,775	$ 60,190	$ 188,536	$ 362,424	$ 58,593	$ 60,400	$ 846,918
Non-real estate:							
Commercial	149,996	34,782	67,008	29,491	1,784	11	283,072
Home equity and improvement	8,819	11,677	54,172	5,335	635	47,442	128,080
Mobile home	83	61	88	110	-	–	342
Consumer finance	14,275	10,209	12,262	530	101	24	37,401
Total	$ 289,948	$ 116,919	$ 322,066	$ 397,890	$ 61,113	$ 107,877	$ 1,295,813

The schedule above does not reflect the actual life of the Company's loan portfolio. The average life of loans is substantially less than their contractual terms because of prepayments and due-on-sale clauses, which give First Defiance the right to declare a conventional loan immediately due and payable in the event, among other things, that the borrower sells the real property subject to the mortgage and the loan is not repaid.

The following table sets forth the dollar amount of gross loans due after one year from December 31, 2007 which have fixed interest rates or which have floating or adjustable interest rates.

	Fixed Rates	Floating or Adjustable Rates	Total
	(In Thousands)		
Real estate	$ 106,253	$ 623,890	$ 730,143
Commercial	8,064	125,012	133,076
Other	84,673	57,973	142,646
	$ 198,990	$ 806,875	$ 1,005,865

Originations, Purchases and Sales of Loans – The lending activities of First Defiance are subject to the written, non-discriminatory, underwriting standards and loan origination procedures established by the Board of Directors and management. Loan originations are obtained from a variety of sources, including referrals from existing customers, real estate brokers, developers, builders, and existing customers; newspapers and radio advertising; and walk-in customers.

First Defiance's loan approval process for all types of loans is intended to assess the borrower's ability to repay the loan, the viability of the loan, and the adequacy of the value of the collateral that will secure the loan.

A commercial loan application is first reviewed and underwritten by one of the commercial loan officers, who may approve credits within their lending limit. Another loan officer with limits sufficient to cover the exposure must approve credits exceeding an individual's lending limit. All credits which exceed $100,000 in aggregate exposure must be presented for review or approval to the Senior Loan

Committee comprised of senior lending personnel. Credits which exceed $1,000,000 in aggregate exposure must be presented for approval to the Executive Loan Committee, a committee of First Federal's Board of Directors.

Residential mortgage applications are accepted by retail lenders or branch managers, who utilize an automated underwriting system to review the loan request. First Federal also receives mortgage applications via an online residential mortgage origination system. A final approval of all residential mortgage applications is made by a member of a centralized underwriting staff within their designated lending limits. Loan requests in excess or outside an individual underwriter's limit are approved by the Senior Loan Committee and if necessary by the Executive Loan Committee.

Retail lenders and branch managers are authorized to originate and approve direct consumer loan requests that are within policy guidelines and within the lender's approved lending limit. Loans in excess of the lender's approved lending limit may be approved by retail lending managers up to their approved lending limit. Loans in excess of the retail lending manager's authorized lending limit or outside of policy must be approved by Senior Loan Committee and if necessary by the Executive Loan Committee. Indirect consumer loans originated by auto dealers are underwritten and approved by a designated underwriter in accordance with company policy and lending limits.

First Defiance offers adjustable-rate loans in order to decrease the vulnerability of its operations to changes in interest rates. The demand for adjustable-rate loans in First Defiance's primary market area has been a function of several factors, including customer preference, the level of interest rates, the expectations of changes in the level of interest rates and the difference between the interest rates offered for fixed-rate loans and adjustable-rate loans. The relative amount of fixed-rate and adjustable-rate residential loans that can be originated at any time is largely determined by the demand for each in a competitive environment.

Adjustable-rate loans represented 4.0% of First Defiance's total originations of one-to-four family residential mortgage loans in 2007 compared to 6.0% and 17.3% during 2006 and 2005, respectively.

Adjustable-rate loans decrease the risks associated with changes in interest rates, but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates.

The following table shows total loans originated, loan reductions, and the net increase in First Defiance's total loans during the periods indicated:

	Years Ended December 31		
	2007	**2006**	**2005**
	(In Thousands)		
Loan originations:			
Single family residential	**$ 216,203**	$ 162,499	$ 164,687
Multi-family residential	**22,119**	71,671	85,733
Non-residential real estate	**145,675**	168,909	162,823
Construction	**18,633**	24,026	27,637
Commercial	**243,229**	174,081	133,021
Home equity and improvement	**29,934**	40,498	34,221
Consumer finance	**23,931**	42,162	50,056
Total loans originated	**699,724**	683,846	658,178
Loans acquired in acquisitions	**–**	–	184,218
Loan reductions:			
Loan pay-offs	**265,367**	242,137	261,046
Mortgage loans sold	**136,413**	134,000	111,345
Periodic principal repayments	**247,296**	250,324	175,220
	649,076	626,461	547,611
Net increase in total loans	**$ 50,648**	$ 57,385	$ 294,785

The loans acquired in the Genoa acquisition in 2005 by category were as follows: Single family residential – $36.3 million, multi-family residential – $719,000, non-residential real estate – $7.5 million, construction - $4.5 million, commercial – $1.7 million, home equity and improvement – $13.4 million and consumer finance – $3.7 million.

The loans acquired in the ComBanc acquisition in 2005 by category were as follows: Single family residential – $33.1 million, multi-family residential – $2.8 million, non-residential real estate – $57.2 million, construction - $1.9 million, commercial – $12.7 million, home equity and improvement – $4.6 million and consumer finance – $7.2 million.

Asset Quality

First Defiance's credit policy establishes guidelines to manage credit risk and asset quality. These guidelines include loan review and early identification of problem loans to ensure sound credit decisions. First Defiance's credit policies and review procedures are meant to minimize the risk and uncertainties inherent in lending. In following the policies and procedures, management must rely on estimates, appraisals and evaluations of loans and the possibility that changes in these could occur because of changing economic conditions.

***Delinquent Loans* —** The following table sets forth information concerning delinquent loans at December 31, 2007, in dollar amount and as a percentage of First Defiance's total loan portfolio. The amounts presented represent the total outstanding principal balances of the related loans, rather than the actual payment amounts that are past due.

	30 to 59 Days		60 to 89 Days		90 Days and Over		Total	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
				(Dollars in Thousands)				
Single – family residential	$ 1,243	0.10%	$ 564	0.04%	$ 2,257	0.17%	$ 4,064	0.31%
Nonresidential and Multi-family residential	2,381	0.18	2,310	0.18	5,917	0.46	10,608	0.82
Home equity and improvement	1,351	0.10	46	0.00	351	0.03	1,748	0.13
Consumer finance	304	0.03	10	0.00	17	0.00	331	0.03
Commercial	217	0.02	382	0.03	675	0.05	1,274	0.10
Total	$ 5,496	0.43%	$ 3,312	0.25%	$ 9,217	0.71%	$ 18,561	1.39%

Overall the level of delinquencies at December 31, 2007 has increased from the levels at December 31, 2006, when First Defiance reported that 1.11% of its outstanding loans were at least 30 days delinquent. The level of total loans 90 or more days delinquent has increased to 0.71% at December 31, 2007 from 0.58% at December 31, 2006. Overall the level of loans that were 30 to 59 days past due and 60 to 89 days past due increased from $4.8 million (0.40%) and $1.5 million (0.12%) respectively at December 31, 2006 to $5.5 million (0.42%) and $3.3 million (0.25%) respectively at December 31, 2007. Management has assessed the collectability of all loans that are 90 days or more delinquent as part of its procedures in establishing the allowance for loan losses.

Nonperforming Assets – All loans are reviewed on a regular basis and are placed on a non-accrual status when, in the opinion of management, the collectability of additional interest is deemed insufficient to warrant further accrual. Generally, First Defiance places all loans more than 90 days past due on non-accrual status. When a loan is placed on nonaccrual status, total unpaid interest accrued to date is reversed. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectability of the loan. First Defiance considers that a loan is impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement. First Defiance measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral, if collateral dependent. If the estimated recoverability of the impaired loan is less than the recorded investment, First Defiance will recognize impairment by allocating a portion of the allowance for loan losses.

Impaired loans acquired in the ComBanc and Genoa acquisitions have been accounted for under the provisions of AICPA Statement of Position 03-3 – *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*. Such loans were recorded at their fair value, which was estimated based on the expected cash flow of the acquired loan. In the Genoa acquisition, 10 loan relationships with a stated value of $1.5 million were recorded at $721,000. In the ComBanc acquisition, 12 loan relationships with a stated value of $3.4 million were recorded at $2.0 million. At December 31, 2007, 15 loan relationships remained with a contractual balance of $3.0 million and were recorded at $1.7 million. If management expectations about the cash flow of those loans changes over time, the difference will be recognized as a yield adjustment over the remaining life of the respective loan. In 2007, two loan relationships totaling $205,000 were paid in full and $133,000 of impairment was recognized as a yield adjustment. There were no significant changes in the expected cash flows of the remaining loan relationships in 2007.

Loans originated by First Federal having recorded investments of $8.6 million, $4.2 million, and $822,000 were considered impaired as of December 31, 2007, 2006 and 2005, respectively. These amounts exclude large groups of small-balance homogeneous loans that are collectively evaluated for impairment such as residential mortgage, consumer installment, and credit card loans. There was $338,000 of interest received and recorded in income during 2007 related to impaired loans. There was $111,000 and $61,000 recorded in 2006 and 2005 respectively. Unrecorded interest income based on the loan's contractual terms on these impaired loans and all non-performing loans in 2007, 2006 and 2005 was $1.3 million, $625,000, and $308,000, respectively. The average recorded investment in impaired loans during 2007, 2006 and 2005 (excluding loans accounted for under SOP 03-3) was $9.6 million, $4.4 million and $1.1 million, respectively. The total allowance for loan losses related to these loans was $1.4 million, $969,000, and $380,000 at December 31, 2007, 2006 and 2005, respectively.

Real estate acquired by foreclosure is classified as real estate owned until such time as it is sold. First Defiance also repossesses other assets securing loans, consisting primarily of automobiles. When such property is acquired it is recorded at the lower of the restated loan balance, less any allowance for loss, or fair value. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding the property are expensed. Valuations are periodically performed by management and a write-down of the value is recorded with a corresponding charge to operations if it is determined that the carrying value of property exceeds its estimated net realizable value. During 2007, First Defiance recognized $698,000 of expense related to write-downs in value of real estate acquired by foreclosure. The balance of real estate owned at December 31, 2007 was $2.4 million and other repossessed assets totaled $50,000.

As of December 31, 2007, First Defiance's total non-performing loans amounted to $9.2 million or .71% of total loans, compared to $7.3 million or 0.59% of total loans, at December 31, 2006. Non-performing loans are loans which are more than 90 days past due and are all classified as non-accrual at December 31, 2007. The nonperforming loan balance includes $5.0 million of loans originated by First Federal also considered impaired and $24,000 of acquired loans accounted for under SOP 03-3.

The following table sets forth the amounts and categories of First Defiance's non-performing assets (excluding impaired loans not considered non-performing) and troubled debt restructurings at the dates indicated.

	December 31				
	2007	**2006**	**2005**	**2004**	**2003**
	(Dollars in Thousands)				
Nonperforming loans:					
Single-family residential	**$ 2,608**	$ 1,980	$ 2,648	$ 419	$ 471
Nonresidential and multi-family residential real estate	**5,917**	4,977	1,917	1,014	1,092
Commercial	**675**	272	287	450	949
Mobile home	–	–	–	–	–
Consumer finance	**17**	54	100	10	33
Total nonperforming loans	**9,217**	7,283	4,952	1,893	2,545
Real estate owned	**2,410**	2,321	315	49	397
Other repossessed assets	**50**	71	89	49	7
Total repossessed assets	**2,460**	2,392	404	98	404
Total nonperforming assets	**$ 11,677**	$ 9,675	$ 5,356	$ 1,991	$ 2,949
Troubled debt restructurings	**$ 3,920**	$ 5,590	$ 546	$ –	$ –
Total nonperforming assets as a percentage of total assets of continuing operations	**0.73%**	0.63%	0.37%	0.18%	0.28%
Total nonperforming loans and troubled debt restructurings as a percentage of total loans	**0.71%**	0.59%	0.42%	0.21%	0.34%
Allowance for loan losses as a percent of total nonperforming assets	**118.95%**	140.35%	255.28%	500.05%	299.90%

In addition to the $9.2 million of loans reported above and $5.3 million of loans considered impaired (including loans accounted for under SOP 03-3), which are not included in the loans reported above, there are approximately $39.4 million of performing loans where known information about possible credit problems of the borrowers causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in the inclusion of such loans in non-performing loans at some future date. In analyzing these loans for the purpose of determining the adequacy of the allowance for loan losses, management has determined that these loans generally have significant collateral, strong guarantors, or both.

Allowance for Loan Losses **–** First Defiance maintains an allowance for loan losses to absorb probable incurred credit losses in the loan portfolio. The balance of the allowance is based upon an assessment of prior loss experience, the volume and type of lending conducted by First Defiance, industry standards, past due loan amounts and trends, general economic conditions and other factors related to the collectability of the loan portfolio. The Company principally uses its own loss experience in calculating its loan loss provision. However, in those instances where the Company's experience with certain types of lending is new or recent and therefore historical losses are less meaningful, management will consider such other factors as industry loss statistics, experience of other financial institutions operating in the same geographic area, and inherent risks associated with the borrower in determining the required allowance. In evaluating the adequacy of its allowance each quarter, management grades all loans in the commercial portfolio using a scale of one to ten. Loans graded in the three worst categories (substandard, doubtful and loss) generally have specific allowances. Loans graded as substandard would generally have allowances that range between zero and 20% based on management's knowledge of the credit and other local factors. Substandard loans that have no allowances generally exhibit negative financial characteristics, such as poor cash flow or declining sales, but have offsetting credit strengths, such as an abundance of collateral or the existence of a strong guarantor. Loans classified as doubtful generally have an allowance of 50% and loans classified as loss have a 100% loan loss provision, unless other facts and circumstances, such as strength of collateral or strength of guarantors warrant a different percentage. Management also engages a third-party to perform an independent loan review on a semi-annual basis. That third party reviews all loan relationships in excess of $250,000 and, among other things, challenges management's loan grades.

Loans charged-off are charged against the allowance when such loans meet the Company's established policy on loan charge-offs and the allowance itself is adjusted quarterly by recording a provision for loan losses. As such, actual losses and losses provided for should be approximately the same if the overall quality, composition and size of the portfolio remains static. To the extent that the portfolio grows at a rapid rate or overall quality deteriorates, the provision generally will exceed charge-offs. However, in certain circumstances, including in 2006, net charge-offs may exceed the provision for loan losses when management determines that loans previously provided for in the allowance for loan losses are uncollectible and should be charged off. Although management believes that it uses the best information available to make such determinations, future adjustments to the allowances may be necessary, and net earnings could be significantly affected, if circumstances differ substantially from the assumptions used in making the initial determinations.

At December 31, 2007, First Defiance's allowance for loan losses amounted to $13.9 million compared to $13.6 million at December 31, 2006. The following table sets forth the activity in First Defiance's allowance for loan losses during the periods indicated.

	Years Ended December 31				
	2007	**2006**	**2005**	**2004**	**2003**
	(Dollars in Thousands)				
Allowance at beginning of year	**$ 13,579**	$ 13,673	$ 9,956	$ 8,844	$ 7,496
Provision for credit losses	**2,306**	1,756	1,442	1,549	1,719
Allowance acquired in acquisitions	–	–	3,027	–	–
Charge-offs:					
One to four family residential real estate	**256**	513	182	52	18
Commercial real estate	**1,803**	1,028	226	58	162
Commercial	**99**	177	267	390	375
Consumer finance	**161**	392	354	186	170
Home equity and improvement	**81**	166	25	–	–
Total charge-offs	**2,400**	2,276	1,054	686	725
Recoveries	**405**	426	302	249	354
Net charge-offs	**1,995**	1,850	752	437	371
Ending allowance	**$ 13,890**	$ 13,579	$ 13,673	$ 9,956	$ 8,844
Allowance for loan losses to total non-performing loans at end of year	**150.70%**	186.45%	276.11%	525.94%	347.50%
Allowance for loan losses to total loans at end of year	**1.08%**	1.10%	1.16%	1.13%	1.19%
Allowance for loan losses to net charge-offs for the year	**696.24%**	734.00%	1,818.22%	2,278.26%	2,383.82%
Net charge-offs for the year to average loans	**0.15%**	0.15%	0.07%	0.05%	0.06%

The provision for credit losses has remained stable over the five-year period shown in the above table. Although charge-offs increased significantly in 2007 and 2006 over previous year levels, the relative level of loan charge-offs is still considered low when compared to a peer group of Midwest Banks with assets between $750 million and $2.5 billion. The allowance for loan losses increased significantly in 2005 because of allowances acquired in the acquisitions. The level of charge-offs increased in 2007, 2006 and 2005 because of general growth in the overall portfolio, deteriorating economic conditions, and to a lesser extent activity related to acquired loans. Management anticipates that the level of charge-offs will likely remain consistent with 2007 and 2006 activity as the current level of non-performing loans are resolved. Management also believes the level of allowance for loan losses is sufficient to cover anticipated charge-offs.

The following table sets forth information concerning the allocation of First Defiance's allowance for loan losses by loan categories at the dates indicated. For information about the percent of total loans in each category to total loans, see "Lending Activities-Loan Portfolio Composition."

	December 31									
	2007		2006		2005		2004		2003	
	Amount	Percent of total loans by category	Amount	Percent of total loans by category	Amount	Percent of total loans by category	Amount	Percent of total loans by category	Amount	Percent of total loans by category
	(Dollars in Thousands)									
Single family residential	**$ 2,112**	**17.9%**	$ 2,077	20.1%	$ 1,484	23.2%	$ 239	22.8%	$ 386	24.4%
Nonresidential and Multi-family residential real estate	**7,750**	**47.5**	8,551	46.5	8,965	46.4	6,538	46.3	6,265	45.1
Other:										
Commercial loans	**3,420**	**21.8**	2,244	18.7	2,287	14.4	2,454	15.8	1,424	15.9
Consumer and home equity and improvement loans	**608**	**12.8**	707	14.7	937	16.0	725	15.1	769	14.6
	$ 13,890	**100.0%**	$ 13,579	100.0%	$ 13,673	100.0%	$ 9,956	100.0%	$ 8,844	100.0%

Sources of Funds

General **–** Deposits are the primary source of First Defiance's funds for lending and other investment purposes. In addition to deposits, First Defiance derives funds from loan principal repayments. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows are significantly influenced by general interest rates and money market conditions. Borrowings from the FHLB may be used on a short-term basis to compensate for reductions in the availability of funds from other sources. They may also be used on a longer-term basis for general business purposes. During 2007, First Defiance issued $15.0 million of trust preferred securities through an unconsolidated affiliated trust. Proceeds from the offering were used for general corporate purposes including funding of dividends and stock buybacks as well as bolstering regulatory capital at the First Federal level. First Defiance also issued $20.0 million of similar trust preferred securities in 2005.

Deposits **–** First Defiance's deposits are attracted principally from within First Defiance's primary market area through the offering of a broad selection of deposit instruments, including checking accounts, money market accounts, regular savings accounts, and term certificate accounts. Deposit account terms vary, with the principal differences being the minimum balance required, the time periods the funds must remain on deposit, and the interest rate.

To supplement its funding needs, First Defiance also utilizes brokered Certificates of Deposit. Such deposits have maturities ranging from three months to one year. The total balance of brokered certificates of deposit was $408,000 million at December 31, 2007. Brokered CDs at December 31, 2006 totaled $17.6 million.

Average balances and average rates paid on deposits are as follows:

	Years Ended December 31					
	2007		2006		2005	
	Amount	Rate	Amount	Rate	Amount	Rate
			(Dollars in Thousands)			
Non-interest-bearing demand deposits	**$ 104,200**	**–**	$ 95,044	–	$ 86,741	–
Interest bearing demand deposits	**310,230**	**2.67%**	289,214	2.44%	273,502	1.19%
Savings deposits	**92,756**	**1.51**	76,775	0.36	87,708	0.27
Time deposits	**661,974**	**4.65**	640,479	4.05	570,826	3.00
Totals	**$1,169,160**	**3.46%**	$ 1,101,512	3.02%	$ 1,018,777	2.02%

The following table sets forth the maturities of First Defiance's certificates of deposit having principal amounts of $100,000 or more at December 31, 2007 (in thousands):

Certificates of deposit maturing in quarter ending:	
March 31, 2008	$ 55,324
June 30, 2008	41,408
September 30, 2008	31,352
December 31, 2008	7,151
After December 31, 2008	22,104
Total certificates of deposit with balances of $100,000 or more	$ 157,339

The following table details the deposit accrued interest payable as of December 31:

	2007	2006
	(In Thousands)	
Interest bearing demand deposits and money market accounts	**$ 220**	$ 216
Savings Accounts	**–**	–
Certificates of deposit	**2,317**	1,651
	$ 2,537	$ 1,867

For additional information regarding First Defiance's deposits see Note 11 to the financial statements.

Borrowings— First Defiance may obtain advances from the FHLB of Cincinnati by pledging certain of its residential mortgage loans, non-residential loans and investment securities provided certain standards related to creditworthiness have been met. Such advances are made pursuant to several credit programs, each of which has its own interest rate and range of maturities.

The following table sets forth certain information as to First Defiance's FHLB advances and other borrowings at the dates indicated.

	December 31		
	2007	2006	2005
	(Dollars in Thousands)		
Long-term:			
FHLB advances	**$ 128,236**	$ 129,128	$ 152,460
Weighted average interest rate	**4.97%**	5.01%	4.65%
Short-term:			
FHLB advances	**$ 11,300**	$ 33,100	$ 28,500
Weighted average interest rate	**4.28%**	5.18%	3.65%
Securities sold under agreement to repurchase	**$ 30,055**	$ 30,424	$ 25,748
Weighted average interest rate	**3.14%**	2.98%	2.68%

The following table sets forth the maximum month-end balance and average balance of First Defiance's Long-term FHLB advances and other borrowings during the periods indicated.

	Years Ended December 31		
	2007	2006	2005
	(Dollars in Thousands)		
Long-term:			
FHLB advances:			
Maximum balance	**$ 129,022**	$ 152,164	$ 154,602
Average balance	**128,622**	141,836	153,267
Weighted average interest rate	**5.05%**	4.89%	4.63%

The following table sets forth the maximum month-end balance and average balance of First Defiance's short-term FHLB advances and other borrowings during the periods indicated.

	Years Ended December 31		
	2007	2006	2005
	(Dollars in Thousands)		
Short-term:			
FHLB advances:			
Maximum balance	**$ 45,800**	$ 57,500	$ 45,000
Average balance	**7,772**	40,104	14,313
Weighted average interest rate	**5.23%**	5.10%	3.79%
Revolving credit agreements:			
Maximum balance	**$ 500**	$ -	$ 43,799
Average balance	**171**	80	301
Weighted average interest rate	**6.20%**	5.13%	2.25%
Securities sold under agreement to repurchase:			
Maximum balance	**$ 30,055**	$ 30,424	$ 25,748
Average balance	**23,739**	20,318	17,718
Weighted average interest rate	**3.04%**	2.84%	2.18%

First Defiance borrows funds under a variety of programs at the FHLB. As of December 31, 2007, there was $128.2 million outstanding under various long-term FHLB advance programs. First Defiance utilizes short-term advances from the FHLB to meet cash flow needs and for short-term investment purposes. There were $11.3 million and $33.1 million in short-term advances outstanding at December 31, 2007 and 2006, respectively. At December 31, 2007, $11.3 million was outstanding under First Defiance's cash management advance line of credit. The total available under the line is $15.0 million. Additionally, First Defiance has $100.0 million available under a REPO line of credit. Amounts are generally borrowed under these lines on an overnight basis. First Federal's total borrowing capacity at the FHLB is limited by various collateral requirements. Eligible collateral includes mortgage loans, non-mortgage loans, cash and investment securities. At December 31, 2007, irregardless of amounts available on the REPO and Cash Management line, First Federal's additional borrowing capacity with the FHLB was $49.9 million due to these collateral requirements.

As a member of the FHLB of Cincinnati, First Federal must maintain a minimum investment in the capital stock of that FHLB in an amount defined in the FHLB's regulations. First Federal is permitted to own stock in excess of the minimum requirement and is in compliance with the minimum requirement with an investment in stock of the FHLB of Cincinnati of $18.6 million at December 31, 2007.

Each FHLB is required to establish standards of community investment or service that its members must maintain for continued access to long-term advances from the FHLB. The standards take into account a member's performance under the Community Reinvestment Act and its record of lending to first-time homebuyers.

For additional information regarding First Defiance's FHLB advances and other debt see Notes 12 and 14 to the financial statements.

Subordinated Debentures - In March 2007, the Company sponsored an affiliated trust, First Defiance Statutory Trust II ("Trust Affiliate II"), that issued $15 million of Guaranteed Capital Trust Securities (Trust Preferred Securities). In connection with the transaction, the Company issued $15.5 million of Junior Subordinated Deferrable Interest Debentures (Subordinated Debentures) to Trust Affiliate II. Trust Affiliate II was formed for the purpose of issuing Trust Preferred Securities to third-party investors and investing the proceeds from the sale of these capital securities solely in Subordinated Debentures of the Company. The Subordinated Debentures held by Trust Affiliate II are the sole assets of the trust. Distributions on the Trust Preferred Securities issued by Trust Affiliate II are payable quarterly at a fixed rate equal to 6.441% for the first five years and a floating rate of three-month LIBOR plus 1.50%, repricing quarterly, thereafter.

The Trust Preferred Securities are subject to mandatory redemption, in whole or in part, upon repayment of the Subordinated Debentures. The Company has entered into an agreement that fully and unconditionally guarantees the Trust Preferred Securities subject to the terms of the guarantee. The Trust Preferred Securities and Subordinated Debentures mature on June 15, 2037, but may be redeemed at the Company's option at any time on or after June 15, 2012, or at any time upon certain events.

In October 2005, the Company formed an affiliated trust, First Defiance Statutory Trust I ("Trust Affiliate I"), that issued $20 million of Trust Preferred Securities. In connection with the transaction, the Company issued $20.6 million of Subordinated Debentures to Trust Affiliate I. Trust Affiliate I was formed for the purpose of issuing Trust Preferred Securities to third-party investors and investing the proceeds from the sale of these capital securities solely in Subordinated Debentures of the Company. The Subordinated Debentures held by Trust Affiliate I are the sole assets of the trust. Distributions on the Trust Preferred Securities issued by Trust Affiliate I are payable quarterly at a variable rate equal to the three-month LIBOR rate plus 1.38%, or 6.37% as of December 31, 2007. The rate was 6.74% at December 31, 2006.

The Trust Preferred Securities issued by Trust Affiliate I are subject to mandatory redemption, in whole or in part, upon repayment of the Subordinated Debentures. The Company has entered into an agreement that fully and unconditionally guarantees the Trust Preferred Securities subject to the terms of the guarantee. The Trust Preferred Securities and Subordinated Debentures may be redeemed by the issuer at par after October 28, 2010. The Subordinated Debentures mature on December 15, 2035.

Employees

First Defiance had 510 employees at December 31, 2007. None of these employees are represented by a collective bargaining agent, and First Defiance believes that it enjoys good relations with its personnel.

Competition

Competition in originating non-residential mortgage and commercial loans comes mainly from commercial banks with banking center offices in the Company's market area. Competition for the origination of mortgage loans arises mainly from savings associations, commercial banks, and mortgage companies. The distinction among market participants is based on a combination of price, the quality of customer service and name recognition. The Company competes for loans by offering competitive interest rates and product types and by seeking to provide a higher level of personal service to borrowers than is furnished by competitors. First Federal has a significant market share of the lending markets in which it conducts operations.

Management believes that First Federal's most direct competition for deposits comes from local financial institutions. The distinction among market participants is based on price and the quality of customer service and name recognition. First Federal's cost of funds fluctuates with general market interest rates. During certain interest rate environments, additional significant competition for deposits may be expected from corporate and governmental debt securities, as well as from money market mutual funds. First Federal competes for conventional deposits by emphasizing quality of service, extensive product lines and competitive pricing.

Regulation

General – First Defiance and First Federal are subject to regulation, examination and oversight by the OTS. Because the FDIC insures First Federal's deposits, First Federal is also subject to examination and regulation by the FDIC. First Defiance and First Federal must file periodic reports with the OTS and examinations are conducted periodically by the OTS and the FDIC to determine whether First Federal is in compliance with various regulatory requirements and is operating in a safe and sound manner. First Federal is subject to various consumer protection and fair lending laws. These laws govern, among other things, truth-in-lending disclosure, equal credit opportunity, and, in the case of First Federal, fair credit reporting and community reinvestment. Failure to abide by federal laws and regulations governing community reinvestment could limit the ability of First Federal to open a new branch or engage in a merger transaction. Community reinvestment regulations evaluate how well and to what extent First Federal lends and invests in its designated service area, with particular emphasis on low-to-moderate income communities and borrowers in such areas.

First Defiance is also subject to various Ohio laws which restrict takeover bids, tender offers and control-share acquisitions involving public companies which have significant ties to Ohio.

Regulatory Capital Requirements – First Federal is required by OTS regulations to meet certain minimum capital requirements. Current capital requirements call for tangible capital of 1.5% of adjusted total assets, core capital of 4.0% of adjusted total assets, except for associations with the highest examination rating and acceptable levels of risk, and risk-based capital of 8.0% of risk-weighted assets.

The following table sets forth the amount and percentage level of regulatory capital of First Federal at December 31, 2007, and the amount by which it exceeds the minimum capital requirements. Tangible and core capital are reflected as a percentage of adjusted total assets. Total (or risk-based) capital, which consists of core and supplementary capital, is reflected as a percentage of risk-weighted assets. Assets are weighted at percentage levels ranging from 0% to 100% depending on their relative risk.

	December 31, 2007	
	Amount	**Percent**
	(In Thousands)	
Tangible Capital	**$ 156,856**	**10.03%**
Requirement	**23,469**	**1.50**
Excess	**$ 133,387**	**8.53%**
Core Capital	**$ 156,856**	**10.03%**
Requirement	**62,584**	**4.00**
Excess	**$ 94,272**	**6.03%**
Total risked-based capital	**$ 170,746**	**12.71%**
Risk-based requirement	**107,446**	**8.00**
Excess	**$ 63,300**	**4.71%**

First Federal's capital at December 31, 2007, meets the standards for a well-capitalized institution. There are no conditions or events since the most recent notification from the OTS regarding those capital standards that management believes have changed any of the well-capitalized categorizations of First Federal.

Transactions with Insiders and Affiliates. Loans to executive officers, directors and principal shareholders and their related interests must conform to the lending limits. Most loans to directors, executive officers and principal shareholders must be approved in advance by a majority of the "disinterested" members of board of directors of the association with any "interested" director not participating. All loans to directors, executive officers and principal shareholders must be made on terms substantially the same as offered in comparable transactions with the general public or as offered to all employees in a company-wide benefit program. Loans to executive officers are subject to additional restrictions. In addition, all related party transactions must be approved by the Company's audit committee pursuant to Nasdaq Rule 4350(h), including loans made by financial institutions in the ordinary course of business. All transactions between savings associations and their affiliates must comport with Sections 23A and 23B of the Federal Reserve Act (FRA) and the Federal Reserve Board's (FRB) Regulation W. An affiliate of a savings association is any company or entity that controls, is controlled by or is under common control with the savings association. First Defiance is an affiliate of First Federal.

Holding Company Regulation. First Defiance is a unitary thrift holding company and is subject to OTS regulations, examination, supervision and reporting requirements. Federal law generally prohibits a thrift holding company from controlling any other savings association or thrift holding company, without prior approval of the OTS, or from acquiring or retaining more than 5% of the voting shares of a savings association or holding company thereof, which is not a subsidiary. If First Defiance were to acquire control of another savings institution, other than through a merger or other business combination with First Federal, First Defiance would become a multiple thrift holding company and its activities would thereafter be limited generally to those activities authorized by the FRB as permissible for bank holding companies.

Item 1A. Risk Factors

An investment in the Company's common stock is subject to risks inherent to the Company's business. The material risks and uncertainties that management believes affect the Company are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are the not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company's business operations.

If any of the following risks actually occur, the Company's financial condition and results of operations could be materially and adversely affected. If this were to happen, the market price of the Company's common stock could decline significantly, and you could lose all or part of your investment.

Interest Rate Risk

The earnings and financial condition of First Defiance are dependent to a large degree upon net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. The narrowing of the spread between interest earned on loans and investments and interest paid on deposits and borrowings could adversely affect our earnings and financial condition.

Interest rates are highly sensitive to many factors including:

- The rate of inflation;
- Economic conditions;
- Federal monetary policies;
- Stability of domestic and foreign markets.

Changes in market interest rates will also affect the level of prepayments on loans as well as the payments received on mortgage backed securities, requiring the reinvestment at lower rates than the loans or securities were paying.

First Federal Bank originates a significant amount of residential mortgage loans for sale and for its portfolio. The origination of residential mortgage loans is highly dependent on the local real estate market and the level of interest rates. Increasing interest rates tend to reduce the origination of loans for sale and consequently fee income, which we report as mortgage banking income. Conversely, decreasing interest rates have the effect of causing clients to refinance mortgage loans faster than anticipated. This causes the value of mortgage servicing rights on the loans sold to be lower than originally anticipated. If this happens, the Company may be required to write down the value of our mortgage servicing rights faster than anticipated, which will increase expense and lower earnings.

Credit Risk

First Defiance's earnings and financial condition may be adversely affected if the Company fails to adequately manage credit risk. The Company's primary business is the origination and underwriting of loans. This business requires the Company to take "credit risk" which is the risk of losing principal and interest income because borrowers fail to repay their loans. The ability of borrowers to repay their loans and the value of collateral securing such loans may be affected by a number of factors including:

- A slowdown in the local economy where the Company's markets are located or the national economy;
- A downturn in the business sectors in which the Company's loan customers operate;
- A rapid increase in interest rates.

Liquidity Risk

Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. The liquidity of the Company is used to make loans and to repay deposit liabilities as they become due or are demanded by customers. Liquidity policies and limits are established by the board of directors, with limits monitored by the Asset/Liability committee.

First Defiance's sources of liquidity include both local deposits and wholesale funding sources. Wholesale funding sources include Federal Home Loan Bank advances, Federal Funds purchased, securities sold under repurchase agreements, brokered or other out-of-market certificate of deposit purchases, and a line of credit with a commercial bank. Also the Company maintains a portfolio of securities that can be used as a secondary source of liquidity. Other sources of liquidity that may be available if necessary include the sale or securitization of loans, the issuance of additional collateralized borrowings beyond those currently utilized with the Federal Home Loan Bank, the issuance of debt securities and the issuance of preferred or common securities in public or private transactions.

The inability of the Company to access the above listed sources of liquidity when needed could cause First Federal to be unable to meet customer needs, which could adversely impact its financial condition, results of operations, cash flow, or regulatory capital levels. For further discussion, see the “Liquidity and Capital Resources” section included in the 2007 Annual Report to Stockholders, which is filed as Exhibit 13.1 to this report, and incorporated herein by reference.

Economy

The Company operates its banking and insurance business units within the geographic area comprised of the northwest corner of the state of Ohio and adjacent counties in Indiana and Michigan. Weaknesses in this geographic market area could be caused by such factors as an increase in the unemployment rate, a decrease in real estate values, or significant increases in interest rates. Any such weakness could have a negative impact on First Defiance’s earnings and financial condition because:

- Demand for financial products and services may go down;
- Borrowers may be unable to make payments on their loans;
- The value of collateral securing loans may decline;
- The overall quality of the loan portfolio may decline;
- Local market-area deposits may decline, impacting the Company’s cost of funding and its liquidity.

Competition

Competition in the Company’s market area may reduce First Defiance’s ability to originate loans and attract and retain deposits. First Defiance faces competition both in originating loans and attracting deposits. Competition is intense in the financial services industry. The Company competes in its market area by offering superior service and competitive rates and products. The type of institutions First Defiance competes with include large regional commercial banks, smaller community banks, savings institutions, mortgage banking firms, credit unions, finance companies, brokerage firms, insurance agencies and mutual funds. As a result of their size and ability to achieve economies of scale, certain of First Defiance’s competitors can offer a broader range of products and services than the Company can offer. To stay competitive in its market area, First Defiance may need to adjust the interest rates on its products to match rates of its competition, which will have a negative impact on net interest margin. The Company’s continued profitability depends on its ability to continue to effectively compete in its market areas.

Operational Risks

First Defiance processes a large volume of transactions on a daily basis and is exposed to numerous types of risks resulting from inadequate or failed internal processes, people and systems. These risks include but are not limited to the risk of fraud by persons inside or outside the Company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. The risk of loss also includes the potential legal actions that could arise as a result of operational deficiencies or as a result of noncompliance with applicable regulatory standards.

The Company has established and maintains a system of internal controls that provide management with information on a timely basis and allows for the monitoring of compliance with operational standards. While not foolproof, these systems have been designed to manage operational risks at an appropriate, cost effective level. Procedures exist that are designed to ensure that policies relating to conduct, ethics, and business practices are followed. Periodically losses from operational risks may occur, including the effects of operational errors. Such losses are included in non-interest expense as incurred. While management continually monitors the system of internal control, as well as data processing systems and corporate-wide processes and procedures, there can be no assurance that future losses will not occur.

First Defiance's operations are also dependent on the existing infrastructure, including equipment and facilities. Extended disruption of vital infrastructure as a result of fire, power loss, natural disaster, telecommunications failures, computer hacking or viruses, terrorist activity or the domestic response to such activity, or other events outside of the control of management could have a material adverse impact on the financial services industry as a whole and on First Defiance's business, results of operations, cash flows and financial condition in particular. First Defiance has a business recovery plan but there are no assurances that such plan will work as intended or that it will prevent significant interruptions to operations.

Government Regulation

First Defiance's business may be adversely affected by changes in the regulatory environment or by changes in government policies as a whole. The earnings of financial institutions such as First Defiance and First Federal are affected by the policies of the regulatory authorities, including the Federal Reserve Board, which regulates the money supply, and the Office of Thrift Supervision, which regulates unitary thrift holding companies such as First Defiance and savings banks such as First Federal.

Among the methods employed by the Federal Reserve Board are open market operations in U.S. Government securities, changes in the discount rate on member bank borrowings, and changes in the reserve requirement against member bank deposits. These tools are utilized by the Federal Reserve in varying combinations to influence overall growth and distribution of bank loans, investments and deposits and they have a significant impact on interest rates charged on loans and paid on deposits. The influence of the monetary policies of the Federal Reserve Board is expected to have a continuing and profound effect on the operating results of commercial and savings banks.

Policies, administration guidelines, and regulatory practices of the Office of Thrift Supervision and other banking regulators have a significant impact on the operations of First Federal and First Defiance. It is possible that certain of those regulations will negatively impact the Company's operating results or financial condition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2007, First Federal conducted its business from its main office at 601 Clinton Street, Defiance, Ohio, and twenty-six other full service banking centers in northwestern Ohio and northeastern Indiana. First Insurance conducted its business from leased office space at 419 5th Street, Suite 1200, Defiance, Ohio and 209 West Poe Road, Bowling Green, Ohio.

First Defiance maintains its headquarters in the main office of First Federal at 601 Clinton Street, Defiance, Ohio. Back-office operations departments, including information technology, loan processing and underwriting, deposit processing, accounting and risk management are headquartered in an operations center located at 25600 Elliott Road, Defiance, Ohio.

The following table sets forth certain information with respect to the office and other properties of the Company at December 31, 2007. See Note 9 to the Consolidated Financial Statements.

Description/address	Leased/ Owned	Net Book Value of Property	Deposits
		(In Thousands)	
Main Office, First Federal			
601 Clinton Street, Defiance, OH	Owned	$ 5,189	$ 212,007
Operations Center			
25600 Elliott Road, Defiance, OH	Owned	6,980	N/A
Branch Offices, First Federal			
204 E. High Street, Bryan, OH	Owned	877	115,694
211 S. Fulton Street, Wauseon, OH	Owned	606	53,763
625 Scott Street, Napoleon, OH	Owned	1,290	67,185
1050 East Main Street, Montpelier, OH	Owned	448	34,319
926 East High Street, Bryan, OH	Owned	91	6,741
1800 Scott Street, Napoleon, OH	Owned	1,554	23,030
1177 N. Clinton Street, Defiance, OH	Owned, Land Lease Leased	1,164	33,577
905 N. Williams St., Paulding, OH	Owned	926	39,526
201 E. High St., Hicksville, OH	Owned	462	22,142
3900 N. Main St., Findlay, OH	Owned	1,185	47,488
11694 N. Countyline St., Fostoria, OH	Owned	763	24,974
1226 W. Wooster, Bowling Green, OH	Owned	1,183	64,331
301 S. Main St., Findlay, OH	Owned	1,281	36,738
405 E. Main St., Ottawa, OH	Owned	393	73,010
124 E. Main St., McComb, OH	Owned	239	20,973
7591 Patriot Dr., Findlay, OH	Owned	1,313	33,170
417 W Dussell Dr., Maumee, OH	Owned, Land Lease	1,077	32,848
230 E. Second St., Delphos, OH	Owned	1,245	96,163
105 S. Greenlawn Ave., Elida, OH	Owned	388	35,545
2600 Allentown Rd., Lima, OH	Owned	925	36,697
2285 N. Cole St., Lima, OH	Owned	468	10,261
22020 W. State Rt. 51, Genoa, OH	Owned	1,028	37,256
2760 Navarre Ave., Oregon, OH	Owned, Land Lease	253	19,483
1077 Louisiana Ave., Perrysburg, OH	Owned	626	18,873
2565 Shawnee Road, Lima, OH	Owned	1,713	11,505
7437 Coldwater Road, Fort Wayne, IN	Leased	70	10,559
First Insurance & Investments			
419 5th Street, Suite 1200, Defiance, OH	Leased	174	N/A
209 West Poe Road, Bowling Green, OH	Leased	24	N/A
		$ 33,935	$ 1,217,858

Item 3. Legal Proceedings

First Defiance is involved in routine legal proceedings occurring in the ordinary course of business which, in the aggregate, are believed by management to be immaterial to the financial condition of First Defiance.

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

No matters were submitted to a vote of securities holders during the fourth quarter of 2007.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock trades on The Nasdaq Global Select Market under the symbol "FDEF." As of March 7, 2008, the Company had 2,020 shareholders of record.

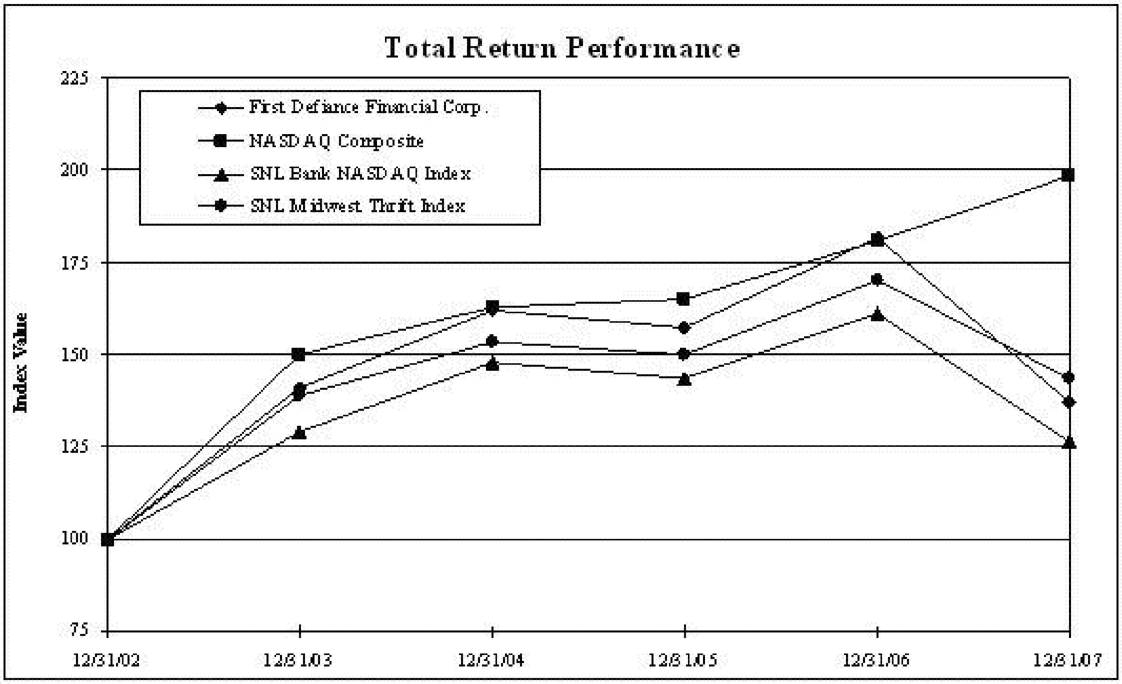
The table below shows the reported high and low sales prices of the common stock and cash dividends declared per share of common stock during the periods indicated in 2006 and 2005.

	Years Ending					
	December 31, 2007			December 31, 2006		
	High	Low	Dividend	High	Low	Dividend
Quarter ended:						
March 31	**$ 30.25**	**$ 27.25**	**$ .25**	$ 28.88	$ 25.39	$ .24
June 30	**30.00**	**26.71**	**.25**	30.29	25.09	.24
September 30	**29.64**	**23.99**	**.25**	28.69	25.18	.24
December 31	**26.93**	**20.58**	**.26**	30.70	26.87	.25

The OTS imposes various restrictions or requirements on the ability of associations to make capital distributions. Capital distributions include, without limitation, payments of cash dividends, repurchases and certain other acquisitions by an association of its shares and payments to stockholders of another association in an acquisition of such other association.

An application must be submitted and approval from the OTS must be obtained by a subsidiary of a savings and loan holding company (i) if the proposed distribution would cause total distributions for the calendar year to exceed net income for that year to date plus the savings association's retained net income for the preceding two years; (ii) if the savings association will not be at least adequately capitalized following the capital distribution; or (iii) if the proposed distribution would violate a prohibition contained in any applicable statute, regulation or agreement between the savings association and the OTS (or the FDIC), or a condition imposed on the savings association in an OTS-approved application or notice. If a savings association subsidiary of a holding company is not required to file an application, it must file a notice of the proposed capital distribution with the OTS. First Federal did not pay any dividends to First Defiance during 2007 or 2006.

The line graph below compares the yearly percentage change in cumulative total shareholder return on First Defiance common stock and the cumulative total return of the NASDAQ Composite Index, the SNL NASDAQ Bank Index and the SNL Midwest Thrift Index. An investment of $100 on December 31, 2002, and the reinvestment of all dividends are assumed.



	Period Ending					
Index	**12/31/02**	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**
First Defiance Financial Corp.	100.00	141.03	162.03	157.09	181.85	137.26
NASDAQ Composite	100.00	150.01	162.89	165.13	180.85	198.60
SNL Bank NASDAQ Index	100.00	129.08	147.94	143.43	161.02	126.42
SNL Midwest Thrift Index	100.00	138.93	153.42	149.92	170.16	143.72

First Defiance completed the following common stock repurchases during the 2007 fourth quarter:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (a)
October 1, 2007 to October 31. 2007	8,564	$ 22.54	8,564	154,276
November 1, 2007 to November 30, 2007	21,850	$ 22.08	21,850	132,426
December 1, 2007 to December 31, 2007	9,567	$ 22.69	9,567	122,859
Total	39,981	$ 22.32	39,981	122,859

(a) On July 18, 2003, First Defiance announced that its Board of Directors had authorized management to repurchase up to 10% of the Registrant’s common stock through open market or in any private transaction. The authorization, which is for 639,828 shares, does not have an expiration date.

Item 6. Selected Financial Data

Information required by this item is set forth on pages 12 and 13 in the 2007 Annual Report to Stockholders, which is filed as Exhibit 13.1 to this report, and incorporated by reference.

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

Information required by this item is set forth in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the 2007 Annual Report to Stockholders, which is filed as Exhibit 13.1 to this report, and incorporated herein by reference.

Item 7a: Quantitative and Qualitative Disclosures About Market Risk

Information required by this item is set forth in the caption “Quantitative and Qualitative Disclosure About Market Risk” included in the 2007 Annual Report to Stockholders, which is filed as Exhibit 13.1 to this report and incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

Information required by this item is set forth in the Reports of Independent Registered Public Accounting Firms, Consolidated Statements of Financial Condition, Consolidated Statements of Income, Consolidated Statements of Stockholders’ Equity, Consolidated Statements of Cash Flows and Notes to Consolidated Financial Statements included in the 2007 Annual Report to Stockholders, which is filed as Exhibit 13.1 to this report and incorporated herein by reference.

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9a: Controls and Procedures

First Defiance's management carried out an evaluation, under the supervision and with the participation of the chief executive officer and the chief financial officer, of the effectiveness of the design and operation of First Defiance's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2007, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the chief executive officer along with the chief financial officer concluded that First Defiance's disclosure controls and procedures as of December 31, 2007, are effective in timely alerting them to material information relating to First Defiance Financial Corp. (including its consolidated subsidiaries) required to be included in First Defiance's periodic filings under the Exchange Act.

Internal Control Over Financial Reporting

Information required by this item is set forth in "Report of Management and "Report of Independent Registered Public Accounting Firm" included in the 2007 Annual Report to Stockholders which is filed as Exhibit 13.1 to this report and incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There were no changes in First Defiance's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15 (f) under the Exchange Act) during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect First Defiance's internal control over financial reporting.

Item 9b: Other Information

None

PART III

Item 10: Directors and Executive Officers of the Registrant

The information required herein is incorporated by reference from the sections captioned: "Proposal 1 - Election of Directors", "Executive Officers", and "Section 16(a) Beneficial Ownership Compliance" of the definitive proxy statement dated March 21, 2008.

First Defiance has adopted a Code of Ethics applicable to all officers, directors and employees that complies with SEC requirements.

Item 11: Executive Compensation

Information required by this item is set forth under the captions "Executive Compensation" and "Director Compensation" of the definitive proxy statement dated March 21, 2008.

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is set forth under the caption "Beneficial Ownership" of the definitive proxy statement dated March 21, 2008.

Equity Compensation Plans

The following table provides information as of December 31, 2007 with respect to the shares of First Defiance Financial Corp. common stock that may be issued under First Defiance's existing equity compensation plans.

Plan Category	Number of securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
1993 Stock Incentive Plan	600	$ 10.52	-0-
1996 Stock Option Plan	73,639	$ 15.08	-0-
2001 Stock Option and Incentive Plan	216,350	$ 19.32	1,350
2005 Stock Option and Incentive Plan	127,750	$ 26.65	222,600
1996 Management Recognition Plan	N/A	N/A	155

Item 13: Certain Relationships and Related Transactions, and Director Independence

Information required by this item is set forth under the captions "Composition of the Board" and "Related Person Transactions" of the definitive proxy statement dated March 21, 2008.

Item 14: Principal Accountant Fees and Services

Information required by this item is set forth under the caption "Independent Registered Public Accounting Firm" of the definitive proxy statement dated March 21, 2008.

PART IV

Item 15: Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

The report of independent registered public accounting firms and consolidated financial statements appearing in our 2007 Annual Report on the pages indicated below are incorporated by reference in Item 8.

(1) We are not filing separately financial statement schedules because of the absence of conditions under which they are required or because the required information is included in the consolidated financial statements or the related notes.

(2) The exhibits required by this item are listed in the Exhibit Index of this Form 10-K. The management contracts and compensation plans or arrangements required to be filed as exhibits to this Form 10-K are listed as Exhibits 10.1 through 10.12.

(3) See Item 15(a)(2) above.

SIGNATURES

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

FIRST DEFIANCE FINANCIAL CORP.

March 14, 2008

By: /s/ John C. Wahl
John C. Wahl, Exec.V.P, Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 14, 2008.

Signature	Title
/s/ William J. Small William J. Small	Chairman of the Board, President and Chief Executive Officer
/s/ John C. Wahl John C. Wahl	Executive Vice President and Chief Financial Officer
/s/ James L. Rohrs James L. Rohrs	Director, Executive Vice President
/s/ Stephen L. Boomer Stephen L. Boomer	Director, Vice Chairman
/s/ John L. Bookmyer John L. Bookmyer	Director
/s/ Dr. Douglas A. Burgei Dr. Douglas A. Burgei	Director
/s/ Peter A. Diehl Peter A. Diehl	Director
/s/ Dr. John U. Fauster, III Dr. John U. Fauster, III	Director
/s/ Dwain I. Metzger Dwain I. Metzger	Director
/s/ Gerald W. Monnin Gerald W. Monnin	Director
/s/ Samuel S. Strausbaugh Samuel S. Strausbaugh	Director
/s/ Thomas A. Voigt Thomas A. Voigt	Director

Exhibit Index

This report incorporates by reference the documents listed below that we have previously filed with the SEC. The SEC allows us to incorporate by reference information in this document. The information incorporated by reference is considered to be part of this document.

This information may be read and copied at the Public Reference Room of the SEC at 100 F Street, N.E., Washington D.C. 20549. The SEC also maintains an internet web site that contains reports, proxy statements, and other information about issuers, like First Defiance, who file electronically with the SEC. The address of the site is http://www.sec.gov. The reports and other information filed by First Defiance with the SEC are also available at the First Defiance Financial Corp. web site. The address of the site is http://www.fdef.com. Except as specifically incorporated by reference into this Annual Report on Form 10-K, information on those web sites is not part of this report.

Exhibit Number	Description	
3.1	Articles of Incorporation	(1)
3.2	Code of Regulations	(1)
3.2	Bylaws	(1)
4	Agreement to furnish instruments and agreements defining rights of holders of long-term debt	(4)
10.1	1996 Stock Option Plan	(2)
10.2	Form of Incentive Stock Option Award Agreement	(3)
10.3	Form of Nonqualified Stock Option Award Agreement	(3)
10.4	1996 Management Recognition Plan and Trust	(2)
10.5	2001 Stock Option and Incentive Plan	(5)
10.6	1993 Stock Incentive Plan	(1)
10.7	Employment Agreement with William J. Small	(6)
10.8	Employment Agreement with James L. Rohrs	(7)
10.9	Employment Agreement with John C. Wahl	(8)
10.10	Employment Agreement with Gregory R. Allen	(9)
10.11	Description of Annual Bonus	(4)
10.12	2005 Stock Option and Incentive Plan	(10)
13.1	2007 Annual Report to Stockholders	(4)
14	Code of Ethics	(4)
21	List of Subsidiaries of the Company	(4)
23.1	Consent of Crowe Chizek and Company LLC	(4)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	(4)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	(4)
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	(4)
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	(4)

(1) Incorporated herein by reference to the like numbered exhibit in the Registrant's Form S-1 (File No. 33-93354).
(2) Incorporated herein by reference to like numbered exhibit in Registrant's 2001 Form 10-K
(3) Incorporated herein by reference to like numbered exhibit in Registrant's 2004 Form 10-K

(4) Included herein
(5) Incorporated herein by reference to Appendix B to the 2001 Proxy Statement
(6) Incorporated herein by reference to exhibit 10.1 in Form 8-K filed October 1, 2007
(7) Incorporated herein by reference to exhibit 10.2 in Form 8-K filed October 1, 2007
(8) Incorporated herein by reference to exhibit 10.3 in Form 8-K filed October 1, 2007
(9) Incorporated herein by reference to exhibit 10.4 in Form 8-K filed October 1, 2007
(10) Incorporated herein by reference to Appendix A to the 2005 Proxy Statement

(Back To Top)

Section 2: EX-4 (EXHIBIT 4)

Exhibit 4

March 14, 2008

Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Re: First Defiance Financial Corp. – Annual Report on Form 10-K for the Fiscal Year Ended December 31, 2007

Ladies and Gentlemen:

Today, First Defiance Financial Corp., an Ohio corporation (“First Defiance”), is filing its Annual Report on Form 10-K for the fiscal year ended December 31, 2006 (the “Form 10-K”) with the Securities and Exchange Commission (the “SEC”).

Pursuant to the instructions relating to the Exhibits in Item 601(b)(4)(iii) of Regulation S-K, First Defiance hereby agrees to furnish the SEC, upon request, copies of instruments and agreements, defining the rights of holders of First Defiance’s long-term debt and of the long-term debt of its consolidated subsidiaries, which are not being filed as exhibits to the Form 10-K. The total amount of securities issued under any instrument of such long-term debt does not exceed 10% of the total assets of First Defiance and its subsidiaries on a consolidated basis.

Very truly yours,

FIRST DEFIANCE FINANCIAL CORP.

/s/ John C. Wahl

John C. Wahl
Chief Financial Officer

(Back To Top)

Section 3: EX-10.11 (EXHIBIT 10.11)

Exhibit 10.11

Summary of Cash Bonus Plan

The Compensation Committee of the Board of Directors of First Defiance Financial Corp. ("First Defiance") administers First Defiance's annual cash bonus plan for officers of First Defiance and its subsidiary, First Federal Bank of the Midwest. The annual cash bonus paid to officers is based on First Defiance's annual performance as measured by four key performance measures: earnings per share, growth in revenue, return on average equity and return on average assets. In determining the amount of cash bonus to be awarded, each of the target measures is assigned a weighting factor: 50% for earnings per share and 20% for revenue growth, 20% for return on average equity and 10% for return on average assets.

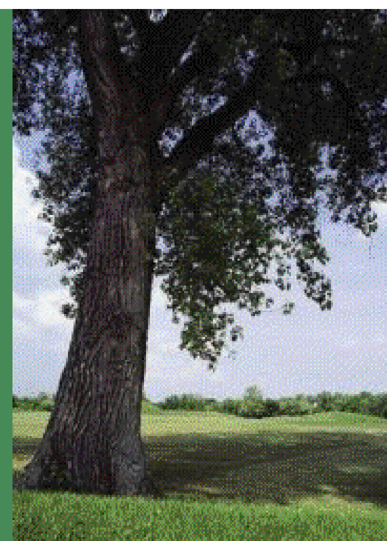
Within each of these four components, there are threshold, target and maximum goals. Performance below the threshold results in no payout for that component. Performance at the threshold level results in a 50% payout of that component. Performance at the target level results in a 100% payout of that component. Performance at or above the maximum goal results in a 150% payout of that component. Exact payout percentages for payouts within the 50% to 150% range are calculated based on actual results. The payout percentage achieved for each component is then multiplied by the weighting factor (50%, 20%, or 10%) and those four components are added together to determine the percentage of potential bonus that will be paid.

This payout percentage is then applied to the bonus potential for each officer. The Chief Executive Officer has a potential bonus equal to 45% of his base salary, the Chief Financial Officer, the President of First Federal Bank and the Market Area Presidents of First Federal Bank each have a potential bonus equal to 35% of base salary. Other officers with the rank of Executive Vice President have a potential bonus equal to 30% of base salary. Other officers with the rank of Senior Vice President have bonus potential ranging between 20% and 30% of base salary depending upon the officer's level of responsibility.

(Back To Top)

Section 4: EX-13.1 (EXHIBIT 13.1)

Exhibit 13.1



GROWTH.

STRENGTH.

STABILITY.

2007 ANNUAL REPORT

FIRST DEFIANCE
FINANCIAL CORP.

First Defiance Financial Corp. Profile

First Defiance Financial Corp., headquartered in Defiance, Ohio is the holding company for First Federal Bank of the Midwest and First Insurance & Investments. First Federal Bank operates 28 full service branches and 35 ATMs in twelve counties in northwest Ohio and in Fort Wayne, Indiana. First Insurance & Investments, with offices in Defiance and Bowling Green, Ohio, specializes in life and group health insurance.

Founded in 1920 as Northwest Savings, First Federal was chartered in 1935 as a federal mutual savings and loan company. First Federal converted to a Mutual Holding Company and issued its first stock to the public and employees in 1993. In September 1995, First Federal converted to a full stock company, trading stock on the NASDAQ national market under the ticker symbol FDEF. At the same time, First Defiance Financial Corp. was founded as the holding company for First Federal. The bank's name was changed to First Federal Bank of the Midwest in 1999, to reflect our desire to provide more comprehensive financial products and services.

Since 2003, First Defiance has acquired three banking offices, opened three de novo offices and completed acquisitions of ComBanc, Inc., based in Delphos, Ohio in Allen County, and Genoa Savings and Loan, based near Toledo in Genoa, Ohio. First Defiance also announced in October 2007 the intent to acquire Pavilion Bancorp based in Adrian, Michigan.

We invite you to review the enclosed materials highlighting the past successes and future plans of First Defiance Financial Corp.

Safe Harbor Statement

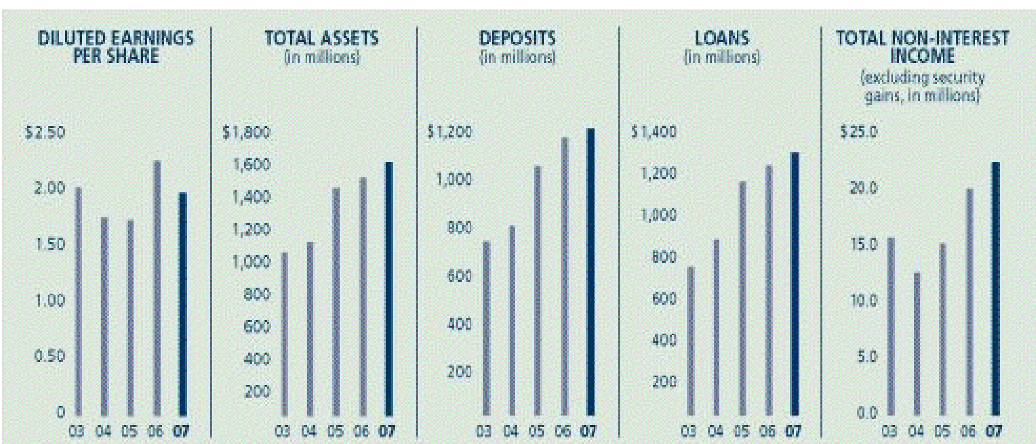
Table of Contents

Growth. Strength. Stability.

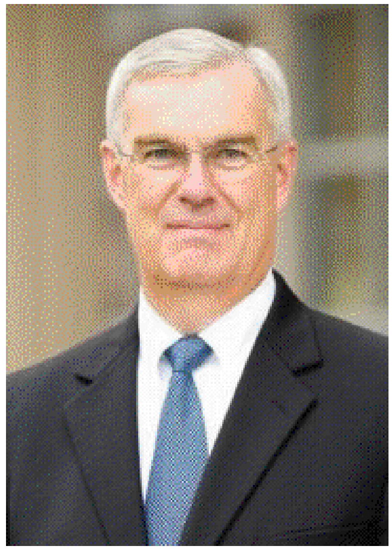
2007 Financial Highlights *(In Thousands, Except Per Share Amounts)*

Summary of operating results		**2007**		**2006**	**% Change**
Net interest income	$	48,662	$	49,022	(0.73%)
Provision for loan losses		2,306		1,756	31.3%
Noninterest income (excluding securities gains/losses)		22,101		19,626	12.6%
Securities gains (losses)		21		(2)	NM
Non-interest expense		48,113		43,839	9.7%
Net income		13,904		15,600	(10.9%)
Balance Sheet Data					
Total Assets	$	1,609,404	$	1,527,879	5.3%
Loans, net		1,275,806		1,226,310	4.0%
Deposits		1,217,858		1,138,445	7.0%
Stockholders' equity		165,954		159,825	3.8%
Allowance for loan losses		(13,890)		(13,579)	2.3%
Key Ratios:					
Average net interest margin		3.55%		3.68%	(3.5%)
Return on average assets		0.90%		1.04%	(13.5%)
Return on average equity		8.48%		10.03%	(15.5%)
Efficiency ratio		67.29%		63.31%	(6.3%)
Share information:					
Basic earnings per share	$	1.96	$	2.22	(11.7%)
Diluted earnings per share		1.94		2.18	(11.0%)
Dividends per common share		1.01		0.97	4.1%
Book value per common share		23.51		22.38	5.0%
Shares outstanding at end of period		7,059		7,142	(1.2%)

NM- % not meaningful



GROWTH. STRENGTH. STABILITY.



WILLIAM J. SMALL
Chairman, President & CEO

While the 2007 results at First Defiance Financial Corp. were not up to our traditionally high expectations, on a relative basis within the banking industry, and despite the national economic conditions, we came through with a very solid performance. We grew loans and deposits at a consistent pace, acquired an insurance agency, opened a new office across the state line in Indiana, and announced an acquisition of a banking franchise in Michigan.

For the banking industry, 2007 will be remembered as a "subprime" year for a variety of reasons. Most notable was the dramatic impact that sub prime mortgage lending had on the balance sheet and income statement of many banks across the country. Residential real estate suffered from falling property values and, in many areas, a glut of properties on the market. In addition, the country struggled under an uncertain economic environment that created tentative consumers and cautious businesses, especially in the final quarter of 2007. For many banks these conditions resulted in decreased demand for loans and banking services, adding to the existing earnings challenges from net interest margin compression and higher credit costs.

Though these challenges were felt to some degree by all banks regardless of size or geographic location, I am proud to say that First Defiance Financial Corp. and its subsidiary, First Federal Bank of the Midwest, are among those that escaped much of the damage. We have never been involved in originating or investing in sub prime products, and we have the benefit of a strong credit culture that helped us weather the storm with a unique sense of strength and stability.

The 2007 First Defiance year-end results reflected a decrease both in earnings and credit quality due to the climate described above. However, we stayed true to our basic operating strategy and our emphasis on an unwavering credit culture, allowing us to navigate through the rough environment. We were successful in growing both loans and deposits during the year and we were especially pleased with our growth in non-interest bearing core deposits, which was a priority for us. Credit quality ratios deteriorated slightly, but our effective asset review program identifies these credits early, and we believe that we have adequately reserved for potential issues. This adherence to our core community banking philosophy along with the foresight to plan for many of these challenges resulted in a strong operating performance in 2007 relative to our peers.

2007 Growth Initiatives

Despite the challenging environment, we moved forward with a number of initiatives in 2007 that will add to our future growth and strength. Among them:

- In February, we acquired the Huber, Harger, Welt and Smith Insurance Agency located in Bowling Green, Ohio and folded it into our First Insurance & Investments business unit. Bowling Green is a robust banking market for us and the addition of this insurance office allows us to better serve all of the financial service needs in that area. This acquisition is also part of our ongoing strategy to develop and grow additional sources of non-interest income.

- In August, we opened a new full-service banking office in Fort Wayne, Indiana, a market where we have developed a number of solid loan relationships over the years. Our goal was to expand those existing customer relationships and acquire new customers. By December, we had already generated almost $10 million in deposits, reinforcing our belief in the potential of the market.

- In October, we announced an agreement to purchase Pavilion Bancorp, based in Adrian, Michigan. This acquisition, which is projected to close at the end of the first quarter of 2008, adds eight new banking offices and extends the First Federal Bank of the Midwest brand into southeastern Michigan. Pavilion Bancorp has a similar base of commercial and retail customers and serves the type of communities where First Federal Bank excels.

Positively Positioned for 2008

Our overall performance was certainly not reflected in our stock performance in 2007. We experienced an industry bias compounded by a geographic bias because many feel that the Midwest is economically the hardest hit region in the country. While I cannot argue with many of the economic reports on the challenges in our region, I know that there are also significant opportunities for a progressive bank to perform well here, and I think our 2007 results bear that out. If we maintain our commitment to our community financial services strategy and continue to offer high quality products and services through an experienced, trusted staff, we will continue to grow profitably.

As we proceed into 2008 we face many obstacles, but we feel positive about the way we have positioned our company for success. I see great potential for First Defiance to make our mark as the financial services leader in our new locations and continue to gain market share in our established markets. The banking landscape in a large portion of our footprint has been impacted by merger and acquisition activity and we have benefited from this disruption. We are now the largest community bank in northwest Ohio and we have a tested and proven banking strategy with a “Customer First” focus. We will continue to build on this strategy as we strive to become an even higher performing community bank. We appreciate your investment in and past support of First Defiance Financial Corp. and we look forward with you to our future growth and profitability.

Sincerely,

William J. Small
Chairman, President, and CEO

We can learn a lesson or two from the way nature crafts a tree. From a mere seedling, a healthy tree grows stronger and more vibrant every year, able to withstand tempestuous winds, extreme seasonal changes and even times of drought and fire. A mature tree can tell a story through its pattern of growth rings—demonstrating ability to narrow and conserve energy in tough times and expand exponentially in favorable climates.

Trees are symbolic of the way successful banks must operate. The current financial services industry environment is unsettled. Overall economic indicators are erratic, Federal Reserve rate changes are unpredictable, and net interest margins are under constant pressure. Without a vigorous core philosophy that can withstand a myriad of economic challenges, a bank will fail to thrive in such an environment.

Jennifer Moenter (left) discusses her home building project with Cindy Metzger, branch manager of First Federal Bank in Delphos.

At First Federal Bank, we have created a community banking model that is tested and proven in small and large markets and in good and bad economic times. It is a model based on values such as putting the customer first, being a trusted advisor to our clients, making decisions locally, and consistently increasing the value of the company. By consciously and purposefully building on our goal of becoming an even higher performing community bank, we are positioned for continued steady growth despite difficult economic conditions.

In 2007, First Federal Bank:

- Experienced significant organic growth through successful targeted customer acquisition campaigns and initiatives, resulting in 14% growth in non-interest bearing deposits and a positive shift in deposit mix. The CDARS (Certificate of Deposit Registry Service) program that allows depositors to receive full FDIC coverage over $100,000, grew from 90 customers and $18 million in deposits in 2006 to 209 customers and $55 million in deposits in 2007. Likewise, the Remote Deposit Service experienced remarkable growth last year, adding 70 customers in less than twelve months. With these new accounts, First Federal Bank now regularly processes over 17,500 checks averaging $37 million remotely every month.

- Continued our drive to be the bank of choice for commercial clients throughout our region, by adding $50.2 million in commercial loans and $22.5 million in non-residential real estate loans while still maintaining solid credit quality ratios.

Tim Harris (left), EVP, Eastern Market President of First Federal Bank meets with customer Taylor Gedert, owner of Gedert's Greenhouse in Maumee, Ohio.

- Maintained an even pace in mortgage lending volume, despite the national upheaval in the subprime mortgage lending market. Working diligently and prudently, First Federal Bank, which has never been involved in subprime lending practices, was able to meet and even slightly exceed 2006 mortgage loan volume levels.

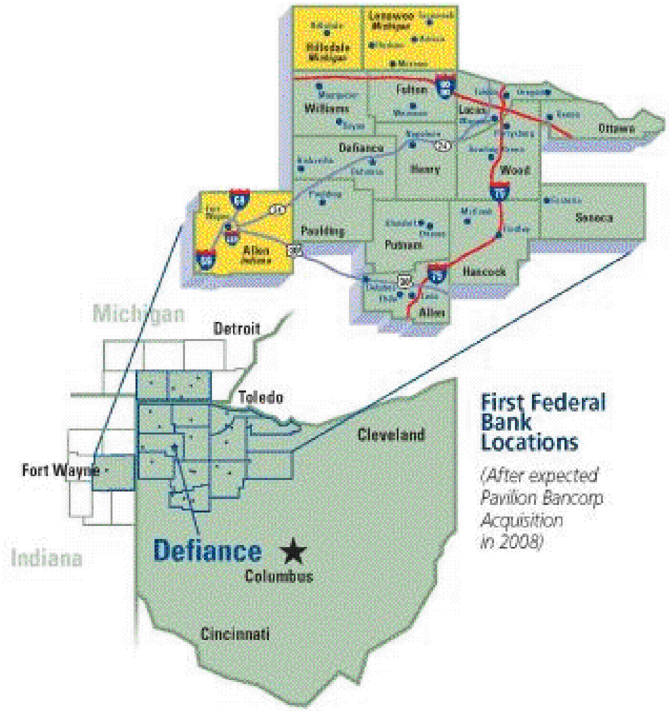
- Extended our community banking philosophy to several new markets. Our Fort Wayne, Indiana branch opened in August 2007. The new office, located on a busy thoroughfare, recorded nearly $10 million in deposits after its first five months in business. Late in the year, we announced our intention to open a banking center in Glandorf, Ohio, our second banking office in Putnam County. That office opened in February of 2008.

- Announced an agreement with Pavilion Bancorp, Inc., based in Adrian, Michigan, to acquire the Bank of Lenawee offices. The transaction is scheduled to close in March 2008. With the addition of the eight Bank of Lenawee offices, First Federal Bank will have 36 banking offices throughout northwest Ohio, southeastern Michigan and Allen County, Indiana.

- Introduced beneficial new products such as Private Banking, Premium Savings Account, Rapid Reduction Mortgage Loans and Advantage Home Equity Loans to meet the needs of our customers and respond to the changing rate environment.

- Provided convenient new ways to access our banking services through a completely updated and more user-friendly, interactive website and an upgraded and more accessible telephone banking service.

- Focused on process improvement and efficiency by consolidating back office services from four buildings into one central operations center, which opened in December 2007.



First Federal Bank Locations

(After expected Pavilion Bancorp Acquisition in 2008)

Rooted in our communities

As a community bank with roots in the region dating back almost 90 years, we take seriously our responsibility to give back to our communities. Traditionally, First Federal Bank donates well over $200,000 in support funds plus countless hours of volunteer time every year to worthy causes.

In 2007, we were intimately involved in one of the worst natural disasters to hit an area of our market in a century. A severe flood devastated two of the counties in which we operate and halted banking business in two of our own banking offices—one for several days, one for over three months.

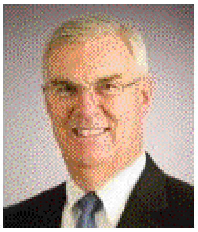
In response to the disaster, we collected relief funds in all 27 of our offices, provided free lunches to business owners and homeowners in Ottawa who were working to clean up the rubble the food left behind, mounted an internal fundraising effort for our own employees who were affected by the food waters, and donated significant funds to local chapters of the American Red Cross and The United Way to aid in the continued relief effort.

Insurance and Investment Options Multiply

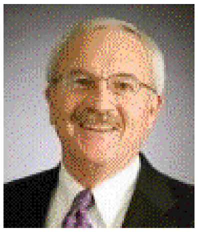
- Our approach to serving our clients' every financial need includes the ability to offer a full slate of financial products, including investment services and insurance products. At First Federal Bank, a new Wealth Management department was created in 2007 through the integration of our Trust and Financial Advisory Services. Private Client Advisors, armed with a new compensation structure that ensures clients receive the most objective advice possible, were also equipped with up-to-date, comprehensive financial planning software to benefit customers.

- First Insurance & Investments is the largest provider of property and casualty insurance in the Defiance, Ohio area. In February of 2007, our growth continued when First Defiance acquired the Huber, Harger, Welt and Smith insurance firm in Bowling Green, Ohio. The addition of this new insurance market to First Insurance & Investments means we are able to expand our reach, provide additional services, and continue to grow our non-interest income.

First Defiance Financial Corp.
Board of Directors

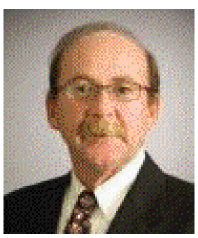


William J. Small
Chairman, President &
Chief Executive Officer
First Defiance Financial Corp.
Age 57
Joined Company in 1994
1, 3, 7 & 8



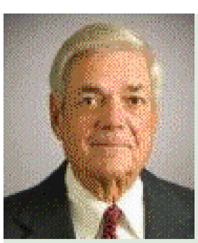
Stephen L. Boomer
Vice Chairman
Lead Director
First Defiance Financial Corp.
President, Arps Dairy
Defiance, Ohio
Age 57
Director since 1994
1, 2, 4, 6, 7, & 8

John L. Bookmyer
Executive Vice President
Blanchard Valley
Medical Center
Age 43
Director Since 2005
2 & 4



Douglas A. Burgei, D.V.M.
Veterinarian
Napoleon, Ohio
Age 53
Director Since 1995
3, 5 & 6

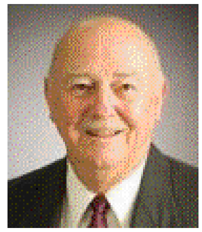
Peter A. Diehl
Retired Business Owner
Defiance, Ohio
Age 57
Director Since 1998
2, 4 & 5



John U. Fauster, III, D.D.S.

Dentist
Defiance, Ohio
Age 70
Director Since 1975
3, 5 & 6
Retires as of Annual Meeting 2008

Dwain I. Metzger
Farmer
Elida, Ohio
Age 66
Director Since 2005
5 & 6



Gerald W. Monnin
Retired Business Owner
Defiance, Ohio
Age 69
Director Since 1997
4, 5 & 6

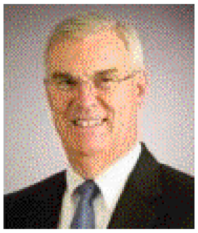
James L. Rohrs
President & COO
First Federal Bank
Executive Vice President
First Defiance Financial Corp.
Age 60
Joined Company 1999,
Director Since 2002
1, 3 & 8

Samuel S. Strausbaugh
Co-President &
Chief Financial Officer
Defiance Metal Products
Defiance, Ohio
Age 44
Director Since 2006
2, 3, & 8

Thomas A. Voigt
Vice President &
General Manager
Bryan Publishing Company
Bryan, Ohio
Age 65
Director Since 1995
4, 5 & 6

Key For Board of Directors:
1. Permanent Member of Executive Committee
2. Audit Committee
3. Investment Committee
4. Compensation Committee
5. Long Range Planning Committee
6. Corporate Governance Committee
7. Trust Committee
8. First Insurance & Investments Board of Directors

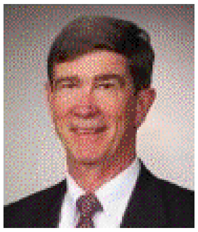
First Defiance Financial Corp.
Corporate Officers



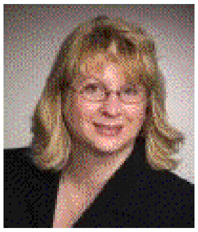
William J. Small
Chairman, President &
Chief Executive Officer
First Defiance Financial Corp.
Joined Company in 1994

James L. Rohrs
Executive Vice President &
Chief Operating Officer
Joined Company in 1999

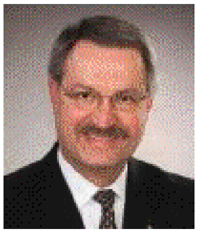
John C. Wahl
Executive Vice President,
Chief Financial Officer &
Corporate Treasurer
Age 47
Joined Company in 1994



John W. Boesling
Senior Vice President &
Corporate Secretary
Age 60
Joined Company in 1971



Rachel L. Ulrich
Executive Vice President
Human Resources
Age 42
Joined Company in 1996



Richard J. Mitsdarfer
Senior Vice President
Risk Management
Age 59
Joined Company in 2006

First Defiance Financial Corp. Executive Vice Presidents

(L to R): John C. Wahl, James L. Rohrs, Dennis E. Rose, Timothy K. Harris, Rachel L. Ulrich, Jeffrey D. Vereecke, Gregory R. Allen

First Federal Bank of the Midwest

William J. Small
Chairman &
Chief Executive Officer

James L. Rohrs
President and COO

Gregory R. Allen
Executive Vice President
Southern Market Area President

Timothy K. Harris
Executive Vice President
Eastern Market Area President

Dennis E. Rose, Jr.
Executive Vice President
Operations

Rachel L. Ulrich
Executive Vice President
Human Resources

Jeffrey D. Vereecke
Executive Vice President
Northern Market Area President

John C. Wahl
Executive Vice President – Finance
Chief Financial Officer

John W. Boesling
Senior Vice President
Secretary

Patricia A. Cooper
Senior Vice President
BSA/Security

Lisa R. Christy
Senior Vice President
Trust & Investment Services

David J. Kondas
Senior Vice President
Wealth Management

Nancy K. Kistler
Senior Vice President
Loan Operations

Kathleen A. Miller
Senior Vice President
Information Technology

Richard J. Mitsdarfer
Senior Vice President
Risk Management

Eric A. Morman
Senior Vice President
Commercial Lending

Michael D. Mulford
Senior Vice President
Credit Administration

Patrick S. Rothgery
Senior Vice President
Residential Lending

Marybeth Shunck
Senior Vice President
Retail Banking

Bradley D. Spitnale
Senior Vice President
Commercial Lending

Mary Beth K. Weisenburger
Senior Vice President
Marketing

Paul N. Windisch
Senior Vice President
Business Development

First Insurance & Investments, Inc.

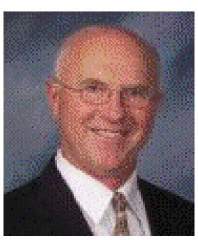
Donald P. Hileman

Chief Executive Officer

Timothy S. Whetstone

Executive Vice President

Secretary



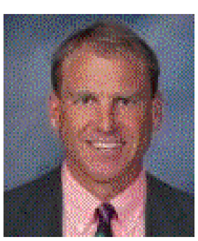
Steven P. Grosenbacher

President

Lawrence H. Woods

Executive Vice President

Property & Casualty



Kenneth G. Keller

Executive Vice President

Group Health & Life

Community Advisory Boards:

Defiance, Ohio

Jean Hubbard
The Hubbard Company

Bryan Keller
Keller Trucking

Brad Mangas
B.E. Mangas Construction

Mike Koester
Koester Corporation

Rick Weaver
Poggemeyer Design

Delphos, Ohio

Richard Thompson
Thompson Seed Farm

Eric Fritz
Delphos Ace Hardware, Delphos
Rental Corp. and Bobcat of Lima

Perry Wiltsie
Vanamatic Company

Findlay, Ohio

James Koehler
Country Club Acres, Inc.

Paul Kramer
Kramer Enterprises, Inc.

M. Michael Roberts
dmh Toyota-Lift

Dr. Alan Tong
Cascade Women's Health

Fostoria, Ohio

Mark Baker
Roppe Holding Company

Frank Kinn
Business/Financial Consultant

Lynn Radabaugh
Maple Grove Quarry, Inc.

Hicksville, Ohio

Larry Haver
Mayor of Hicksville

Michael Headley
H&W Automotive Parts, Inc.

Robert Ramus
Robert Ramus, D.D.S.

Lima, Ohio

Tim DeHaven
DeHaven Garden Center

Don Fischer
Cappie Sportswear

Jerry Johnson
Attorney

Robert J. Schulte, Jr.
HR Services

Greg Wannemacher
Wannemacher Enterprises

Napoleon, Ohio

Greg Beck
Beck Construction

Jeffery Spangler
Holgate Metal Fab, Inc.

Kay Wesche
Henry County Development Services

Brad Westhoven
Midwest Wood Trim, Inc.

Susan Witt
Engineer, Gerken Paving

Ottawa, Ohio

Kevin Ellerbrock
Kevin Ellerbrock Construction

Kenneth Konst
Farmer

Mike Ruhe
Ret. Supt. O-G Schools

Paulding, Ohio

Joseph Burkard
Paulding County Prosecutor

William Shugars
Paulding School Administration

Wauseon, Ohio

Kerry Ackerman
J & B Feed Company

Bill Fortier
Aquatek Water Conditioning

Leon Mann
Trailite Sales, Inc.

Steven McElrath
BMW Services

Williams County, Ohio

Stacey Bock
Midwest Community Health Associates

Walter Bumb
D.D.S.

LeRoy Feather
Retired

Renee Isaac
Educator

Martin Sostoi
Attorney

James (Chip) Wood
Bryan Ford Lincoln Mercury

Chad Tinkel
Community Hospitals of Williams County

Tom Reineke
Reineke Ford

Dean Walther
Optometrist

David Whitta
Whitta Construction, Inc.

Financial Information
Table of Contents

Selected Consolidated Financial Data

The following table is derived from the Company's audited financial statements as of and for the five years ended December 31, 2007. The following consolidated selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes included elsewhere in this Annual Report. Accordingly, the operating results of the acquired companies are included with the Company's results of operations since their respective dates of acquisition.

	As of and For the Year Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
	(Dollars in Thousands, Except Per Share Data				
Financial Condition:					
Total assets	**$ 1,609,404**	$ 1,527,879	$ 1,461,082	$ 1,126,667	$ 1,040,599
Investment securities	**113,487**	112,123	114,854	139,258	171,035
Loans held-to maturity, net	**1,275,806**	1,226,310	1,164,481	878,912	735,255
Allowance for loan losses	**13,890**	13,579	13,673	9,956	8,844
Nonperforming assets (1)	**11,677**	9,675	5,356	1,990	2,949
Deposits and borrowers' escrow balances	**1,218,620**	1,139,112	1,070,106	797,979	729,227
FHLB advances	**139,536**	162,228	180,960	178,213	164,522
Stockholders' equity	**165,954**	159,825	151,216	126,874	124,269
Share Information:					
Basic earnings per share	**$ 1.96**	$ 2.22	$ 1.75	$ 1.77	$ 2.00
Diluted earnings per share	**1.94**	2.18	1.69	1.69	1.91
Book value per common share	**23.51**	22.38	21.34	20.20	19.64
Tangible book value per common share	**17.79**	16.99	15.81	17.19	16.39
Cash dividends per common share	**1.01**	0.97	0.90	0.82	0.65
Weighted average diluted shares outstanding	**7,178**	7,163	7,096	6,371	6,319
Shares outstanding end of period	**7,059**	7,142	7,085	6,280	6,328
Operations:					
Interest income	**$ 98,751**	$ 93,065	$ 76,174	$ 54,731	$ 50,629
Interest expense	**50,089**	44,043	28,892	20,381	20,855
Net interest income	**48,662**	49,022	47,282	34,350	29,774
Provision for loan losses	**2,306**	1,756	1,442	1,548	1,719
Non-interest income	**22,130**	19,624	15,925	13,996	16,843
Non-interest expense	**48,113**	43,839	43,942	31,200	27,126
Income before tax	**20,373**	23,051	17,823	15,598	17,772
Federal income tax	**6,469**	7,451	5,853	4,802	5,690
Net Income	**13,904**	15,600	11,970	10,796	12,082

	As of and For the Year Ended December 31,				
	2007	2006	2005	2004	2003
Performance Ratios:					
Return on average assets	**0.90%**	1.04%	0.88%	1.01%	1.24%
Return on average equity	**8.48%**	10.03%	8.26%	8.57%	9.97%
Interest rate spread (2)	**3.17%**	3.37%	3.63%	3.37%	3.13%
Net interest margin (2)	**3.55%**	3.68%	3.87%	3.60%	3.42%
Ratio of operating expense to average total assets	**3.11%**	2.93%	3.22%	2.98%	2.91%
Efficiency ratio	**67.29%**	63.31%	70.18%	65.91%	60.31%
Capital Ratios:					
Equity to total assets at end of period	**10.31%**	10.46%	10.35%	11.26%	11.94%
Tangible equity to tangible assets at end of period	**8.00%**	8.15%	7.88%	9.74%	10.17%
Average equity to average assets	**10.62%**	10.40%	10.62%	11.76%	12.43%
Asset Quality Ratios:					
Nonperforming assets to total assets at end of period (1)	**0.73%**	0.64%	0.37%	0.18%	0.28%
Allowance for loan losses to total loans receivable	**1.08%**	1.10%	1.16%	1.13%	1.19%
Net charge-offs to average loans	**0.16%**	0.15%	0.07%	0.05%	0.06%

(1) Nonperforming assets consist of non-accrual loans that are contractually past due 90 days or more; loans that are deemed impaired under the criteria of FASB Statement No. 114; and real estate, mobile homes and other assets acquired by foreclosure or deed-in-lieu thereof.

(2 Interest rate spread represents the difference between the weighted average yield on interest-earnings assets and the weighted average rate on interest-bearing liabilities. Net interest margin represents net interest income as a percentage of average interest-earnings assets. Interest income on tax-exempt securities and loans has been adjusted to a tax-equivalent basis using the statutory federal income tax rate of 35%.

Management's Discussion and Analysis
of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those projected in such forward-looking statements.

The following section presents information to assess the financial condition and results of operations of First Defiance Financial Corp.("First Defiance").This section should be read in conjunction with the consolidated financial statements and the supplemental financial data contained elsewhere in this Annual Report.

Overview

First Defiance is a unitary thrift holding company which conducts business through its subsidiaries, First Federal Bank of the Midwest ("First Federal") and First Insurance and Investments ("First Insurance").

First Federal is a federally chartered savings bank that provides financial services to communities based in northwest Ohio and northeast Indiana where it operates 28 full service banking centers in 12 northwest Ohio counties and 1 northeast Indiana county. First Federal opened its 27th center on August 6, 2007 in Fort Wayne, Indiana and its 28th center on February 11, 2008 in Glandorf, Ohio.

On February 28, 2007, First Defiance acquired Huber, Harger, Welt and Smith ("HHWS"), an insurance agency headquartered in Bowling Green, Ohio for a purchase price comprised of 76,435 shares of First Defiance common stock and future consideration to be paid in 2009 and 2010. As of December 31, 2007, management has determined goodwill of $1.7 million and identifiable intangible assets of $800,000 consisting of customer relationship intangible of $620,000 and a non-compete intangible of $180,000. For more details on the HHWS acquisition, see Note 3 – Acquisitions in the Notes to the Financial Statements.

On January 21, 2005, First Defiance acquired ComBanc, Inc., headquartered in Delphos, Ohio in a transaction valued at $38.3 million including acquisition costs. ComBanc's subsidiary, the Commercial Bank, operated four banking offices in Delphos, Lima and Elida, Ohio. On April 8, 2005, First Defiance acquired The Genoa Savings and Loan Company (Genoa), in an $11.2 million transaction. Genoa operated offices in Genoa, Oregon, Perrysburg and Maumee, Ohio. The acquired Maumee office was merged with First Federal's existing Maumee office. First Defiance acquired $117.5 million of loans and $163.7 million of deposits in the ComBanc acquisition and $66.9 million of loans and $76.8 million of deposits in the Genoa transaction. For more details on the ComBanc and Genoa acquisitions, see Note 3 – Acquisitions in the Notes to the Financial Statements.

First Federal provides a broad range of financial services including checking accounts, savings accounts, certificates of deposit, real estate mortgage loans, commercial loans, consumer loans, home equity loans and trust and wealth management services through its extensive branch network.

First Insurance sells a variety of property and casualty, group health and life, and individual health and life insurance products. Insurance products are sold through First Insurance's offices in Defiance and Bowling Green, Ohio.

Pending Acquisition

On October 2, 2007, First Defiance entered into an Agreement and Plan of Merger with Pavilion Bancorp, Inc ("Pavilion").Under the terms of the Agreement, First Defiance will acquire Pavilion and its wholly owned subsidiary, Bank of Lenawee, which is headquartered in Adrian, Michigan. First Defiance has agreed to purchase the outstanding shares of Pavilion for 1.4209 shares of First Defiance common stock plus $37.50 in cash. Management expects one-time costs, including acquisition related and restructuring charges, will not exceed $3.8 million on a pre-tax basis over the integration period. The cash portion of the acquisition will be financed from existing sources of liquidity, including a line of credit facility at First Defiance.

Upon completion of the acquisition, on a pro forma basis using September 30, 2007 data, First Defiance will have approximately $1.88 billion in assets, $1.49 billion in loans, $1.44 billion in total deposits, and $192.5 million in shareholders' equity. The acquisition is expected to result in approximately $27.1 million in additional goodwill and other intangibles. Management expects the transaction, which is subject to regulatory and Pavilion shareholder approval, to close late in the first quarter of 2008.

Financial Condition

Assets at December 31, 2007 totaled $1.61 billion compared to $1.53 billion at December 31, 2006, an increase of $81.5 million or 5.3%. The majority of First Defiance's asset growth was in loans receivable, which increased by $49.5 million, or 4.0% to $1.28 billion at December 31, 2007 after allowance for loan losses, from $1.23 billion at December 31, 2006. The increase in assets was funded through growth in deposits, which increased by $79.4 million or 7.0%, to $1.22 billion at December 31, 2007 from $1.14 billion at December 31, 2006.

Securities

The securities portfolio increased $1.4 million to $113.5 million at December 31, 2007. The activity in the portfolio in 2007 included $28.9 million of purchases, $25.7 million of amortization and maturities, $2.5 million of sales and a net increase of $707,000 in market value on available-for-sale securities. Management utilizes its securities portfolio for liquidity purposes. The investment portfolio has declined from a high of $213.5 million at the end of 2002 as maturing securities have been used to fund loan growth. Management does not believe the securities portfolio will decline further from the level it was on December 31, 2007.

Loans

Gross Loans receivable increased by $49.8 million or 4.0% to $1.29 billion at December 31, 2007 from $1.24 billion at December 31, 2006. The most significant growth occurred in commercial loans, which increased by $50.2 million between December 31, 2006 and December 31, 2007, and in non-residential and multi-family real estate loans, which increased by $22.0 million. First Defiance also experienced $5.3 million of growth in its home equity and improvement loans. One-to-four family residential loans and construction loans declined by $21.8 million between the end of 2006 and the end of 2007 (net of undisbursed loan funds) and consumer finance loans declined by $6.0 million.

The majority of First Defiance's non-residential real estate and commercial loans are to small and mid-sized businesses. The combined commercial, non-residential real estate and multi-family real estate loan portfolios totaled $884.9 million and $812.8 million at December 31, 2007 and 2006 respectively and accounted for approximately 68.6% and 65.5% of First Defiance's loan portfolio at the end of those respective periods. First Defiance believes it has been able to establish itself as a leader in its market area in the commercial and commercial real estate lending area by hiring experienced lenders and providing a high level of customer service to its commercial lending clients.

The one-to-four family residential portfolio, including residential construction loans, totaled $240.0 million at December 31, 2007, down from $261.7 million at the end of 2006. At the end of 2007 those loans comprised 18.6% of the total loan portfolio, down from 21.1% at December 31, 2006. The decline in the mortgage portfolio reflects the Company's strategy of selling the majority of its mortgage production in the secondary market, most of it with servicing retained. The level of residential loan production did not change significantly between 2006 and 2007.

Home equity and home improvement loans grew to $128.1 million at December 31, 2007, up from $122.8 million at the end of 2006. For both periods, home equity and improvement loans represented 9.9% of total loans.

Consumer finance loans were just $37.7 million at December 31, 2007, down from $43.8 million at the end of 2006. These loans comprised just 2.9% and 3.5% of the total portfolio at December 31, 2007 and 2006 respectively. The decline in balance reflects the Company's strategy of not pricing aggressively in this highly competitive segment of the market.

Allowance for Loan Losses

The allowance for loan losses represents management's assessment of the estimated probable credit losses in the loan portfolio at each balance sheet date. Management analyzes the adequacy of the allowance for loan losses regularly through reviews of the loan portfolio. Consideration is given to economic conditions, changes in interest rates and the effect of such changes on collateral values and borrower's ability to pay, changes in the composition of the loan portfolio, and trends in past due and non-performing loan balances. The allowance for loan losses is a material estimate that is susceptible to significant fluctuation and is established through a provision for loan losses based on management's evaluation of the inherent risk in the loan portfolio. In addition to extensive in-house loan monitoring procedures, the Company utilizes an outside party to conduct an independent loan review of all commercial loan and commercial real estate loan relationships that exceed $250,000 of aggregate exposure. Management utilizes the results of this outside loan review to assess the effectiveness of its internal loan grading system as well as to assist in the assessment of the overall adequacy of the allowance for loan losses associated with these type of loans.

At December 31, 2007, the allowance for loan losses was $13.9 million compared to $13.6 million at December 31, 2006, an increase of $311,000 or 2.3%. Those balances represented 1.08% and 1.10% of outstanding loans as of December 31, 2007 and December 31, 2006 respectively. That increase was the result of net charge-offs of $2.0 million being less than the $2.3 million provision for loan losses. The net charge-offs in 2007 were slightly higher than the $1.9 million charged off by the Company in the year ended December 31, 2006. Both years' net charge-offs were high by First Defiance's historic standards. Of the $2.0 million of net charge-offs in 2007, $1.2 million were provided for in the allowance for loan losses at December 31, 2006.

Total classified assets increased to $51.6 million at December 31, 2007, compared to $40.8 million at December 31, 2006. At December 31, 2007, a total of $16.7 million of loans are classified as substandard for which some level of reserve ranging between 5% and 50% of the outstanding balance is required. A total of $34.5 million in additional credits were classified as substandard at December 31, 2007 for which no reserve is required because of factors such as the level of collateral or the strength of guarantors. First Defiance also has classified $359,000 of loans doubtful at December 31, 2007. By contrast, at December 31, 2006, a total of $14.3 million of loans were classified as substandard for which some level of reserve was required and $25.7 million were classified as substandard which did not require any reserve. $685,000 was classified as doubtful at December 31, 2006.

First Defiance's ratio of allowance for loan losses to non-performing loans dropped from 186.4% at the end of 2006 to 150.7% at December 31, 2007. Although the amount of non-performing loans increased during 2007, management determined that only a small amount of additional allowance was required because of factors such as collateral values and creditworthiness of guarantors. Management monitors collateral values of all loans included on the watch list that are collateral dependent and believes that allowances for those loans at December 31, 2007 are appropriate.

At December 31, 2007, First Defiance had total non-performing assets of $11.7 million, compared to $9.7 million at December 31, 2006. Non-performing assets include loans that are 90 days past due and all real estate owned and other foreclosed assets. Non-performing assets at December 31, 2007 and 2006 by category were as follows:

	December 31,	
	2007	2006
	(In Thousands)	
Non-performing loans:		
Single-family residential	**$ 2,608**	$ 1,980
Non-residential and multi-family residential real estate	**5,917**	4,977
Commercial	**675**	272
Consumer finance	**17**	54
Total non-performing loans	**9,217**	7,283
Real estate owned and repossessed assets	**2,460**	2,392
Total non-performing assets	**$ 11,677**	$ 9,675

The increase in non-performing loans between December 31, 2006 and December 31, 2007 is primarily in commercial and non-residential and multi-family real estate loans. The combined balance of those type of non-performing loans was $1.3 million higher at December 31, 2007 compared to December 31, 2006. Approximately $847,000 of 2006 non-performing loans are still considered non-performing loans at December 31, 2007 and $1.5 million of real estate owned at December 31, 2007 was in non-performing non-residential real estate loans at December 31, 2006. The commercial, non-residential real estate, and multi-family real estate loans that are non-performing at December 31, are comprised of 19 relationships, with two relationships making up $4.9 million of the $6.6 million total. The allowance for loan losses includes $1.2 million for those two relationships. By comparison, at December 31, 2006, 20 loans made up the $5.2 million of commercial and non-residential real estate and multi-family real estate loans that were non-performing and the largest two loans comprised $4.0 million of the total.

Non-performing loans in the single-family residential, non-residential and multi-family residential real estate and commercial loan categories represent 1.12%, .98% and 0.24% of the total loans in those categories respectively at December 31, 2007 compared to 0.79%, 0.86% and 0.12% respectively for the same categories at December 31, 2006. While the level of non-performing loans has increased, year over year, management believes that the current allowance for loan losses is appropriate and that the provision for loan losses recorded in 2007 is consistent with both charge-off experience and the strength of the overall credits in the portfolio.

Management also assesses the value of real estate owned as of the end of each accounting period and recognizes write-downs to the value of that real estate in the income statement if conditions dictate. In 2007, First Defiance recorded OREO write-downs that totaled $698,000. These amounts were included in other non-interest expense. Management believes that the values recorded at December 31, 2007 for real estate owned and repossessed assets represent the realizable value of such assets.

First Defiance also utilizes a general reserve percentage for loans not otherwise classified which ranges from 0.112% for mortgage loans to 1.05% for commercial and non-residential real estate loans. The reserve percentage utilized for those loans is based on both historical losses in the Company's portfolio, national statistics on loss percentages provided by the Federal Deposit Insurance Corporation, and empirical evidence regarding the strength of the economy in First Defiance's general market area.

Loans Acquired with Impairment

Certain loans acquired in the ComBanc and Genoa acquisitions had evidence that the credit quality of the loan had deteriorated since its origination and in management's assessment at the acquisition date it was probable that First Defiance would be unable to collect all contractually required payments due. In accordance with American Institute of Certified Public Accountants Statement of Position 03-3 – *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* ("SOP 03-3"), these loans were recorded based on management's estimate of the fair value of the loans. At the acquisition date of January 21, 2005, loans with a contractual receivable of $3.4 million were acquired from Combanc that were deemed impaired. Those loans were recorded at a net realizable value of $2.0 million. On April 8, 2005, loans with contractual receivable totals of $1.5 million were acquired from Genoa that were deemed impaired. Those loans were recorded at a net realizable value of $721,000. As of December 31, 2007, the total contractual receivable for those loans was $3.0 million and the recorded value was $1.7 million.

High Loan-to-Value Mortgage Loans

The majority of First Defiance's mortgage loans are collateralized by one-to-four-family residential real estate, have loan-to-value ratios of 80% or less, and are made to borrowers in good credit standing. First Federal usually requires residential mortgage loan borrowers whose loan-to-value is greater than 80% to purchase private mortgage insurance (PMI).Management also periodically reviews and monitors the financial viability of its PMI providers.

First Federal does originate and retain a limited number of residential mortgage loans with loan-to-value ratios that exceed 80% where PMI is not required if the borrower possesses other demonstrable strengths. The loan-to-value ratios on these loans are generally limited to 85% and exceptions must be approved by First Federal's senior loan committee. Management monitors the balance of one-to-four family residential loans, including home equity loans and committed lines of credit, that exceed certain loan to value standards (90% for owner occupied residences, 85% for non-owner occupied residences and one-to-four family construction loans, 75% for developed land and 65% for raw land).Total loans that exceed those standards at December 31, 2007 totaled $25.9 million, compared to $33.1 million at December 31, 2006.These loans are generally paying as agreed.

First Defiance does not make interest-only first-mortgage residential loans, nor does it have residential mortgage loan products, or other consumer products that allow negative amortization.

Goodwill and Intangible Assets

Goodwill increased $1.7 million to $36.8 million at December 31, 2007, from $35.1 million at December 31, 2006, the result of the HHWS acquisition. No impairment of goodwill was recorded in 2007 or 2006. Core deposit intangibles and other intangible assets increased $154,000 during 2007 to $3.6 million from $3.4 million at the end of 2006. The HHWS acquisition increased intangibles by $800,000 in 2007, which was offset by the recognition of $646,000 of routine amortization expense during the year.

Deposits

Total deposits at December 31, 2007 were $1.22 billion compared to $1.14 billion at December 31, 2006, an increase of $79.4 million or 7.0%. Non-interest bearing checking accounts grew by $15.2 million, money market and interest bearing checking accounts grew by $36.4 million, savings grew by $31.4 million, and certificates of deposit increased by $13.7 million. Management periodically utilizes brokered certificates of deposit to supplement its funding needs. Due to the growth in retail deposits in 2007, the balance of brokered CD's has decreased to $408,000 at December 31, 2007, from $17.6 million at December 31, 2006.

Borrowings

FHLB advances totaled $139.5 million at December 31, 2007 compared to $162.2 million at December 31, 2006. The balance at the end of 2007 includes $45.0 million of convertible advances with rates ranging from 4.71% to 5.84%. These advances are all callable by the FHLB, at which point they would convert to a three-month LIBOR advance if not paid off. Those advances have final maturity dates ranging from 2010 to 2013. In addition, First Defiance has advances totaling $27 million that are callable by the FHLB only if the three-month LIBOR rate exceeds a strike rate ranging from 7.5% to 8.0%. The rate on those advances ranges from 3.48% to 5.14%. First Defiance also has $45.0 million of three-month LIBOR-based advances with rates ranging from 5.15% to 5.24%; $11.2 million outstanding under a series of fixed-rate loans and $11.3 million borrowed on an overnight basis at December 31, 2007.

First Defiance also has $30.1 million of securities that have been sold at December 31, 2007 with agreements to repurchase, compared to $30.4 million of repurchase funding at December 31, 2006.

In March 2007, the Company issued $15.5 million of Subordinated Debentures. These debentures were issued to an unconsolidated affiliated trust that purchased them with the proceeds from a $15 million issue of trust preferred securities to an outside party. The proceeds of the Subordinated Debentures were used for general corporate purposes. The Subordinated Debentures have a fixed rate equal to 6.441% for the first five years and a floating interest rate based on three-month LIBOR plus 1.50% thereafter. First Defiance also has $20.6 million of subordinated debentures issued in 2005 which have a rate equal to three-month LIBOR plus 1.38%, or 6.37% at December 31, 2007.

Capital Resources

Total stockholders' equity increased $6.1 million to $166.0 million at December 31, 2007. This increase is primarily the result of the Company's $13.9 million of net income and $2.3 million of stock issued in conjunction with the acquisition of HHWS. The increases were mostly offset by $7.1 million of dividends ($1.01 per share declared) and $5.2 million of treasury share repurchases. In 2003 the Company's board of directors authorized the repurchase of 640,000 shares. A total of 187,899 shares were repurchased in 2007 under that program at an average cost of $26.20, thus reducing stockholders' equity by $4.9 million. A total of 122,859 shares remain to be purchased under the authorization. Also during 2007, a total of 36,865 stock options were exercised by employees, resulting in a $521,000 increase in stockholders' equity. In exercising those options, certain employees paid their option exercise price by returning shares to the Company, which reduced equity by approximately $240,000.A total of 8,575 shares were returned to the Company in conjunction with option exercises at an average price of $28.01 per share. The $64,000 tax benefit realized in conjunction with the exercise of stock options was also recorded as an increase in equity.

Results of Operations
Summary

First Defiance reported net income of $13.9 million for the year ended December 31, 2007 compared to $15.6 million and $12.0 million for the years ended December 31, 2006 and 2005 respectively. On a diluted per share basis, First Defiance earned $1.94 in 2007, $2.18 in 2006 and $1.69 in 2005.

The 2005 net income amount includes $3.5 million of acquisition related costs that were incurred as part of the ComBanc and Genoa acquisitions. These costs included such items as the expense to terminate data processing contracts, severance agreements with employees who were not retained, and other costs resulting from the acquisition or related transition efforts. After tax, these costs amounted to $2.3 million, or $.32 per share. Excluding these items, core earnings were $13.9 million, $15.6 million and $14.2 million for the years ended December 31, 2007, 2006 and 2005 respectively. On a diluted per share basis, core earnings amounted to $1.94, $2.18 and $2.01 for those three periods. A reconciliation of GAAP earnings to core earnings is as follows:

	Year Ended December 31,		
	2007	**2006**	**2005**
		(In Thousands)	
GAAP Net Income	**$ 13,904**	$ 15,600	$ 11,970
One-time acquisition related charges	–	–	3,476
Tax effect	–	–	(1,217)
Core Operating Earnings	**$ 13,904**	$ 15,600	$ 14,229
Basic earnings per share:			
GAAP	**$ 1.96**	$ 2.22	$ 1.75
Core Operating Earnings	**$ 1.96**	$ 2.22	$ 2.08
Diluted earnings per share:			
GAAP	**$ 1.94**	$ 2.18	$ 1.69
Core Operating Earnings	**$ 1.94**	$ 2.18	$ 2.01

Net Interest Income

First Defiance's net interest income is determined by its interest rate spread (i.e. the difference between the yields on its interest-earning assets and the rates paid on its interest-bearing liabilities) and the relative amounts of interest-earning assets and interest-bearing liabilities.

Net interest income was $48.7 million for the year ended December 31, 2007 compared to $49.0 million and $47.3 million for the years ended December 31, 2006 and 2005 respectively. The tax-equivalent net interest margin was 3.55%, 3.68% and 3.87% for the years ended December 31, 2007, 2006 and 2005 respectively. The decrease in margin between 2006 and 2007 is due to a declining interest rate spread, which decreased to 3.17% for the year ended December 31, 2007 compared to 3.37% for 2006. The decline in spread between 2007 and 2006 occurred due to interest-earning asset yields increasing by just 20 basis points (to 7.15% in 2007 from 6.95% in 2006) while the cost of interest bearing liabilities between the two periods increased by 40 basis points (to 3.98% in 2007 from 3.58% in 2006).The margin compression caused by the narrowing interest rate spread was mitigated somewhat by a $9.2 million increase in the average balance of non-interest bearing deposits in 2007 compared to 2006 and an $8.5 million increase in average shareholders' equity between the two periods.

The decrease in margin between 2006 and 2005 is due to a declining interest rate spread, which decreased to 3.37% for the year ended December 31, 2006 compared to 3.63% for 2005. The decline in spread between 2005 and 2006 occurred due to interest-earning asset yields increasing by just 75 basis points (to 6.95% in 2006 from 6.20% in 2005) while the cost of interest bearing liabilities between the two periods increased by 101 basis points (to 3.58% in 2006 from 2.57% in 2005).The margin compression resulting from narrowing spreads was slightly offset by an $8.3 million increase in non-interest bearing deposits and a $10.6 million increase in average equity.

Total interest income increased by $5.7 million, or 6.1% to $98.8 million for the year ended December 31, 2007 from $93.1 million for the year ended December 31, 2006. The increase in interest income was due to an increase in the average balance in loans receivable, to $1.24 billion for the twelve months of 2007 compared to $1.21 billion for 2006. In addition to the increase in loan balances, the average tax-equivalent yield on loans increased to 7.32% for 2007 compared to 7.13% in 2006, a 19 basis point improvement. Interest income from loans increased to $90.9 million for 2007 compared to $86.2 million in 2006 which represented growth of 5.4%.

During the same period the average balance of investment securities dropped to $112.6 million for 2007 from $116.7 million for the year ended December 31, 2006. Interest income from the investment portfolio increased $90,000 to $5.7 million in 2007 from $5.6 million in 2006. The increase is due to the 38 basis point increase in the tax-equivalent yield as lower yielding securities matured and higher yielding securities were purchased in 2007. The tax-equivalent yield on the investment portfolio was 5.68% in 2007 compared to 5.30% in 2006. The investment portfolio yield increased despite a narrowing of the overall duration of investments, to 3.7 years at December 31, 2007 from 4.1 years at December 31, 2006.

Interest expense increased by $6.1 million in 2007 compared to 2006, to $50.1 million from $44.0 million. This increase was due to a $28.4 million increase in the average balance of interest bearing liabilities in 2007 compared to 2006 as well as a 40 basis point increase in the average cost of those liabilities. The balance of interest-bearing deposits increased by $64.2 million at December 31, 2007 compared to December 31, 2006. Interest expense related to interest-bearing deposits was $40.4 million in 2007 and $33.3 million in 2006. Expenses on FHLB advances and other interest bearing funding sources were $6.9 million and $729,000 respectively in 2007 and $8.9 million and $577,000 respectively in 2006. First Defiance issued $15.5 million of junior subordinated debentures in the first quarter of 2007 in conjunction with a trust preferred offering by an unconsolidated affiliated subsidiary and $20.6 million of similar debentures in an offering in October, 2005. Interest expense recognized by the Company related to subordinated debentures was $2.1 million in 2007 compared to $1.3 million in 2006.

Total interest income increased by $16.9 million, or 22.1% to $93.1 million for the year ended December 31, 2006 from $76.2 million for the year ended December 31, 2005. The increase in interest income was due to an increase in the average balance in loans receivable, to $1.21 billion for the twelve months of 2006 compared to $1.09 billion for 2005. In addition to the increase in loan balances, the average tax-equivalent yield on loans increased to 7.13% for 2006 compared to 6.40% in 2005, a 73 basis point improvement. Interest income from loans increased to $86.2 million for 2006 compared to $69.7 million in 2005 which represented growth of 23.7%.

During the same period, interest income from the investment portfolio increased $372,000, to $5.6 million in 2006 from $5.3 million in 2005. The increase is due to the 42 basis point increase in the yield as lower yielding securities matured in 2006, which offset a decline in the average portfolio balance, to $116.7 million for 2006 from $121.5 million for the year ended December 31, 2005. The tax equivalent yield on the investment portfolio was 5.30% in 2006 compared to 4.88% in 2005.

Interest expense increased by $15.2 million in 2006 compared to 2005, to $44.0 million from $28.9 million. This increase was due to a $106.8 million increase in the average balance of interest bearing liabilities in 2006 compared to 2005 as well as a 101 basis point increase in the average cost of those liabilities. The balance of interest-bearing deposits increased by $66.1 million between December 31, 2005 and December 31, 2006. Of that growth, $44.9 million was in certificates of deposit, which have a higher cost than transaction accounts. Interest expense related to interest-bearing deposits was $33.3 million in 2006 and $20.6 million in 2005. Expenses on FHLB advances and other interest bearing funding sources were $9.5 million in 2006 and $8.1 million in 2005. First Defiance issued $20.6 million of junior subordinated debentures in the fourth quarter of 2005 in conjunction with a trust preferred offering by an unconsolidated affiliated subsidiary. Interest expense recognized by the Company related to those subordinated debentures was $1.3 million in 2006 compared to just $201,000 in 2005.

The following table shows an analysis of net interest margin on a tax equivalent basis for the years ended December 31, 2007, 2006 and 2005:

	Year Ended December 31,								
	2007			2006			2005		
	Average Balance	Interest (1)	Yield/Rate (2)	Average Balance	Interest (1)	Yield/Rate (2)	Average Balance	Interest (1)	Yield/Rate (2)
				(Dollars in Thousands)					
Interest-Earning Assets:									
Loans receivable	**$1,241,817**	**$ 90,913**	**7.32%**	$ 1,209,498	$ 86,237	7.13%	$ 1,089,942	$ 69,732	6.40%
Securities	**112,577**	**6,414**	**5.68%**	116,718	6,217	5.30%	121,510	5,873	4.88%
Interest-earning deposits	**18,161**	**924**	**5.09%**	3,483	165	4.74%	10,410	364	3.50%
Dividends on FHLB stock	**18,585**	**1,226**	**6.60%**	17,926	1,042	5.81%	16,352	829	5.07%
Total interest-earning assets	**1,391,140**	**99,477**	**7.15%**	1,347,625	93,661	6.95%	1,238,214	76,798	6.20%
Non-interest-earning assets	**153,229**			148,136			126,583		
Total Assets	**$1,544,369**			$ 1,495,761			$ 1,364,797		
Interest-Bearing Liabilities:									
Interest-bearing deposits	**$1,064,960**	**$ 40,356**	**3.79%**	$ 1,006,468	$ 33,273	3.31%	$ 932,036	$ 20,615	2.21%
FHLB advances	**136,484**	**6,889**	**5.05%**	181,869	8,885	4.88%	167,427	7,625	4.54%
Other borrowings	**23,841**	**729**	**3.06%**	20,398	577	2.86%	19,639	451	2.41%
Subordinated debentures	**32,435**	**2,115**	**6.52%**	20,619	1,308	6.34%	3,441	201	5.84%
Total interest-bearing liabilities	**1,257,720**	**50,089**	**3.98%**	1,229,354	44,043	3.58%	1,122,543	28,892	2.57%
Non-interest bearing demand deposits	**104,200**	**–**		95,044	–		86,741	–	
Total including non-interest-bearing demand deposits	**1,361,920**	**50,089**	**3.68%**	1,324,398	44,043	3.33%	1,209,284	28,892	2.39%
Other non-interest liabilities	**18,391**			15,815			10,530		
Total Liabilities	**1,380,311**			1,340,213			1,219,814		
Stockholders' equity	**164,058**			155,548			144,983		
Total liabilities and stockholders' equity	**$1,544,369**			$ 1,495,761			$ 1,364,797		

Net interest income; interest rate spread (3)	**$ 49,388**	**3.17%**	$ 49,618	3.37%	$ 47,906	3.63%
Net interest margin (4)		**3.55%**		3.68%		3.87%
Average interest-earning assets to average interest bearing liabilities		**110.6%**		109.6%		110.3%

(1) Interest on certain tax exempt loans (amounting to $87,000, $48,000 and $47,000 in 2007, 2006 and 2005 respectively) and tax-exempt securities ($1.3 million, $1.1 million and $1.2 million in 2007, 2006 and 2005) is not taxable for Federal income tax purposes. The average balance of such loans was $1.8 million, $1.0 million and $1.0 million in 2007, 2006 and 2005 while the average balance of such securities was $27.3 million, $25.2 million and $25.1 million in 2007, 2006 and 2005 respectively. In order to compare the tax-exempt yields on these assets to taxable yields, the interest earned on these assets is adjusted to a pre-tax equivalent amount based on the marginal corporate federal income tax rate of 35%.

(2) At December 31, 2007, the yields earned and rates paid were as follows: loans receivable, 7.07%; securities, 5.15%; FHLB stock, 7.00%; total interest-earning assets, 6.92%; deposits, 3.25%; FHLB advances, 4.92%; other borrowings, 3.14%; total interest-bearing liabilities, 3.42%; and interest rate spread, 3.50%.

(3) Interest rate spread is the difference in the yield on interest-earning assets and the cost of interest-bearing liabilities.

(4) Net interest margin is net interest income divided by average interest-earning assets.

The following table describes the extent to which changes in interest rates and changes in volume of interest-related assets and liabilities have affected First Defiance's tax-equivalent interest income and interest expense during the periods indicated.For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (change in volume multiplied by prior year rate), (ii) change in rate (change in rate multiplied by prior year volume), and (iii) total change in rate and volume.The combined effect of changes in both rate and volume has been allocated proportionately to the change due to rate and the change due to volume.

	Year Ended December 31,					
	2007 vs. 2006			2006 vs. 2005		
	Increase (decrease) due to rate	Increase (decrease) due to volume	Total increase (decrease)	Increase (decrease) due to rate	Increase (decrease) due to volume	Total increase (decrease)
Interest-Earning Assets						
Loans	**$ 2,341**	**$ 2,335**	**$ 4,676**	$ 8,428	$ 8,077	$ 16,505
Securities	**423**	**(226)**	**197**	561	(217)	344
Interest-earning deposits	**13**	**746**	**759**	227	(426)	(199
FHLB stock	**145**	**39**	**184**	129	84	213
Total interest-earning assets	**$ 2,922**	**$ 2,894**	**$ 5,816**	$ 9,345	$ 7,518	$ 16,863
Interest-Bearing Liabilities						
Deposits	**$ 5,069**	**$ 2,014**	**$ 7,083**	$ 10,898	$ 1,760	$ 12,658
FHLB advances	**286**	**(2,282)**	**(1,996)**	586	674	1,260
Term notes	**49**	**103**	**152**	105	21	126
Subordinated Debentures	**37**	**770**	**807**	19	1,088	1,107
Total interest- bearing liabilities	**$ 5,441**	**$ 605**	**$ 6,046**	$ 11,608	$ 3,543	$ 15,151
Increase (decrease) in net interest income			**$ (230)**			$ 1,712

Provision for Loan Losses — First Defiance's provision for loan losses was $2.3 million for the year ended December 31, 2007 compared to $1.8 million and $1.4 million for the years ended December 31, 2006 and 2005 respectively.

Provisions for loan losses are charged to earnings to bring the total allowance for loan losses to a level deemed appropriate by management to absorb probable losses in the loan portfolio. Factors considered by management include identifiable risk in the portfolios; historical experience; the volume and type of lending conducted by First Defiance; the amount of non-performing assets, including loans which meet the FASB Statement No.114 definition of impaired; the amount of assets graded by management as substandard, doubtful, or loss; general economic conditions, particularly as they relate to First Defiance's market areas; and other factors related to the collectability of First Defiance's loan portfolio. See also Allowance for Loan Losses in Management's Discussion and Analysis and Note 7 to the audited financial statements.

Non-interest Income — Non-interest income increased by $2.5 million or 12.8% in 2007 to $22.1 million from $19.6 million for the year ended December 31, 2006. That followed an increase of $3.7 million or 23.2% in 2006 from $15.9 million in 2005. Most of the increase in both 2007 and 2006 was in service fees and other charges, which increased to $10.8 million for the year ended December 31, 2007 from $9.3 million for 2006 and $5.6 million for 2005; an increase of $1.5 million or 16.0% from 2006 to 2007 and an increase of $3.7 million, or 66.0% from 2005 to 2006. This growth in 2006 and 2007 was primarily related to checking account charges, the result of the implementation of an overdraft product in March of 2006.

First Defiance's overdraft privilege program generally provides for the automatic payment of modest overdraft limits on all accounts deemed to be in good standing when the account is accessed using paper-based check processing, a teller withdrawal, a point-of-sale terminal, an ACH transaction, or an ATM.To be in good standing, an account must be brought to a positive balance within a 30-day period. Overdraft limits are established for all customers without discrimination using a risk assessment approach for each account classification. The approach includes a systematic review and evaluation of the normal deposit flows made to each account classification to establish reasonable and prudent negative balance limits that would be routinely repaid by normal, expected and reoccurring deposits. The risk assessment by portfolio approach assumes a minimal degree of undetermined credit risk associated with unidentified individual accounts that are overdrawn for 30 or more days. Accounts overdrawn for more than 60 days are automatically charged off. Fees are charged as a one-time fee per occurrence and the fee charged for an item that is paid is equal to the fee charged for a non-sufficient fund item that is returned.

Overdrawn balances, net of allowance for losses, are reflected as loans on First Defiance’s balance sheet. The fees charged for this service are established based both on the return of processing costs plus a profit, and on the level of fees charged by competitors in the Company’s market area for similar services. These fees are considered to be compensation for providing a service to the customer and therefore deemed to be non-interest income rather than interest income. Fee income recorded for the years ending December 31, 2007 and 2006 related to the overdraft privilege product, net of adjustments to the allowance for uncollectible overdrafts, were $7.4 million and $6.0, respectively. Accounts charged off are included in non-interest expense. The period over period increases is due to the increased usage of the program by customers coupled with a reduction in the amount of fees being waived. The allowance for losses was established June 30, 2006 with a balance of $156,000. The allowance for losses was $133,000 at December 31, 2007.

Non-interest income also includes investment securities gains or losses. In 2007, First Defiance realized a $21,000 gain on securities compared to a $2,000 loss and $1.2 million gain in 2006 and 2005 respectively. In 2005, management took advantage of favorable prices in the bond portfolio resulting from lower long-term interest rates. Generally in those years, as investments were sold out of the investment portfolio, the related proceeds were used to fund loan growth or they were reinvested in shorter-term securities in order to position the Company for an eventual overall rate increase. There was only a minor amount of sales activity in the investment portfolio in 2007 and 2006.

Mortgage banking income includes gains from the sale of mortgage loans, fees for servicing mortgage loans for others, and an offset for amortization of mortgage servicing rights, and adjustments for impairment in the value of mortgage servicing rights. Mortgage banking income totaled $3.6 million, $3.4 million and $3.3 million in 2007, 2006 and 2005 respectively. The $223,000 of growth in 2007 over 2006 was primarily attributable to a $130,000 increase in mortgage servicing fees resulting from a $50.1 million increase in the portfolio of mortgage loans serviced for others and gains from sale of mortgage loans, which increased $167,000 in 2007 from 2006. The modest growth in 2006 over 2005 was primarily attributable to a $154,000 increase in mortgage servicing fees resulting from a $63 million increase in the portfolio of mortgage loans serviced for others and gains from sale of mortgage loans, which increased $133,000 in 2006 from 2005. Those increases in 2006 were offset by a reduction in the recovery of previously recorded mortgage servicing rights impairment reserves, which resulted in $417,000 of income in 2005 compared with just $2,000 in 2006. The balance of the impairment allowance stands at $116,000 at the end of 2007. See Note 8 to the financial statements.

Insurance and investment commission income increased by $747,000 or 16.5% in 2007, primarily due to the February 2007 acquisition of the Huber, Harger, Welt and Smith Agency located in Bowling Green, Ohio. Commission income associated with that agency acquisition totaled $1.0 million in 2007. Insurance commissions also were favorably impacted by an $80,000 increase in contingent commission income in 2007 ($275,000 if you include the contingent commission received by the HHWS Agency, which is included in their $1.0 million 2007 commissions).Contingent commissions are bonus payments received by First Defiance’s insurance subsidiary for effective underwriting. These increases were offset by a $450,000 decline in commissions from the sale of investment products. This decline is the result of a change in strategy in this line of business, to providing more fee-based investment advice, versus selling primarily commission-based products. Insurance and investment commission income increased by $346,000 or 8.3% in 2006 from 2005, primarily because of a $183,000 increase in contingent commissions.

Non-interest Expense — Total non-interest expense for 2007 was $48.1 million compared to $43.8 million for the year ended December 31, 2006 and $43.9 million for the year ended December 31, 2005.The 2005 total includes

$3.5 million of acquisition related charges. Non-interest expense, excluding the acquisition related charges in 2005 was $40.4 million.

Compensation and benefits increased by $1.4 million in 2007 compared to 2006, to $25.2 million from $23.8 million. A portion of the increase in compensation was due to having ten months of compensation and benefits costs associated with the HHWS acquisition in 2007. The balance of the increase in compensation and benefits resulted from general staffing increases, including staffing for the Fort Wayne, Indiana banking center which opened in August 2007, and cost of living pay increases. Occupancy costs for 2007 increased to $6.1 million from $5.1 million in 2006, with nearly half of that increase associated with clean-up costs and repairs necessary in First Federal's downtown Findlay and Ottawa Ohio banking centers. These offices were severely damaged by the worst flooding of Ohio's Blanchard River in nearly a century. Total flood related costs were approximately $497,000 which included clean up expenses, the cost to repair or replace computer equipment, heating and air conditioning units, drywall, window coverings and carpeting. In addition to occupancy costs, $87,000 of other costs associated with the flooding was recorded in 2007, mainly the loss on disposal of fixed assets destroyed in the flood at the two impacted banking offices. First Defiance's other non-interest expense category also increased to $12.9 million in 2007 from $11.2 million in 2006. The most significant reason for the increase in that category was a $709,000 increase in expenses associated with Other Real Estate Owned, including $698,000 of write-downs in property values. Other items which caused the increase in this expense category include higher levels of advertising (up $399,000), fraud losses and other related deposit account losses (up $175,000) and overdraft protection fees (up $120,000).

The increase in non-interest expense in 2006 from 2005 was primarily due to compensation and benefits which increased by $706,000.A portion of the increase in compensation was due to having a full year of compensation and benefits costs associated with the Genoa acquisition compared to just under nine months in 2005 and $268,000 related to the expensing of stock options in accordance with FAS No. 123R, Share-Based Payment which was a new item in 2006. The balance of the increase in compensation and benefits resulted from general staffing increases and cost of living pay increases. Also in 2006, occupancy costs increased to $5.1 million from $4.7 million in 2005, and data processing increased to $3.7 million from $3.2 million. The majority of these increases were a result of the acquisitions and other growth initiatives. First Defiance's other non-interest expense category also increased to $11.2 million in 2006 from $9.5 million in 2005. Increases in that category resulted from higher levels of advertising (up $235,000), printing and office supplies (up $134,000), postage (up $136,000) and bad check charge-offs and other related deposit account losses (up $94,000).Overdraft protection fees were $372,000 in 2006, which was a new expense related to the overdraft privilege product.

The 2005 non-interest expense included $3.5 million of acquisition related costs. Of these costs, $1.05 million related to the ComBanc acquisition and $2.45 related to the Genoa acquisition. For ComBanc, the most significant costs included $471,000 in severance and other termination payments to employees not retained and $222,000 related to the cancellation of certain contracts. For Genoa, the most significant costs included $1.3 million for the termination of a long-term data processing contract and other long-term contracts and lease arrangements and $364,000 for severance and other payments to employees not retained.

Income Taxes – Income taxes amounted to $6.5 million in 2007 compared to $7.5 million in 2006 and $5.9 million in 2005. The effective tax rates for those years were 31.8%, 32.3%, and 32.8% respectively. The tax rate is lower than the statutory 35% tax rate for the Company because of investments in tax-exempt securities and in Bank Owned Life Insurance (BOLI).The earnings on such investments are not subject to federal income tax. See Note 18 to the financial statements.

Concentrations of Credit Risk

Financial institutions such as First Defiance generate income primarily through lending and investing activities. The risk of loss from lending and investing activities includes the possibility that losses may occur from the failure of another party to perform according to the terms of the loan or investment agreement. This possibility is known as credit risk.

Lending or investing activities that concentrate assets in a way that exposes the Company to a material loss from any single occurrence or group of occurrences increases credit risk. Diversifying loans and investments to prevent concentrations of risks is one way a financial institution can reduce potential losses due to credit risk. Examples of asset concentrations would include multiple loans made to a single borrower and loans of inappropriate size relative to the total capitalization of the institution. Management believes adherence to its loan and investment policies allows it to control its exposure to concentrations of credit risk at acceptable levels. First Defiance's loan portfolio is concentrated geographically in its northwest Ohio market area. Management has also identified lending for income-generating rental properties as an industry concentration. Total loans for income generating property totaled $336.8 million at December 31, 2007, which represents 26% of the Company's Loan Portfolio. Management believes it has the skill and experience to manage any risks associated with this type of lending. Loans in this category are generally paying as agreed without any unusual or unexpected levels of delinquency. There are no other industry concentrations that exceed 10% of the Company's loan portfolio.

Liquidity and Capital Resources

The Company's primary source of liquidity is its core deposit base, raised through First Federal's branch network, along with unused wholesale sources of funding and its capital base. These funds, along with investment securities, provide the ability to meet the needs of depositors while funding new loan demand and existing commitments.

Cash generated from operating activities was $18.7 million, $21.7 million and $16.6 million in 2007, 2006 and 2005 respectively. The adjustments to reconcile net income to cash provided by or used in operations during the periods presented consist primarily of proceeds from the sale of loans (less the origination of loans held for sale), the provision for loan losses, depreciation expense, the origination, amortization and impairment of mortgage servicing rights, ESOP expense related to the release of ESOP shares in accordance with AICPA SOP 93-6 and increases and decreases in other assets and liabilities.

The primary investing activity of First Defiance is lending, which is funded with cash provided from operating and financing activities, as well as proceeds from payment on existing loans and proceeds from maturities of investment securities. In 2007, First Defiance completed the acquisition of HHWS, financed with the issuance of First Defiance shares of common stock, and realized an increase in cash of $190,000. In 2005, First Defiance completed the acquisitions of ComBanc and Genoa. In the case of the ComBanc acquisition, which was purchased with a combination of stock and cash, First Defiance realized an increase in cash of $52.7 million after netting the cash that was acquired from ComBanc. ComBanc's cash level was high because they liquidated their investment portfolio in advance of the acquisition closing date. In the case of the Genoa acquisition, the acquisition resulted in a net reduction in cash of $612,000 after netting Genoa's cash balances against the purchase price.

In considering the more typical investing activities, during 2007, $25.4 million and $2.5 million was generated from the maturity or sale of available-for-sale investment securities, respectively, while $67.7 million was used to fund loan growth and $28.9 million was used to purchase available-for-sale investment securities. During 2006, $16.6 million and $3.1 million was generated from the maturity or sale of available-for-sale investment securities, respectively, while $73.1 million was used to fund loan growth and $17.6 million was used to purchase available-for-sale investment securities. During 2005, $27.9 million and $24.2 million was generated from the maturity or sale of available-for-sale investment securities, respectively, while $104.1 million was used to fund loan growth and $30.3 million was used to purchase available-for-sale investment securities.

Principal financing activities include the gathering of deposits, the utilization of FHLB advances, and the sale of securities under agreements to repurchase such securities and borrowings from other banks. In addition, First Defiance also purchased common stock for its treasury. For 2007, total deposits increased by $79.6 million, including $96.6 million of growth in retail deposit balances. The amount of deposits acquired from CD brokers or other out of market sources declined in 2007 by $17.2 million. For 2006, total deposits increased by $69.3 million, including $88.3 million of growth in retail deposit balances. The amount of deposits acquired from CD brokers or other out of market sources declined in 2006 by $19.4 million. For 2005, total deposits (excluding deposits acquired in the acquisitions) increased by $31.9 million, including $44.4 million of growth in retail deposit balances. The amount of deposits acquired from CD brokers or other out of market sources declined in 2005 by $12.5 million. Also in 2007, Short-term advances from the FHLB decreased by $21.8 million and there were no borrowings on lines of credit from other banks. Also, securities sold under repurchase arrangements decreased by $369,000. In 2006, Short-term advances from the FHLB increased by $4.6 million and there were no borrowings on lines of credit from other banks. Also, securities sold under repurchase arrangements increased by $4.7 million in 2006. In 2005, Short-term advances from the FHLB increased by $2.0 million and securities sold under repurchase arrangements increased by $7.3 million. In 2007, First Defiance issued $15.5 million of subordinated debentures to an unconsolidated affiliated trust and that trust issued $15 million of trust preferred stock to outside investors. In 2005, First Defiance issued $20.6 million of subordinated debentures to an unconsolidated affiliated trust and that trust issued $20 million of trust preferred stock to outside investors. For additional information about cash flows from First Defiance's operating, investing and financing activities, see the Consolidated Statements of Cash Flows included in the Consolidated Financial Statements.

At December 31, 2007, First Defiance had the following commitments to fund deposit, advance, borrowing, and other obligations:

		Maturity Dates by Period at December 31, 2007			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
			(In Thousands)		
Certificates of deposit	$ 648,055	$ 565,590	$ 78,099	$ 3,437	$ 929
FHLB overnight advances	11,300	11,300	–	–	–
FHLB fixed advances including interest (1)	151,820	16,724	21,789	81,306	32,001
Subordinated debentures	36,083	–	–	–	36,083
Securities sold under repurchase agreements	30,055	30,055	–	–	–
Unrecognized tax benefits	498	140	163	130	65
Lease obligations	4,547	371	716	477	2,983
Total contractual cash obligations	$ 882,358	$ 624,180	$ 100,767	$ 85,350	$ 72,061

(1) Includes principal payments of $128,236 and interest payments of $23,584

At December 31, 2007, First Defiance had the following commitments to fund loan or line of credit obligations:

		Amount of Commitment Expiration by Period			
Commitments	**Total Amounts Committed**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
			(In Thousands)		
Residential real estate loans in process	$ 37,089	$ 37,089	$ –	$ –	$ –
Commercial loans in process	10,024	10,024	–	–	–
One-to-four family mortgage loan originations	3,282	60	196	650	2,376
Multifamily originations	11,479	3,894	–	–	7,585
Other real estate originations	16,930	2,256	1,325	2,170	11,179
Nonmortgage loan originations	12,740	2,035	465	321	9,919
Consumer lines of credit	98,692	3,806	19,867	21,578	53,441
Commercial lines of credit	89,916	86,159	2,607	150	1,000
Total loan commitments	280,152	145,323	24,460	24,869	85,500
Standby letters of credit	9,147	5,420	3,727	–	–
Total Commitments	$ 289,299	$ 150,743	$ 28,187	$ 24,869	$ 85,500

In addition to the above commitments, at December 31, 2007 First Defiance had commitments to sell $9.3 million of loans held for sale to Freddie Mac, Fannie Mae or BB&T Mortgage.

To meet its obligations, management can adjust the rate of savings certificates to retain deposits in changing interest rate environments; it can sell or securitize mortgage and non-mortgage loans; and it can turn to other sources of financing including FHLB advances, the Federal Reserve Bank, bank lines and brokered certificates of deposit. At December 31, 2007 First Defiance had $49.9 million capacity under its agreements with the FHLB and $70.0 million of borrowing capacity with other banks.

First Defiance is subject to various capital requirements of the Office of Thrift Supervision. At December 31, 2007, First Federal had capital ratios that exceeded the standard to be considered "well capitalized." For additional information about First Federal's capital requirements, see Note 17 to the Consolidated Financial Statements.

Critical Accounting Policies

First Defiance has established various accounting policies which govern the application of accounting principles generally accepted in the United States in the preparation of its financial statements. The significant accounting policies of First Defiance are described in the footnotes to the consolidated financial statements. Certain accounting policies involve significant judgments and assumptions by management, which have a material impact on the carrying value of certain assets and liabilities; management considers such accounting policies to be critical accounting policies. The judgments and assumptions used by management are based on historical experience and other factors, which are believed to be reasonable under the circumstances. Because of the nature of the judgments and assumptions made by management, actual results could differ from these judgments and estimates, which could have a material impact on the carrying value of assets and liabilities and the results of operations of First Defiance.

Allowance for Loan Losses: First Defiance believes the allowance for loan losses is a critical accounting policy that requires the most significant judgments and estimates used in preparation of its consolidated financial statements. In determining the appropriate estimate for the allowance for loan losses, management considers a number of factors relative to both specific credits in the loan portfolio and macro-economic factors relative to the economy of the United States as a whole and the economy of the northwest Ohio region in which the Company does business.

Factors relative to specific credits that are considered include a customer's payment history, a customer's recent financial performance, an assessment of the value of collateral held, knowledge of the customer's character, the financial strength and commitment of any guarantors, the existence of any customer or industry concentrations, changes in a customer's competitive environment, and any other issues that may impact a customer's ability to meet his obligations.

Economic factors that are considered include levels of unemployment and inflation, specific plant or business closings in the Company's market area, the impact of strikes or other work stoppages, the impact of weather or environmental conditions, especially relative to agricultural borrowers and other matters that may have an impact on the economy as a whole.

In addition to the identification of specific customers who may be potential credit problems, management considers its historical losses, the results of independent loan reviews, an assessment of the adherence to underwriting standards, the loss experience being reported by other financial institutions operating in the Company's market area, and other factors in providing for loan losses that have not been specifically classified. While management believes its allowance for loan losses is conservatively determined based on the above factors, it does not believe the allowances to be excessive or unnecessary. Refer to the section titled "Allowance for Loan Losses" and Note 2, Statement of Accounting Policies for a further description of the Company's estimation process and methodology related to the allowance for loan losses.

Valuation of Mortgage Servicing Rights: First Defiance believes the valuation of mortgage servicing rights is a critical accounting policy that requires significant estimates in preparation of its consolidated financial statements. First Defiance recognizes as separate assets the value of mortgage servicing rights, which are acquired through loan origination activities. First Defiance does not purchase any mortgage servicing rights.

Key assumptions made by management relative to the valuation of mortgage servicing rights include the stratification policy used in valuing servicing, assumptions relative to future prepayments of mortgages, the potential value of any escrow deposits maintained or ancillary income received as a result of the servicing activity and discount rates used to value the present value of a future cash flow stream. In assessing the value of the mortgage servicing rights portfolio, management utilizes a third party that specializes in valuing servicing portfolios. That third party reviews key assumptions with management prior to completing the valuation. Prepayment speeds are determined based on projected median prepayment speeds for 15 and 30 year mortgage backed securities. Those speeds are then adjusted up or down based on the size of the loan. The discount rate used in this analysis is the pretax yield generally required by purchasers of bulk servicing rights as of the valuation date. The value of mortgage servicing rights is especially vulnerable in a falling interest rate environment. Refer also to the section entitled Mortgage Servicing Rights and Note 2, Statement of Accounting Policies, and Note 8, Mortgage Banking, for a further description of First Defiance's valuation process, methodology and assumptions along with sensitivity analyses.

Quantitative and Qualitative Disclosure About Market Risk
Asset/Liability Management

A significant portion of the Company's revenues and net income is derived from net interest income and, accordingly, the Company strives to manage its interest-earning assets and interest-bearing liabilities to generate an appropriate contribution from net interest income. Asset and liability management seeks to control the volatility of the Company's performance due to changes in interest rates. The Company attempts to achieve an appropriate relationship between rate sensitive assets and rate sensitive liabilities. First Defiance does not presently use off balance sheet derivatives to enhance its risk management.

First Defiance monitors interest rate risk on a monthly basis through simulation analysis that measures the impact changes in interest rates can have on net interest income. The simulation technique analyzes the effect of a presumed 100 basis point shift in interest rates (which is consistent with management's estimate of the range of potential interest rate fluctuations) and takes into account prepayment speeds on amortizing financial instruments, loan and deposit volumes and rates, non-maturity deposit assumptions and capital requirements. The results of the simulation indicate that in an environment where interest rates rise 100 basis points over a 12 month period, First Defiance's net interest income would increase by just 2.33% over the base case scenario. Were interest rates to fall by 100 basis points during the same 12-month period, the simulation indicates that net interest income would decrease by only 1.51%. It should be noted that other areas of First Defiance's income statement, such as gains from sales of mortgage loans and amortization of mortgage servicing rights are also impacted by fluctuations in interest rates but are not considered in the simulation of net interest income.

The majority of First Defiance's lending activities are in the non-residential real estate and commercial loan areas. While such loans carry higher credit risk than residential mortgage lending, they tend to be more rate sensitive than residential mortgage loans. The balance of First Defiance's non-residential and multi-family real estate loan portfolio was $601.8 million, which is split between $107.8 million of fixed-rate loans and $494.0 million of adjustable-rate loans at December 31, 2007. The commercial loan portfolio increased to $283.1 million, which is split between $106.4 million of fixed-rate loans and $176.7 million of adjustable-rate loans at December 31, 2007. Certain of the loans classified as adjustable have fixed rates for an initial term that may be as long as five years. The maturities on fixed-rate loans are generally less than 7 years. First Defiance also has significant balances of home equity and improvement loans ($128.1 million at December 31, 2007) of which $70.4 million fluctuate with changes in the prime lending rate. Approximately $57.7 million of home equity and improvement loans have fixed rates but the maturities on those loans range from three to five years.First Defiance also has consumer loans ($37.7 million at December 31, 2007) which tend to have a shorter duration than residential mortgage loans. Also, to limit its interest rate risk, (as well as to provide liquidity) First Federal sells a majority of its fixed-rate mortgage originations into the secondary market.

In addition to the simulation analysis, First Federal also prepares an "economic value of equity" ("EVE") analysis. This analysis calculates the net present value of First Federal's assets and liabilities in rate shock environments that range from –300 basis points to +300 basis points. The results of this analysis are reflected in the following table.

December 31, 2007

Change in Rates	$ Amount	Economic Value of Equity $ Change	Economic Value of Equity % Change	Economic Value of Equity as % of Present Value of Assets Ratio	Economic Value of Equity as % of Present Value of Assets Change
		(Dollars in Thousands)			
+ 300bp	189,395	(39,698)	(17.33%)	12.39%	(179) bp
+ 200bp	202,606	(26,487)	(11.56%)	13.01%	(117) bp
+ 100bp	216,419	(12,674)	(5.53%)	13.64%	(54) bp
0bp	229,093	–	–	14.18%	–
-100bp	238,794	9,701	4.23%	14.54%	36bp
-200bp	246,450	17,357	7.58%	14.79%	61bp
-300bp	255,250	26,157	11.42%	15.08%	90bp

Based on this analysis, in the event of a 200 basis point increase in interest rates as of December 31, 2007, First Federal would experience an 11.56% decrease in its economic value of equity. If rates would fall by 200 basis points its economic value of equity would increase by 7.58%. During periods of rising rates, the value of monetary assets declines. Conversely, during periods of falling rates, the value of monetary assets increases. It should be noted that the amount of change in value of specific assets and liabilities due to changes in rates is not the same in a rising rate environment as in a falling rate environment. Based on the EVE analysis, the change in the economic value of equity in both rising and falling rate environments is relatively low because both its assets and liabilities have relatively short durations and the durations are fairly closely matched. The average duration of its assets at December 31, 2007 was 1.77 years while the average duration of its liabilities was 1.18 years.

In evaluating First Federal's exposure to interest rate risk, certain shortcomings inherent in the each of the methods of analysis presented must be considered. For example, although certain assets and liabilities may have similar maturities or periods until repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market rates while interest rates on other types of financial instruments may lag behind current changes in market rates. Furthermore, in the event of changes in rates, prepayments and early withdrawal levels could differ significantly from the assumptions in calculating the table and the results therefore may differ from those presented.

Forward Looking Information

This report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. It is intended that such forward-looking statements are covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995. This statement is included for purposes of these safe harbor provisions. Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations are generally identifiable by use of the words believe, expect, intend, anticipate, estimate, project, may or similar expressions. The presentation and discussion of the provision and allowance for loan losses, statements concerning future profitability or future growth and projections about interest rate simulations included in the Asset/Liability Management section are examples of inherently forward-looking statements in that they involve judgments and statements of belief as to the outcome of future events. The ability of management to predict results or the actual effect of future strategies is inherently uncertain. Factors which could have a material adverse affect on operations and future prospects include, but are not limited to, changes in: interest rates, general economic conditions, both nationally and within the region that First Defiance operates, legislative or regulatory changes, monetary and fiscal policy of the U.S.Government, including policies of the U.S.Treasury and the Federal Reserve Board, the quality or make-up of the loan and investment portfolios, demand for loan and deposit products, competition, demand for financial products in the First Defiance market areas and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating forward-looking statements and undue reliance should not be placed on such statements. Further information concerning First Defiance and its business, including additional factors that could materially affect its financial results and financial condition are included in its filings with the Securities and Exchange Commission.

Management's Report on Internal Control
Over Financial Reporting

The management of First Defiance Financial Corp. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f).Under the supervision and with the participation of management, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Based on our evaluation under the framework in Internal Control – Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2007.The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by Crowe Chizek and Company LLC, an independent registered public accounting firm, as stated in their report which follows.

William J. Small
Chairman, President and
Chief Executive Officer

John C. Wahl
Executive Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

Board of Directors and Stockholders
First Defiance Financial Corp.
Defiance, Ohio

We have audited First Defiance Financial Corp.'s (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, First Defiance Financial Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of First Defiance Financial Corp.as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007 and our report dated March 14, 2008 expressed an unqualified opinion on those financial statements.

Crowe Chizek and Company LLC

Crowe Chizeck and Company LLC

Cleveland, Ohio
March 14, 2008

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
First Defiance Financial Corp.
Defiance, Ohio

Crowe

We have audited the accompanying consolidated statements of financial condition of First Defiance Financial Corp.(the Company) as of December 31, 2007 and 2006 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 First Defiance Financial Corp. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007 in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First Defiance Financial Corp.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 14, 2008 expressed an unqualified opinion thereon.

Crowe Chizek and Company LLC

Crowe Chizek and Company LLC

Cleveland, Ohio
March 14, 2008

Consolidated Statements of Financial Condition

	December 31, 2007	December 31, 2006
	(In Thousands)	
Assets		
Cash and cash equivalents:		
Cash and amounts due from depository institutions	**$ 53,976**	$ 47,668
Interest-bearing deposits	**11,577**	2,355
	65,553	50,023
Securities available-for-sale, carried at fair value	**112,370**	110,682
Securities held-to-maturity, carried at amortized cost (fair value $1,161 and $1,492 at December 31, 2007 and 2006 respectively)	**1,117**	1,441
Loans receivable, net of allowance of $13,890 and $13,579 at December 31, 2007 and 2006, respectively	**1,275,806**	1,226,310
Loans held for sale	**5,751**	3,426
Mortgage servicing rights	**5,973**	5,529
Accrued interest receivable	**6,755**	6,984
Federal Home Loan Bank stock	**18,586**	18,586
Bank owned life insurance	**28,423**	25,326
Premises and equipment	**40,545**	34,899
Real estate and other assets held for sale	**2,460**	2,392
Goodwill	**36,820**	35,090
Core deposit and other intangibles	**3,551**	3,397
Other assets	**5,694**	3,794
Total assets	**$ 1,609,404**	$ 1,527,879
Liabilities and stockholders' equity		
Liabilities:		
Deposits:		
Noninterest-bearing	**$ 121,563**	$ 106,328
Interest-bearing	**1,096,295**	1,032,117
Total	**1,217,858**	1,138,445
Advances from the Federal Home Loan Bank	**139,536**	162,228
Short term borrowings and other interest-bearing liabilities	**30,055**	30,424
Subordinated debentures	**36,083**	20,619
Advance payments by borrowers	**762**	667
Deferred taxes	**1,306**	1,295
Other liabilities	**17,850**	14,376
Total liabilities	**1,443,450**	1,368,054
Stockholders' equity: *(Shares in Thousands)*		
Preferred stock, no par value per share:		
5,000 shares authorized; no shares issued		
Common stock, $.01 par value per share: 20,000 shares authorized; 11,703 shares issued and 7,059 and 7,142 shares outstanding, respectively	**117**	117
Additional paid-in capital	**112,651**	110,285
Stock acquired by ESOP	**(202)**	(628)
Accumulated other comprehensive income (loss), net of tax of $224 and $362, respectively	**(415)**	(671)
Retained earnings	**126,630**	120,112
Treasury stock, at cost, 4,644 and 4,561 shares respectively	**(72,827)**	(69,390)
Total stockholders' equity	**165,954**	159,825
Total liabilities and stockholders' equity	**$ 1,609,404**	$ 1,527,879

See accompanying notes.

Consolidated Statements of Income

	Years Ended December 31,		
	2007	**2006**	**2005**
	(In Thousands, Except Per Share Amount)		
Interest income			
Loans	**$ 90,866**	$ 86,213	$ 69,708
Investment securities:			
Taxable	**4,475**	4,511	4,081
Tax-exempt	**1,260**	1,134	1,192
Interest-bearing deposits	**924**	165	364
FHLB stock dividends	**1,226**	1,042	829
Total interest income	**98,751**	93,065	76,174
Interest expense			
Deposits	**40,356**	33,273	20,615
Federal Home Loan Bank advances and other	**6,889**	8,885	7,625
Subordinated debentures	**2,115**	1,308	201
Notes payable	**729**	577	451
Total interest expense	**50,089**	44,043	28,892
Net interest income	**48,662**	49,022	47,282
Provision for loan losses	**2,306**	1,756	1,442
Net interest income after provision for loan losses	**46,356**	47,266	45,840
Noninterest income			
Service fees and other charges	**10,788**	9,303	5,603
Mortgage banking income	**3,612**	3,389	3,345
Insurance commissions	**5,278**	4,531	4,185
Gain on sale of non-mortgage loans	**226**	526	–
Gain (loss) on sale of securities	**21**	(2)	1,222
Trust income	**375**	312	282
Income from bank owned life insurance	**1,375**	980	765
Other noninterest income	**455**	585	523
Total noninterest income	**22,130**	19,624	15,925
Noninterest expense			
Compensation and benefits	**25,245**	23,805	23,110
Occupancy	**6,100**	5,103	4,651
Data processing	**3,824**	3,689	3,247
Acquisition related charges	**–**	–	3,476
Other noninterest expense	**12,944**	11,242	9,458
Total noninterest expense	**48,113**	43,839	43,942
Income before income taxes	**20,373**	23,051	17,823
Federal income taxes	**6,469**	7,451	5,853
Net income	**$ 13,904**	$ 15,600	$ 11,970
Earnings per share:			
Basic	**$ 1.96**	$ 2.22	$ 1.75
Diluted	**$ 1.94**	$ 2.18	$ 1.69
Dividends declared per share	**$ 1.01**	$ 0.97	$ 0.90

See accompanying notes.

Consolidated Statements of Stockholders' Equity

	Common Stock	Treasury Stock	Additional Paid-In Capital	Stock Acquired by ESOP	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
				(In Thousands)			
Balance at January 1, 2005	$ 110	$ (69,010)	$ 88,524	$ (1,479)	$ 2,131	$ 106,598	$ 126,874
Comprehensive income:							
Net income	–	–	–	–	–	11,970	11,970
Change in net unrealized gains and losses on available-for-sale securities, net of income taxes of $(1,015) (a)	–	–	–	–	(2,153)	–	(2,153)
Total comprehensive income							9,817
ESOP shares released	–	–	924	426	–	–	1,350
733,775 shares issued to acquire ComBanc, Inc.	7	186	18,911	–			19,104
Amortization of deferred compensation of Management Recognition Plan, including income tax benefit of $4	–	–	6	–	–	–	6
127,197 shares issued under stock option plan, including income tax benefit of $261	–	1,878 261	–	–	(317)	1,822	
54,531 common shares acquired for treasury	–	(1,547)	–	–	–	–	(1,547)
Dividends declared	–	–	–	–	–	(6,210)	(6,210)
Balance at December 31, 2005	117	(68,493)	108,626	(1,053)	(22)	112,041	151,216
Comprehensive income:							
Net income	–	–	–	–	–	15,600	15,600
Change in net unrealized gains and losses on available-for-sale securities, net of income taxes of ($39) (a)	–	–	–	–	(73)	–	(73)
Total comprehensive income							15,527
Adjustment to initially apply SFAS No.158, net of tax of ($310)					(576)		(576)
ESOP shares released	–	–	901	425	–	–	1,326
Stock option expense	–	–	268	268			
Amortization of deferred compensation of							

Management Recognition Plan including income tax benefit of $4	–	–	4	–	–	–	4
203,595 shares issued under stock option plan, including income tax benefit of $481	–	3,046	486	–	–	(703)	2,829
147,401 common shares acquired for treasury	–	(3,943)	–	–	–	(3,943)	
Dividends declared	–	–	–	–	–	(6,826)	(6,826)
Balance at December 31, 2006	117	(69,390)	110,285	(628)	(671)	120,112	159,825
Adjustment to initially apply FIN 48						**(200)**	**(200)**
Balance at December 31, 2006 adjusted							**159,625**
Comprehensive income:							
Net income	–	–	–	–	–	**13,904**	**13,904**
Change in net unrealized gains and losses on available-for-sale securities, net of income taxes of $248 (a)	–	–	–	–	**459**	–	**459**
Change in unrealized loss on postretirement benefit, net of tax of ($110)	–	–	–	–	**(203)**	–	**(203)**
Total comprehensive income							**14,160**
ESOP shares released	–	–	**951**	**426**	–	–	**1,377**
Stock option expense	–	–	**260**	–	–	–	**260**
Amortization of deferred compensation of Management Recognition Plan							
36,865 shares issued under stock option plan, including income tax benefit of $64	–	**563**	**68**	–	–	**(46)**	**585**
76,435 shares issued in acquisition of HHWS		**1,163**	**1,087**				**2,250**
196,474 common shares acquired for treasury	–	**(5,163)**	–	–	–	–	**(5,163)**
Dividends declared	–	–	–	–	–	**(7,140)**	**(7,140)**
Balance at December 31, 2007	**$ 117**	**$ (72,827)**	**$ 112,651**	**$ (202)**	**$ (415)**	**$ 126,630**	**$ 165,954**

(a) *Net of reclassification adjustments. Reclassification adjustments represent net unrealized gains (losses) as of December 31 of the prior year on securities available-for-sale that were sold during the current year. The reclassification adjustment was ($7,000) (($5,000) after tax) in 2007, -0- in 2006 and $1.3 million ($884,000 after tax) in 2005.*

See accompanying notes.

Consolidated Statements of Cash Flows

	Years Ended December 31,		
	2007	**2006**	**2005**
		(In Thousands)	
Operating activities			
Net income	**$ 13,904**	$ 15,600	$ 11,970
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**2,306**	1,756	1,442
Provision for depreciation	**2,986**	2,738	2,396
Net amortization of premium and discounts on loans, securities, deposits and debt obligations	**140**	532	1,152
Amortization of mortgage servicing rights	**648**	612	784
Net impairment (recovery) of mortgage servicing rights	**36**	(2)	(417)
Amortization of intangibles	**646**	720	755
Gain on sale of loans	**(2,816)**	(2,950)	(2,426)
Amortization of Management Recognition Plan deferred compensation	**–**	–	6
(Gain) loss on sale or disposal of property, plant and equipment	**108**	(104)	(116)
Loss on sale or write-down of REO	**805**	–	–
FHLB stock dividends	**–**	(1,042)	(835)
Release of ESOP shares	**1,377**	1,326	1,350
(Gain) loss on sales or write-down of securities	**(21)**	2	(1,222)
Deferred federal income tax	**(257)**	870	249
Proceeds from sale of loans	**127,674**	140,828	112,731
Stock option expense	**260**	268	–
Origination of loans held for sale	**(128,537)**	(137,624)	(114,332)
Income from bank owned life insurance	**(1,375)**	(980)	(765)
Change in interest receivable and other assets	**(1,615)**	(2,616)	1,285
Change in accrued interest and other liabilities	**2,444**	1,804	2,574
Net cash provided by operating activities	**18,713**	21,738	16,581
Investing activities			
Proceeds from maturities of held-to-maturity securities	**324**	358	357
Proceeds from maturities of available-for-sale securities	**25,359**	16,649	27,882
Proceeds from sale of available-for-sale securities	**2,521**	3,073	24,160
Proceeds from sale of real estate and other assets held for sale	**2,923**	2,229	475
Proceeds from sale of office properties and equipment	**18**	213	1,286
Purchases of available-for-sale securities	**(28,946)**	(17,551)	(30,271)
Purchases of office properties and equipment	**(8,687)**	(5,317)	(5,296)
Investment in bank owned life insurance	**(2,060)**	–	(5,000)
Proceed from insurance death benefit	**338**	–	–
Net cash received in acquisitions	**190**	–	52,075
Proceeds from sale of non-mortgage loans	**12,234**	4,929	–
Net increase in loans receivable	**(67,741)**	(73,060)	(104,103)
Net cash used in investing activities	**(63,527)**	(68,477)	(38,435)

(continued)

Consolidated Statements of Cash Flows *(continued)*

	Years Ended December 31,		
	2007	**2006**	**2005**
		(In Thousands)	
Financing activities			
Net increase in deposits	**79,590**	69,291	31,931
Repayment of Federal Home Loan Bank long-term advances	**(873)**	(68,206)	(2,457)
Net increase (decrease) in Federal Home Loan Bank short-term advances	**(21,800)**	4,600	2,000
Net increase (decrease) in short-term line of credit	–	–	(3,000)
Proceeds from Federal Home Loan Bank long-term advances	**–**	45,000	–
Increase (decrease) in securities sold under repurchase agreements	**(369)**	4,676	7,334
Proceeds from issuance of subordinated debentures	**15,464**	–	20,619
Purchase of common stock for treasury	**(4,923)**	(2,852)	(1,547)
Cash dividends paid	**(7,090)**	(6,741)	(5,852)
Proceeds from exercise of stock options	**281**	1,257	1,561
Excess tax benefit from exercise of stock options	**64**	481	–
Net cash provided by financing activities	**60,344**	47,506	50,589
Increase (decrease) in cash and cash equivalents	**15,530**	767	28,735
Cash and cash equivalents at beginning of period	**50,023**	49,256	20,521
Cash and cash equivalents at end of period	**$ 65,553**	$ 50,023	$ 49,256
Supplemental cash flow information			
Interest paid	**$ 49,411**	$ 43,197	$ 28,327
Income taxes paid	**$ 5,576**	$ 5,956	$ 5,053
Stock option exercise price paid with common stock	**$ 240**	$ 1,091	–
Transfers from loans to other real estate owned and other assets held for sale	**$ 3,796**	$ 4,217	$ 605

First Defiance acquired all of the capital stock of ComBanc Inc.and the Genoa Savings and Loan Company for $38.3 million and $11.2 million respectively in 2005.In conjunction with the acquisitions, liabilities were assumed as follows:

	ComBanc	**Genoa**	**Total**
Fair value of assets acquired	$ 213,927	$ 88,077	$ 302,004
Purchase price	(38,339)	(11,212)	(49,551)
Liabilities assumed	$ 175,588	$ 76,865	$ 252,453

See accompanying notes

Notes to Consolidated Financial Statements

1. Basis of Presentation

First Defiance Financial Corp.(First Defiance) is a holding company that conducts business through its two wholly owned subsidiaries, First Federal Bank of the Midwest (First Federal) and First Insurance & Investments (First Insurance).All significant intercompany transactions and balances are eliminated in consolidation.

First Federal is primarily engaged in attracting deposits from the general public through its offices and using those and other available sources of funds to originate loans primarily in the counties in which its offices are located. First Federal's traditional banking activities include originating and servicing residential, commercial and consumer loans and providing a broad range of depository, trust and wealth management services. First Insurance & Investments is an insurance agency that does business in the Defiance and Bowling Green, Ohio areas offering property and casualty, and group health and life insurance products.

2. Statement of Accounting Policies

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Significant areas where First Defiance uses estimates are the valuation of certain investment securities, the determination of the allowance for loan losses, the valuation of mortgage servicing rights and goodwill, the determination of unrecognized income tax benefits, and the determination of post-retirement benefits.

Earnings Per Share

Basic earnings per share is net income divided by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options and stock grants.Unreleased shares held by the Company's Employee Stock Ownership Plan are not included in average shares for purposes of calculating earnings per share. As shares are released for allocation, they are included in the average shares outstanding. Also see Note 19.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available for sale investment securities and the net unrecognized actuarial losses and unrecognized prior service costs associated with the Company's Defined Benefit Postretirement Medical Plan. All items included in other comprehensive income are reported net of tax. See also Notes 5 and 16.

Cash and Cash Equivalents

Cash and cash equivalents include amounts due from banks and overnight investments with the Federal Home Loan Bank (FHLB).Cash and amounts due from depository institutions includes required balances on hand or on deposit at the FHLB and Federal Reserve of approximately $178,000 and $978,000, respectively, at December 31, 2007 to meet regulatory reserve and clearing requirements. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and repurchase agreements.

Investment Securities

Management determines the appropriate classification of debt securities at the time of purchase and evaluates such designation as of each balance sheet date. Debt securities are classified as held-to-maturity when First Defiance has the positive intent and ability to hold the securities to maturity and are reported at cost, adjusted for premiums and discounts that are recognized in interest income using the interest method over the period to maturity.

Debt securities not classified as held-to-maturity and equity securities are classified as available-for-sale. Available-for-sale securities are stated at fair value, with the unrealized gains and losses, net of tax, reported in other comprehensive income, net of tax, until realized. Realized gains and losses are included in gains (losses) on securities. Realized gains and losses on securities sold are recognized on the trade date based on the specific identification method.

Securities with unrealized losses are reviewed quarterly to determine if value impairment is other-than-temporary. In performing this review management considers the length of time and extent that fair value has been less than cost, the financial condition of the issuer, the impact of changes in market interest rates on market value and the Company's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. If the fair value of a security is less than amortized cost and the impairment is determined to be other-than-temporary, the security is written down, establishing a reduced cost basis, and the related charge is recorded as a realized loss in the income statement.

FHLB Stock

As a member of the FHLB System, First Federal is required to own stock of the FHLB of Cincinnati in an amount principally equal to 0.15% of total assets plus an amount of at least 2% but no more than 4% of its non-grandfathered mission asset activity (as defined in the FHLB's regulations).First Federal is permitted to own stock in excess of the minimum requirement. FHLB stock is a restricted equity security that does not have a readily determinable fair value and is carried at cost. It is evaluated for impairment based upon the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Loans Receivable

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amount outstanding, net of deferred loan fees and costs and the allowance for loan losses. Deferred fees net of deferred incremental loan origination costs, are amortized to interest income generally over the contractual life of the loan using the interest method.

Mortgage loans originated and intended for sale in the secondary market are classified as loans held for sale and are carried at the lower of aggregate cost or market, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Interest receivable is accrued on loans and credited to income as earned. The accrual of interest on loans 90 days delinquent or impaired is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received. The accrual of interest on these loans is generally resumed after a pattern of repayment has been established and the collection of principal and interest is reasonably assured.

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable incurred losses in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans, actual loss experience, current economic events in specific industries and geographical areas, and other pertinent factors including general economic conditions. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience and consideration of economic trends, all of which may be susceptible to significant change. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off.

Loan losses are charged off against the allowance when in management's estimation it is unlikely that the loan will be collected, while recoveries of amounts previously charged off are credited to the allowance. A provision for loan losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other pertinent factors in order to maintain the allowance for loan losses at the level deemed adequate by management. The determination of whether a loan is considered past due or delinquent is based on the contractual payment terms.

A loan is impaired when full payment under the loan terms is not expected. Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Acquired Loans

Valuation allowances for all acquired loans subject to SOP 03-3 reflect only those losses incurred after acquisition—that is, the present value of cash flows expected at acquisition that are not expected to be collected.

The Company acquires loans individually and in groups or portfolios. At acquisition, the Company reviews each loan to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that it will be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the Company determines whether each such loan is to be accounted for individually or whether such loans will be assembled into pools of loans based on common risk characteristics (credit score, loan type, and date of origination).The Company considers expected prepayments, and estimates the amount and timing of undiscounted expected principal, interest, and other cash flows (expected at acquisition) for each loan and subsequently aggregated pool of loans. The Company determines the excess of the loan's or pool's scheduled contractual principal and contractual interest payments over all cash flows expected at acquisition as an amount that should not be accreted (nonaccretable difference).The remaining amount—representing the excess of the loan's cash flows expected to be collected over the amount paid—is accreted into interest income over the remaining life of the loan or pool (accretable yield).

Over the life of the loan or pool, the Company continues to estimate cash flows expected to be collected, and evaluates whether the present value of its loans determined using the effective interest rates has decreased and if so, recognizes a loss. The present value of any subsequent increase in the loan's or pool's actual cash flows or cash flows expected to be collected is used first to reverse any existing valuation allowance for that loan or pool. For any remaining increases in cash flows expected to be collected, the Company adjusts the amount of accretable yield recognized on a prospective basis over the loan's or pool's remaining life.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Marketing Costs

Marketing costs are expensed as incurred.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the financial statements.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company. These restrictions pose no practical limit on the ability of the bank or holding company to pay dividends at historical levels. See Note 21.

Servicing Rights

Servicing rights are recognized separately when they are acquired through sales of loans. For sales of mortgage loans prior to January 1, 2007, a portion of the cost of the loan was allocated to the servicing right based on relative fair values. The Company adopted SFAS No. 156 on January 1, 2007, and for sales of mortgage loans beginning in 2007, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. The Company compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with mortgage banking income on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the income statement with mortgage banking income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan, and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees net of amortization of mortgage servicing rights (excluding valuation adjustments)totaled $1.1 million, $963,000 and $637,000 for the years ended December 31, 2007, 2006 and 2005. Late fees and ancillary fees related to loan servicing are not material. See Note 8.

Real Estate and Other Assets Held for Sale

Other assets held for sale are comprised of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. These properties are carried at the lower of cost or fair value, less estimated costs to dispose, at the time of foreclosure or insubstance foreclosure. Losses arising from the acquisition of such property are charged against the allowance for loan losses at the time of acquisition. If fair value declines subsequent to foreclosure, the property is written down against expense. Costs after acquisition are expensed.

Premises and Equipment and Long Lived Assets

Premises and equipment are carried at cost less accumulated depreciation and amortization computed principally by the straight-line method over the following estimated useful lives:

Buildings and improvements.	20 to 50 years
Furniture, fixtures and equipment.	3 to 15 years

Long-lived assets to be held and those to be disposed of and certain intangibles are evaluated for impairment using the guidance provided by Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for Long-Lived Assets to be Disposed of*, relative to accounting for long-lived assets and accounting for long-lived assets to be disposed of either through sale, abandonment, exchange or a distribution to owners. See Note 9.

Income Taxes

Deferred income taxes reflect the temporary tax consequences on future years of differences between the tax basis and financial statement amounts of assets and liabilities at each year-end.

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

An effective tax rate of 35% is used to determine after-tax components of other comprehensive income (loss) included in the statements of stockholders' equity.

In July 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No, 109* ("FIN 48"), which prescribes a recognition threshold and measurement attribute for a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 was effective for fiscal years beginning after December 15, 2006.The Company has adopted FIN 48 effective January 1, 2007, the effect of which resulted in $200,000 being recorded as an adjustment to beginning retained earnings. See Note 18.

Business Combinations

Business combinations, which have been accounted for under the purchase method of accounting, include the results of operations of the acquired business from the date of acquisition. Net assets of companies acquired are recorded at their estimated fair value as of the date of acquisition.

Goodwill and Other Intangibles

Goodwill results from business acquisitions and represents the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed annually for impairment and any such impairment is recognized in the period identified. Identified purchased intangibles, which consist of core deposit intangibles, customer relationship intangibles and non-compete agreements, are recorded at cost or estimated fair value and amortized over their estimated lives, which range from five years for non-compete agreements to 10 to 12 years for core deposit and customer relationship intangibles. See Note 10.

Stock Compensation Plans

Effective January 1, 2006, First Defiance adopted Statement of Financial Accounting Standard (SFAS) No. 123(R), *Share-based Payment*, which requires recognition of compensation cost for all stock-based awards to be based on the grant-date fair value over the service period of stock-based awards, which is usually the same as the vesting period. The fair value of stock options is determined using the Black-Scholes valuation model, which is consistent with the Company's valuation methodology previously utilized for options in footnote disclosures required under SFAS No. 123. The exercise price of stock grants has been and will continue to be based on the market value of the stock at the date of grant. The Company has adopted SFAS No. 123(R) using the modified prospective method, which provides for no retroactive application to prior periods and no cumulative effect adjustment to equity accounts. It also provides for expense recognition, for both new and existing stock-based awards, as the required services are rendered. SFAS No. 123(R) also amends SFAS No. 95, *Statement of Cash Flows* and requires tax benefits relating to excess stock-based compensation deductions to be presented in the statement of cash flows as financing cash inflows. In accordance with Staff Accounting Bulletin No. 107 (SAB 107) issued by the Securities and Exchange Commission, stock-based compensation has been classified in the same expense category as cash compensation and has been included in the Compensation and Benefits line of the Consolidated Statements of Income for 2007 and 2006.

Prior to January 1, 2006, the Company accounted for stock-based compensation expense using the intrinsic method as required by Accounting Principles Board (ABP) Opinion No. 25, *Accounting for Stock Issued to Employees* as permitted by SFAS No. 123 *Accounting for Stock-Based Compensation*. No compensation cost for stock options was reflected in net income for the year ended December 31, 2005, as all options granted had an exercise price equal to the market price of the underlying common stock at the date of grant.
The adoption of SFAS No. 123(R) had the following impact on reported amounts compared with amounts that would have been reported using the intrinsic value method under previous accounting for the year ended December 31, 2006.

	Using Previous Accounting	SFAS 123(R) Adjustments	As Reported
Income before income taxes	$ 23,322	$ (271)	$ 23,051
Income taxes	7,454	(3)	7,451
Net income	$ 15,868	$ (268)	$ 15,600
Basic earnings per share	$ 2.26	$ (.04)	$ 2.22
Diluted earnings per share	$ 2.22	$ (.04)	$ 2.18

The following table illustrates the effect on net income and earnings per share if expense had been measured using the fair value recognition provisions of SFAS 123(R) for the year ended December 31, 2005:

	As Reported	Pro Forma Adjustments	Pro Forma as if Under SFAS 123(R)
Income before income taxes	$ 17,823	$ (272)	$ 17,551
Income taxes	5,853	(4)	5,849
Net income	$ 11,970	$ (268)	$ 11,702
Basic earnings per share	$ 1.75	$ (.04)	$ 1.71
Diluted earnings per share	$ 1.69	$ (.04)	$ 1.65

Also see Note 20.

Bank Owned Life Insurance

The Company has purchased life insurance policies on certain executives and senior managers. Upon adoption of Emerging Issues Task Force ("EITF") 06-05, which is discussed further below, Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Prior to adoption of EITF 06-05, the Company recorded bank owned life insurance at its cash surrender value.

In September 2006, the FASB EITF finalized Issue No. 06-05, *Accounting for Purchases of Life Insurance – Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 (Accounting for Purchases of Life Insurance).* This Issue required that a policyholder consider contractual terms of a life insurance policy in determining the amount that could be realized under the insurance contract. It also required that if the contract provides for a greater surrender value if all individual policies in a group are surrendered at the same time, that the surrender value be determined based on the assumption that policies will be surrendered on an individual basis. Lastly, the Issue requires disclosure when there are contractual restrictions on the Company's ability to surrender a policy. The adoption of EITF 06-05 on January 1, 2007 did not have a material impact on the Company's financial condition or results of operation.

Postretirement Benefits

The Company sponsors a defined benefit postretirement plan that provides medical benefits to eligible retirees. Postretirement benefit expense is accrued based on the expected future cost of providing benefits during the years service is rendered by the employee.

In September 2006, the FASB issued SFAS No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of SFAS Nos. 87, 88, 106, and 132(R)* ("Statement 158").Statement 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, "postretirement benefit plans") to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end statement of financial position, and provide additional disclosures. On December 31, 2006, the Company adopted the recognition and disclosure provisions of Statement 158. The effect of adopting Statement 158 on the Company's financial condition at December 31, 2006 has been included in the accompanying consolidated financial statements. Statement 158 did not have an effect on the Company's consolidated financial condition at December 31, 2005 and 2004. Statement 158's provisions regarding the change in the measurement date of postretirement benefit plans are not applicable as the Company already uses a measurement date of December 31 for its postretirement medical plan. See Note 16 for further discussion of the effect of adopting Statement 158 on the Company's consolidated financial statements.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note.Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items.Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments

Management considers the following factors in determining the need to disclose separate operating segments: 1) The nature of products and services, which are all financial in nature. 2) The type and class of customer for the products and services; in First Defiance's case retail customers for retail bank and insurance products and commercial customers for commercial loan, deposit, life, health and property and casualty insurance needs. 3) The methods used to distribute products or provide services; such services are delivered through banking and insurance offices and through bank and insurance customer contact representatives. Retail and commercial customers are frequently targets for both banking and insurance products. 4) The nature of the regulatory environment; both banking and insurance entities are subject to various regulatory bodies and a number of specific regulations.

Quantitative thresholds of SFAS 131, *Disclosures about Segments of an Enterprise and Related Information* are monitored. For the year ended December 31, 2007, the reported revenue for First Insurance was 7.5% of total revenue for First Defiance. Total revenue includes net interest income (before provision for loan losses) plus non-interest income. Net income for First Insurance for the year ended December 31, 2007 was 5.3% of consolidated net income. Total assets of First Insurance at December 31, 2007 were 0.6% of total assets. First Insurance does not meet any of the quantitative thresholds of SFAS 131. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable segment.

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation.

Adoption of New Accounting Standards

Fair Value Measurements

In September 2006, FASB issued Statement No. 157, *Fair Value Measurements*. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. This statement was effective for the Company on January 1, 2008 and did not have a significant impact on the Company's consolidated financial position or results of operation.

The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*. This Statement permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument by instrument, with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. This statement was effective for the Company on January 1, 2008 and did not have a significant impact on the Company's consolidated financial position or results of operation.

3. Acquisitions

On October 2, 2007, the Company entered into an Agreement and Plan of Merger with Pavilion Bancorp, Inc. Under the terms of the agreement, First Defiance will acquire Pavilion and its wholly owned subsidiary, Bank of Lenawee, which is headquartered in Adrian, Michigan. First Defiance has agreed to purchase the outstanding shares of Pavilion for 1.4209 shares of First Defiance common stock plus $37.50 in cash. Management expects one-time costs, including acquisition-related and restructuring charges, will not exceed $3.8 million on a pre-tax basis over the integration period. The cash portion of the acquisition will be financed from existing sources of liquidity, including a line of credit at First Defiance.

Upon completion of the Pavilion acquisition, on a pro forma basis using September 30, 2007 data, First Defiance will have approximately $1.88 billion in total assets, $1.49 billion in loans, $1.44 billion in total deposits, and $192.5 million in shareholders' equity. The acquisition is expected to result in approximately $27.1 million in additional goodwill and other intangibles. Management expects the transaction, which is subject to regulatory and Pavilion shareholder approval, to close late in the first quarter of 2008.

On February 28, 2007, the Company acquired Huber, Harger, Welt and Smith, Inc.("HHWS"), a property and casualty insurance agency located in Bowling Green, OH for a purchase price of 76,435 shares of First Defiance common stock plus future cash consideration to be paid in 2009 and 2010. Management has determined goodwill to be $1.7 million and identifiable intangible assets of $800,000 consisting of customer relationship intangible of $620,000 and a non-compete intangible of $180,000. Disclosure of pro forma results of this acquisition is not material to the Company's consolidated financial statements.

On April 8, 2005, the Company acquired the Genoa Savings and Loan Company ("Genoa"), a savings and loan headquartered in Genoa, Ohio for a total purchase price of $11.2 million including direct acquisition costs of $220,000. Genoa shareholders received cash of $11.0 million in the all-cash transaction.

On January 21, 2005, the Company acquired ComBanc, Inc.("ComBanc"), a bank-holding company and its wholly owned subsidiary, The Commercial Bank by acquiring all of the outstanding capital stock of ComBanc for an aggregate purchase price of $38.3 million, including direct acquisition costs of $542,000. ComBanc shareholders received 733,775 shares of First Defiance stock and cash of $18.7 million.

The following (unaudited) pro forma consolidated results of operations for 2005 have been prepared as if the acquisitions of ComBanc and Genoa occurred as of the beginning of that year (in thousands).

Net interest income	$	48,542
Net income	$	13,775
Net income per share – basic	$	2.00
Net income per share – Diluted	$	1.93

The pro forma results include amortization of fair value adjustments on loans, deposits and FHLB advances, amortization of newly created intangibles, and post-merger acquisition related charges. The pro forma average common shares outstanding used to compute the pro forma basic and diluted income per share includes adjustments for shares issued for the ComBanc acquisition. The pro forma results presented do not include $3.5 million of acquisition related costs included in First Defiance's 2005 income statement, nor do they reflect cost savings or revenue enhancements resulting from the acquisitions. These pro forma results are not necessarily indicative of what actually would have occurred if the acquisitions had been completed as of the beginning of each period presented, nor are they necessarily indicative of future results.

4. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Year Ended December 31,		
	2007	**2006**	**2005**
	(In Thousands, Except Per Share Amounts)		
Numerator for basic and diluted earnings per share-net income	**$ 13,904**	$ 15,600	$ 11,970
Denominator:			
Denominator for basic earnings per share-weighted-average shares	**7,085**	7,028	6,843
Effect of dilutive securities:			
Employee stock options	**93**	135	252
Unvested Management Recognition Plan stock	—	—	1
Dilutive potential common shares	**93**	135	253
Denominator for diluted earnings per share-adjusted weighted-average shares	**7,178**	7,163	7,096
Basic earnings per share	**$ 1.96**	$ 2.22	$ 1.75
Diluted earnings per share	**$ 1.94**	$ 2.18	$ 1.69

Shares under option of 204,453 in 2007, 149,053 in 2006 and 3,000 in 2005 were excluded from the diluted earnings per share calculation as they were anti-dilutive.

5. Investment Securities

The following fair value of available for sale securities and the related unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
At December 31, 2007				
Obligations of U.S.government corporations and agencies	**$ 24,565**	**$ 354**	**$ (1)**	**$ 24,918**
Mortgage-backed securities	**26,453**	**289**	**(55)**	**26,687**
REMICs	**3,064**	**41**	**–**	**3,105**
Collateralized mortgage obligations	**20,103**	**173**	**(77)**	**20,199**
Trust preferred stock	**9,374**	**29**	**(761)**	**8,642**
Obligations of state and political subdivisions	**28,251**	**568**	**–**	**28,819**
Totals	**$ 111,810**	**$ 1,454**	**$ (894)**	**$ 112,370**
At December 31, 2006				
Obligations of U.S.government corporations and agencies	$ 36,108	$ 106	$ (171)	$ 36,043
Mortgage-backed securities	18,595	23	(276)	18,342
REMICs	3,071	–	(11)	3,060
Collateralized mortgage obligations	20,099	52	(346)	19,805
Trust preferred stock	8,116	82	(20)	8,178
Obligations of state and political subdivisions	24,840	418	(4)	25,254
Totals	$ 110,829	$ 681	$ (828)	$ 110,682

The amortized cost, unrecognized gains and losses, and fair value of securities held to maturity were as follows:

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
		(In Thousands)		
At December 31, 2007				
FHLMC certificates	**$ 195**	**$ 6**	**$ –**	**$ 201**
FNMA certificates	**472**	**4**	**(1)**	**475**
GNMA certificates	**150**	**2**	**–**	**152**
Obligations of state and political subdivisions	**300**	**33**	**–**	**333**
Totals	**$ 1,117**	**$ 45**	**$ (1)**	**$ 1,161**
At December 31, 2006				
FHLMC certificates	$ 272	$ 8	$ –	$ 280
FNMA certificates	614	5	(4)	615
GNMA certificates	195	1	–	196
Obligations of state and political subdivisions	360	41	–	401
Totals	$ 1,441	$ 55	$ (4)	$ 1,492

The amortized cost and fair value of securities at December 31, 2007 by contractual maturity are shown below.Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of the underlying collateral.The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)			
Due in one year or less	$ 23,870	$ 24,053	$ 285	$ 287
Due after one year through five years	44,887	45,404	669	710
Due after five years through ten years	14,770	15,004	141	142
Due after ten years	28,283	27,909	22	22
	111,810	112,370	1,117	1,161

Investment securities with carrying amounts of $78.2 million and $75.7 million at December 31, 2007 and 2006, respectively, were pledged as collateral on public deposits, securities sold under repurchase agreements and FHLB advances and for other purposes required or permitted by law.

The following table summarizes First Defiance’s securities that were in an unrealized loss position at December 31, 2007 and December 31, 2006:

	Duration of Unrealized Loss Position					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Unrealized Losses
	(In Thousands)					
At December 31, 2007						
Available-for-sale securities:						
Obligations of U.S.govt.corps.and agencies	$ –	$ –	$ 1,999	$ (1)	$ 1,999	$ (1)
Mortgage-backed securities	4	–	8,170	(55)	8,174	(55)
Collateralized mortgage obligations and REMICs	–	–	8,688	(77)	8,688	(77)
Obligations of state and political subdivisions	–	–	20	–	20	–
Trust Preferred stock	3,489	(307)	1,418	(454)	4,907	(761)
Held to maturity securities:						
Mortgage-backed securities	146	(1)	102	–	248	(1)
Total temporarily impaired securities	$ 3,639	$ (308)	$ 20,397	$ (587)	$ 24,036	$ (895)
At December 31, 2006						
Available-for-sale securities:						
Obligations of U.S.govt.corps.and agencies	$ 2,484	$ (7)	$ 15,403	$ (164)	$ 17,887	$ (171)
Mortgage-backed securities	1,936	(12)	11,471	(264)	13,407	(276)
Collateralized mortgage obligations and REMICs	3,545	(12)	16,320	(345)	19,865	(357)
Obligations of state and political subdivisions	1,630	(4)	39	–	1,669	(4)
Trust Preferred stock	1,906	(20)	–	–	1,906	(20)
Held to maturity securities:						
Mortgage-backed securities	157	(3)	207	(1)	364	(4)
Total temporarily impaired securities	$ 11,658	$ (58)	$ 43,440	$ (774)	$ 55,098	$ (832)

With the exception of Trust Preferred Stock, the above securities all have fixed interest rates, and all securities have defined maturities. Their fair value is sensitive to movements in market interest rates. First Defiance has the ability and intent to hold these investments for a time necessary to recover the amortized cost without impacting its liquidity position. Realized gains from the sale of investment securities totaled $21,000, $73,000 and $1.2 million ($14,000, $47,000 and $798,000 after tax) in 2007, 2006 and 2005 respectively. Realized losses from securities transactions were $5,000 ($3,000 after tax) in 2005. There were no realized losses during 2007 and 2006. Management deemed that the value of certain investments in trust preferred stock was impaired in 2006 and wrote the investment down by $75,000 ($49,000 after tax).

6. Commitments and Contingent Liabilities

Loan Commitments

Loan commitments are made to accommodate the financial needs of First Federal's customers; however, there are no long-term, fixed-rate loan commitments that result in market risk. Standby letters of credit commit the Company to make payments on behalf of customers when certain specified future events occur. They primarily are issued to facilitate customers' trade transactions.

Both arrangements have credit risk, essentially the same as that involved in extending loans to customers, and are subject to the Company's normal credit policies. Collateral (e.g., securities, receivables, inventory and equipment) is obtained based on Management's credit assessment of the customer.

The Company's maximum obligation to extend credit for loan commitments (unfunded loans and unused lines of credit) and standby letters of credit outstanding on December 31 was as follows (in thousands):

	2007	**2006**
Loan commitments	**$ 280,152**	$ 260,349
Standby letters of credit	**9,147**	16,869
Total	**$ 289,299**	$ 277,218

Lease Agreements

The Company has entered into lease agreements covering First Insurance's main office and Bowling Green, Ohio office, one banking center location, three land leases for which the Company owns the banking centers, one land lease which is primarily used for parking, and numerous stand-alone Automated Teller Machine sites with varying terms and options to renew.

Future minimum commitments under non-cancelable operating leases are as follows (in thousands):

2008	$ 378
2009	383
2010	327
2011	308
2012	169
Thereafter	2,983
Total	$ 4,548

Rentals under operating leases amounted to $446,000, $353,000, and $329,000, in 2007, 2006, and 2005, respectively.

Contingent Receivable

The Company has recorded a receivable of approximately $800,000 related to claims from various insurance carriers for incurred losses associated with a former employee. Management believes that recovery of the receivable is probable. Failure of the insurance carriers to make payment under these claims may result in a write off of some or all of this receivable.

7. Loans Receivable

Loans receivable consist of the following at December 31:

	December 31,	
	2007	2006
	(In Thousands)	
Real estate loans:		
Secured by single family residential	**$ 231,921**	$ 250,808
Secured by multi-family residential	**56,774**	57,263
Secured by non-residential real estate	**545,077**	522,597
Construction	**13,146**	17,339
	846,918	848,007
Other loans:		
Automobile	**27,843**	33,093
Commercial	**283,072**	232,914
Home equity and improvement	**128,080**	122,789
Other	**9,900**	10,677
	448,895	399,473
Total loans	**1,295,813**	1,247,480
Deduct:		
Undisbursed loan funds	**(5,085)**	(6,409)
Net deferred loan origination fees and costs	**(1,032)**	(1,182)
Allowance for loan losses	**(13,890)**	(13,579)
Totals	**$ 1,275,806**	$ 1,226,310

Changes in the allowance for loan losses were as follows:

	Years Ended December 31		
	2007	2006	2005
		(In Thousands)	
Allowance at beginning of year	**$ 13,579**	$ 13,673	$ 9,956
Provision for credit losses	**2,306**	1,756	1,442
Acquired in acquisitions	**–**	–	3,027
Charge-offs	**(2,400)**	(2,276)	(1,054)
Recoveries	**405**	426	302
Net charge-offs	**(1,995)**	(1,850)	(752)
Ending allowance	**$ 13,890**	$ 13,579	$ 13,673

Impaired loans having recorded investments of $8.6 million at December 31, 2007 and $4.2 million at December 31, 2006, have been recognized in conformity with FASB Statement No. 114, as amended by FASB Statement No. 118. The average recorded investment in impaired loans during 2007, 2006 and 2005 was $9.6 million, $4.4 million, and $1.1 million respectively. The total allowance for loan losses related to these loans was $1.4 million and $969,000 at December 31, 2007 and 2006. There was $338,000, $111,000 and $61,000 of interest received and recorded in income during 2007, 2006 and 2005 respectively on impaired loans during the impairment period. Loans having carrying values of $3.8 million and $4.2 million were transferred to real estate and other assets held for sale in 2007 and 2006, respectively. At December 31, 2007 and December 31, 2006, non-performing loans, which include loans with contractual payments delinquent 90 days or more, were $9.2 million and $7.3 million respectively. There was $16,000 of accrued interest recorded on impaired or non-performing loans at December 31, 2007. There were no amounts of accrued interest recorded on impaired or non-performing loans at December 31, 2006. There were no loans impaired for which there was no allowance for loan loss allocation at December 31, 2007. There was $562,000 of loans deemed impaired for which there was no allowance for loan loss allocation at December 31, 2006.

First Defiance is not committed to lend additional funds to debtors whose loans have been modified.

Certain loans acquired in the ComBanc and Genoa acquisitions had evidence that the credit quality of the loan had deteriorated since its origination and in management's assessment at the acquisition date it was probable that First Defiance would be unable to collect all contractually required payments due. In accordance with American Institute of Certified Public Accountants Statement of Position 03-3 – *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3), these loans have been recorded based on management's estimate of the fair value of the loans. Detail of these loans are as follows:

	Contractual Amount Receivable	Impairment Discount	Recorded Loan Receivable
		(In Thousands)	
Amounts recorded in 2005 acquisitions:			
Genoa	$ 1,547	$ 826	$ 721
ComBanc	3,387	1,362	2,025
Total acquired	4,934	2,188	2,746
Principal payments received	(139)	–	(139)
Loans charged off	(169)	(169)	–
Loan accretion recorded	–	–	–
Balance at December 31, 2005	4,626	2,019	2,607
Principal payments received	(129)	–	(129)
Loans charged off	(198)	(198)	–
Additional provision for loan loss	(189)	–	(189)
Loan accretion recorded	–	(138)	138
Balance at December 31, 2006	4,110	1,683	2,427
Principal payments received	**(908)**	**–**	**(908)**
Loans charged off	**(97)**	**(97)**	**–**
Additional provision for loan loss	**(95)**	**–**	**(95)**
Loan accretion recorded	**–**	**(233)**	**233**
Balance at December 31, 2007	**$ 3,010**	**$ 1,353**	**$ 1,657**

Interest income on loans is as follows:

	Years Ended December 31,		
	2007	2006	2005
		(In Thousands)	
Commercial and non-residential real-estate loans	**$ 68,419**	$ 63,140	$ 49,869
Mortgage loans	**9,693**	10,526	9,549
Other loans	**12,754**	12,547	10,290
Totals	**$ 90,866**	$ 86,213	$ 69,708

First Defiance's loan portfolio is concentrated geographically in its northwest Ohio market area. Management has also identified lending for income-generating rental properties as an industry concentration. Total loans for income generating property totaled $336.8 million at December 31, 2007, which represents 26% of the Company's loan portfolio. The Company's loans receivable are primarily to borrowers in the northwest Ohio, northeast Indiana or southeast Michigan areas.

Loans to executive officers, directors, and their affiliates are as follows (in thousands):

	Years Ended December 31,	
	2007	**2006**
Beginning balance	**$ 4,384**	$ 3,213
New loans	**5,952**	5,204
Effect of changes in composition of related parties	**-**	(2)
Repayments	**(4,726)**	(4,031)
Ending Balance	**$ 5,610**	$ 4,384

8. Mortgage Banking

Net revenues from the sales and servicing of mortgage loans consisted of the following:

	Years Ended December 31,		
	2007	**2006**	**2005**
		(In Thousands)	
Gain from sale of mortgage loans	**$ 2,590**	$ 2,424	$ 2,291
Mortgage loan servicing revenue (expense):			
Mortgage loan servicing revenue	**1,706**	1,575	1,421
Amortization of mortgage servicing rights	**(648)**	(612)	(784)
Mortgage servicing rights valuation adjustments	**(36)**	2	417
	1,022	965	1,054
Net revenue from sale and servicing of mortgage loans	**$ 3,612**	$ 3,389	$ 3,345

The unpaid principal balance of residential mortgage loans serviced for third parties was $715.5 million at December 31, 2007 compared to $665.4 million at December 31, 2006.

Activity for capitalized mortgage servicing rights and the related valuation allowance follows:

	Years Ended December 31,		
	2007	**2006**	**2005**
		(In Thousands)	
Mortgage servicing assets:			
Balance at beginning of period	**$ 5,609**	$ 5,145	$ 4,205
Loans sold, servicing retained	**1,128**	1,076	906
NBV of servicing assets acquired	**–**	–	926
Impairment deemed permanent	**–**	–	(108
Amortization	**(648**	(612	(784
Carrying value before valuation allowance at end of period	**6,089**	5,609	5,145
Valuation allowance:			
Balance at beginning of period	**(80**	(82	(607
Impairment recovery (charges)	**(36**	2	417
Impairment deemed permanent	**–**	–	108
Balance at end of period	**(116**	(80	(82
Net carrying value of MSRs at end of period	**$ 5,973**	$ 5,529	$ 5,063
Fair value of MSRs at end of period	**$ 7,000**	$ 6,684	$ 6,471

Amortization of mortgage servicing rights is computed based on payments and payoffs of the related mortgage loans serviced. Estimates of future amortization expense are not easily estimable.

The Company's servicing portfolio is comprised of the following:

	December 31,			
	2007		2006	
Investor	Number of Loans	Principal Outstanding	Number of Loans	Principal Outstanding
	(Dollars in Thousands)			
Fannie Mae	**876**	**$ 69,208**	724	$ 52,807
Freddie Mac	**7,683**	**645,821**	7,345	612,024
Other	**21**	**458**	28	608
Totals	**8,580**	**$ 715,487**	8,097	$ 665,439

Significant assumptions at December 31, 2007 used in determining the value of MSRs include a weighted average prepayment rate of 244 PSA and a weighted average discount rate of 8.865%.

A sensitivity analysis of the current fair value to immediate 10% and 20% adverse changes in those assumptions as of December 31, 2007 is presented below. These sensitivities are hypothetical. Changes in fair value based on a 10% variation in assumptions generally cannot be extrapolated because the relationship of the change in the assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the MSR is calculated independently without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, changes in mortgage interest rates, which drive changes in prepayment rate estimates, could result in changes in the discount rates), which might magnify or counteract the sensitivities.

	10% Adverse Change	20% Adverse Change
	(In Thousands)	
Assumption:		
Decline in fair value from increase in prepayment rate	$ 327	$ 625
Declines in fair value from increase in discount rate	199	388

9. Premises and Equipment

Premises and equipment are summarized as follows:

	December 31,	
	2007	2006
	(In Thousands)	
Cost:		
Land	**$ 5,337**	$ 5,337
Land improvements	**1,025**	–
Buildings	**34,943**	28,663
Leasehold improvements	**416**	416
Furniture, fixtures and equipment	**19,131**	17,313
Construction in process	**227**	896
	61,079	52,625
Less allowances for depreciation and amortization	**20,534**	17,726
	$ 40,545	$ 34,899

Depreciation expense was $3.0 million, $2.7 million and $2.4 million for the years ended December 31, 2007, 2006 and 2005 respectively.

10. Goodwill and Intangible Assets

Goodwill

The change in the carrying amount of goodwill for the year is as follows:

	December 31,			
	2007		2006	
	(In Thousands)			
Beginning balance	**$**	**35,090**	$	35,084
Goodwill acquired or adjusted during the year		**1,730**		6
Ending balance	**$**	**36,820**	$	35,090

Acquired Intangible Assets

Activity in intangibles for the years ended December 31, 2007 and 2006 was as follows:

	Gross Carrying Amount		Accumulated Amortization		Net Value	
			(In Thousands)			
Balance as of January 1, 2006	$	5,051	$	(934)	$	4,117
Amortization of intangible assests		–		(720)		(720)
Balance as of December 31, 2006		5,051		(1,654)		3,397
Intangible assets acquired		**800**		**–**		**800**
Amortization of intangible assets		**–**		**(646)**		**(646)**
Balance as of December 31, 2007	**$**	**5,851**	**$**	**(2,300**	**$**	**3,551**

Aggregate amortization expense was $646,000, $720,000 and $755,000 for 2007, 2006 and 2005 respectively.

Estimated amortization expense for each of the next five years and thereafter (in thousands) is as follows:

2008	$	557
2009		497
2010		490
2011		490
2012		460
Thereafter		1,057
Total	$	3,551

11. Deposits

The following schedule sets forth interest expense by type of deposit:

	Years Ended December 31,					
	2007		2006		2005	
			(In Thousands)			
Checking and money market accounts	**$**	**8,273**	$	7,052	$	3,264
Savings accounts		**1,404**		276		239
Certificates of deposit		**30,786**		25,974		17,119
		40,463		33,302		20,622
Less interest capitalized		**(107)**		(29)		(7)
Totals	**$**	**40,356**	$	33,273	$	20,615

Accrued interest payable on deposit accounts amounted to $2,537,000 and $1,867,000 at December 31, 2007 and 2006 respectively, which was comprised of $2,316,000 and $221,000 for certificates of deposit and checking and money market accounts respectively at December 31, 2007 and $1,651,000 and $216,000 for certificates of deposit and money market accounts respectively at December 31, 2006.

A summary of deposit balances is as follows:

	December 31,	
	2007	**2006**
	(In Thousands)	
Non-interest bearing checking accounts	**$ 121,563**	$ 106,328
Interest bearing checking and money market accounts	**342,367**	306,003
Savings deposits	**105,873**	74,491
Retail certificates of deposit less than $100,000	**509,720**	493,594
Retail certificates of deposit greater than $100,000	**137,927**	140,392
Brokered or national certificates of deposit	**408**	17,637
	$ 1,217,858	$ 1,138,445

Scheduled maturities of certificates of deposit at December 31, 2007 are as follows (in thousands):

2008	$ 565,590
2009	57,556
2010	20,543
2011	1,486
2012	1,951
Thereafter	929
Total	$ 648,055

At December 31, 2007 and 2006, deposits of $169.1 million and $136.3 million, respectively, were in excess of the $100,000 Federal Deposit Insurance Corporation insurance limit. At December 31, 2007 and 2006, $38.2 million and $39.1 million, respectively, in investment securities were pledged as collateral against public deposits for certificates in excess of $100,000 and an additional $40.0 million and $36.6 million of securities were pledged at December 31, 2007 and December 31, 2006, respectively as collateral against deposits from private entities in excess of $100,000. Also, First Federal holds $406,000 in depository surety bonds at December 31, 2007 with governmental entities, which are pledged as collateral against public deposits in excess of $100,000.

12. Advances from Federal Home Loan Bank

First Federal has the ability to borrow funds from the FHLB. First Federal pledges its single-family residential mortgage loan portfolio, certain investment securities and certain multi-family or non-residential real estate loans as security for these advances. Advances secured by investment securities must have collateral of at least 105% of the borrowing. Advances secured by residential mortgages must have collateral of at least 125% of the borrowings. Advances secured by multi-family or non-residential real estate loans securities must have 300% collateral coverage. The total level of borrowing is also limited to 50% of total assets and at least 50% of the borrowings must be secured by either one-to-four family residential mortgages or investment securities. Total loans pledged to the FHLB at December 31, 2007 and December 31, 2006 were $517.1 million and $472.2 million respectively. First Federal has a maximum potential to acquire advances of approximately $189.4 million from the FHLB at December 31, 2007.

At year-end, advances from the FHLB were as follows:

Principal Terms	Advance Amount	Range of Maturities	Weighted Average Interest Rate
	(In Thousands)		
December 31, 2007			
Short-term borrowings	**$ 11,300**	**Overnight**	**4.28%**
Single maturity fixed rate advances	**10,000**	**December 2008**	**4.94%**
Single maturity LIBOR based advances	**45,000**	**January 2011 to March 2011**	**5.20%**
Putable advances	**45,000**	**September 2010 to November 2013**	**5.25%**
Strike-rate advances	**27,000**	**March 2011 to February 2013**	**4.18%**
Amortizable mortgage advances	**1,236**	**March 2008 to December 2015**	**3.78%**
	$ 139,536		
December 31, 2006			
Short-term borrowings	$ 33,100	Overnight	5.18%
Single maturity fixed rate advances	10,000	December 2008	4.94%
Single maturity LIBOR based advances	45,000	January 2011 to March 2011	5.36%
Putable advances	45,000	September 2010 to November 2013	5.25%
Strike-rate advances	27,000	March 2011 to February 2013	4.18%
Amortizable mortgage advances	2,128	March 2008 to December 2015	3.28%
	$ 162,228		

Putable advances are callable at the option of the FHLB on a quarterly basis. Strike rate advances are callable at the option of the FHLB only when three-month LIBOR rates exceed the agreed upon strike rate in the advance contract. Such strike rates range from 7.5% to 8.0%. When called, First Defiance has the option of paying off these advances, or converting them to variable rate advances at the three month LIBOR rate. First Defiance has three advances totaling $45 million outstanding at December 31, 2007 that were converted from callable advances. These advances can be paid in full without penalty at any quarterly repricing date.

Estimated future minimum payments by fiscal year based on maturity date and current interest rates are as follows (in thousands):

2008	$ 16,724
2009	5,993
2010	15,796
2011	67,376
2012	13,930
Thereafter	32,001
Total minimum payments	151,820
Less amounts representing interest	23,584
Totals	$ 128,236

First Defiance also utilizes short-term advances from the FHLB to meet cash flow needs and for short-term investment purposes. First Defiance borrows short-term advances under a variety of programs at FHLB. At December 31, 2007, $11.3 million was outstanding under First Defiance's Cash Management Advance line of credit. The total available under this line is $15.0 million. There were no borrowings against this line at December 31, 2006. In addition First Defiance has a $100.0 million REPO Advance line of credit available. There were no borrowings against this line at December 31, 2007 and $33.1 million was borrowed against this line at December 31, 2006. Amounts are generally borrowed under the Cash Management and REPO lines on an overnight basis. Amounts available under the various lines are also subject to the Company's overall borrowing limitations. Information concerning short-term advances is
summarized as follows:

	Years Ended December 31,	
	2007	**2006**
	(In Thousands, Except Percentages)	
Average daily balance during the year	**$ 7,772**	$ 40,104
Maximum month-end balance during the year	**45,800**	57,500
Average interest rate during the year	**5.23%**	5.10%

13. Junior Subordinated Debentures Owed to Unconsolidated Subsidiary Trust

In March 2007, the Company sponsored an affiliated trust, First Defiance Statutory Trust II (Trust Affiliate II), that issued $15 million of Guaranteed Capital Trust Securities (Trust Preferred Securities).In connection with the transaction, the Company issued $15.5 million of Junior Subordinated Deferrable Interest Debentures (Subordinated Debentures) to Trust Affiliate II. The Company formed Trust Affiliate II for the purpose of issuing Trust Preferred Securities to third-party investors and investing the proceeds from the sale of these capital securities solely in Subordinated Debentures of the Company. The Subordinated Debentures held by Trust Affiliate II are the sole assets of that trust. Distributions on Trust Preferred Securities issued by Trust Affiliate II are payable quarterly at a fixed rate equal to 6.441% for the first five years and a floating interest rate based on three-month LIBOR plus 1.5%, repricing quarterly, thereafter.
The Trust Preferred Securities issued by Trust Affiliate II are subject to mandatory redemption, in whole or part, upon repayment of the Subordinated Debentures. The Company has entered into an agreement that fully and unconditionally guarantees the Trust Preferred Securities subject to the terms of the guarantee. The Trust Preferred Securities and Subordinated Debentures mature on June 15, 2037, but may be redeemed at the Company's option at any time on or after June 15, 2012, or at any time upon certain events.

The Company also sponsors an affiliated trust, First Defiance Statutory Trust I (Trust Affiliate I), that issued $20 million of Trust Preferred Securities in 2005. In connection with this transaction, the Company issued $20.6 million of Subordinated Debentures to Trust Affiliate I. Trust Affiliate I was formed for the purpose of issuing Trust Preferred Securities to third-party investors and investing the proceeds from the sale of these capital securities solely in Subordinated Debentures of the Company. The Junior Debentures held by Trust Affiliate I are the sole assets of the trust. Distributions on the Trust Preferred Securities issued by Trust Affiliate I are payable quarterly at a variable rate equal to the three-month LIBOR rate plus 1.38%. The Coupon rate payable on the Trust Preferred Securities issued by Trust Affiliate I was 6.37% and 6.74% as of December 31, 2007 and 2006 respectively.

The Trust Preferred Securities issued by Trust Affiliate I are subject to mandatory redemption, in whole or in part, upon repayment of the Subordinated Debentures. The Company has entered into an agreement that fully and unconditionally guarantees the Trust Preferred Securities subject to the terms of the guarantee. The Trust Preferred Securities and Junior Debentures mature December 15, 2035 but may be redeemed by the issuer at par after October 28, 2010.

A summary of all junior subordinated debentures issued by the Company to affiliates follows.These amounts represent the par value of the obligations owed to these affiliates, including the Company's equity interest in the trusts.Junior subordinated debentures owed to the following affiliates were as follows:

	December 31,			
		2007		2006
First Defiance Statutory Trust I due December 2035	**$**	**20,619**	$	20,619
First Defiance Statutory Trust II due June 2037		**15,464**		–
Total junior subordinated debentures owed to unconsolidated subsidiary Trusts	**$**	**36,083**	$	20,619

Interest on both issues of Trust Preferred Securities may be deferred for a period of up to five years at the option of the issuer.

14. Notes Payable and Other Short-term Borrowings

Total short term borrowings, revolving and term debt is summarized as follows:

	Years Ended December 31,			
		2007		2006
	(In Thousands, Except Percentages)			
Securities sold under agreement to repurchase				
Amounts outstanding at year-end	**$**	**30,055**	$	30,424
Year-end interest rate		**3.14%**		2.98%
Average daily balance during year		**23,739**		20,318
Maximum month-end balance during the year		**30,055**		30,424
Average interest rate during the year		**3.04%**		2.84%
Revolving line of credit facilities to financial institutions				
Average daily balance during year	**$**	**171**	$	80
Maximum month-end balance during the year		**500**		–
Average interest rate during the year		**6.20%**		5.13%

As of December 31, 2007, First Defiance had the following line of credit facilities available for short-term borrowing purposes:

A $15 million revolving line of credit facility with a financial institution. The facility is unsecured and has an interest rate of fed funds rate plus 0.45%. This facility was not used in 2007 or 2006.

A $20 million fed funds line of credit with a financial institution. The line is unsecured and has an interest rate of the institution's fed funds rate. There were no amounts outstanding on the line at December 31, 2007 and 2006. The maximum borrowed at any point in time under the line was $6.8 million in 2007 and $20.0 million in 2006, and the average balance outstanding was $63,000 and $80,000 in 2007 and 2006, respectively.

A $15 million fed funds line of credit with a financial institution. The line is unsecured and has an interest rate of the institution's fed funds rate. This facility was not used in 2007 or 2006.

A $20.0 million revolving line of credit with a financial institution. At December 31, 2006, this revolving line of credit was for $5.0 million. There was no amount outstanding on the line at December 31, 2007 and 2006. The line is secured by the stock of First Federal Bank and the interest rate is either the lender's prime rate or LIBOR plus 1.50% (1.75% prior to September 15, 2007), whichever is selected by First Defiance. The maximum borrowed at any point in time under the line was $1,000,000 and $0 million in 2007 and 2006, and the average balance outstanding was $108,000 and $0 in 2007 and 2006, respectively.

15. Other Non-Interest Expense

The following is a summary of other non-interest expense:

	Years Ended December 31,		
	2007	**2006**	**2005**
		(In Thousands)	
Legal and other professional fees	**$ 1,840**	$ 1,732	$ 1,366
Marketing	**1,729**	1,330	1,095
State franchise taxes	**1,579**	1,288	1,285
REO expenses and write-downs	**831**	122	31
Printing and office supplies	**679**	879	745
Amortization of intangibles	**646**	720	755
Postage	**643**	781	645
Check charge-offs and fraud losses	**549**	373	280
Overdraft protection expense	**492**	372	–
Other	**3,956**	3,645	3,256
Total other non-interest expense	**$ 12,944**	$ 11,242	$ 9,458

16. Postretirement Benefits

First Defiance sponsors a defined benefit postretirement plan that is intended to supplement Medicare coverage for certain retirees who meet minimum age requirements. First Federal employees who retired prior to April 1, 1997 who completed 20 years of service after age 40 receive full medical coverage at no cost. Such coverage continues for surviving spouses of those participants for one year, after which coverage may be continued provided the spouse pays 50% of the average cost. First Federal employees retiring after April 1, 1997 are provided medical benefits at a cost based on their combined age and years of service at retirement. Surviving spouses are also eligible for continued coverage after the retiree is deceased at a subsidy level that is 10% less than what the retiree is eligible for. First Federal employees retiring before July 1, 1997 receive dental and vision care in addition to medical coverage. First Federal employees who retire after July 1, 1997 are not eligible for dental or vision care, but those retirees and their spouses each receive up to $200 annually in a medical spending account. Funds in that account may be used for payment of uninsured medical expenses.

First Federal employees who were born after December 31, 1950 are not eligible for the medical coverage described above at retirement. Rather, a medical spending account of up to $10,000 (based on the participant's age and years of service) will be established to reimburse medical expenses for those individuals. First Insurance employees who were born before December 31, 1950 can continue coverage until they reach age 65, or in lieu of continuing coverage, can elect the medical spending account option, subject to eligibility requirements. Employees hired or acquired after January 1, 2003 are eligible only for the medical spending account option.

Adoption of Statement 158

On December 31, 2006, the Company adopted the recognition and disclosure provisions of Statement 158. The adjustment to accumulated other comprehensive income at adoption represented the net unrecognized actuarial losses and unrecognized prior service costs, which were previously netted against the plan's funded status in the Company's statement of financial position pursuant to the provisions of Statement 106. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company's historical accounting policy for amortizing such amounts. Actuarial gains and losses are recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as a component of net periodic cost on the same basis as the amounts recognized in accumulated other comprehensive income at adoption of Statement 158.

The incremental effects of adopting the provisions of Statement 158 on the Company's statement of financial position at December 31, 2006 are presented in the following table.The adoption of Statement 158 had no effect on the Company's consolidated statement of income for the year ended December 31, 2006, or for any prior period presented, and it will not affect the Company's operating results in future periods.

	At December 31, 2006		
	Prior to Adopting Statement 158	**Effect of Adopting Statement 158**	**As Reported at December 31, 2006**
		(In Thousands)	
Accrued Postretirement Liability	$ 1,232	$ 886	$ 2,118
Deferred income tax liability	(1,605)	310	(1,295)
Accumulated other comprehensive income (loss)	(95)	(576)	(671)

Included in accumulated other comprehensive income at December 31, 2007 and 2006 are the following amounts that have not yet been recognized in net periodic pension cost:

	December 31,	
	2007	**2006**
	(In Thousands)	
Unrecognized prior service cost	**$ 62**	$ 69
Unrecognized actuarial losses	**1,137**	817
Total recognized in Accumulated Other Comprehensive Income	**1,199**	886
Income tax effect	**(420)**	(310)
Net amount recognized in Accumulated Other Comprehensive Income	**$ 779**	$ 576

The prior service cost and actuarial loss included in other comprehensive income and expected to be recognized in net postretirement benefit cost during the fiscal year-ended December 31, 2008 is $8,000 ($5,000 net of tax) and $44,000 ($29,000 net of tax), respectively.

Reconciliation of Funded Status and Accumulated Benefit Obligation

The plan is not currently funded. The following table summarizes benefit obligation and plan asset activity for the plan measured as of December 31 each year:

	December 31,	
	2007	**2006**
Change in benefit obligation:	*(In Thousands)*	
Benefit obligation at beginning of year	**$ 2,118**	$ 1,581
Service cost	**49**	40
Interest cost	**125**	107
Participant contribution	**42**	38
Actuarial losses	**357**	524
Benefits paid	**(298)**	(172)
Benefit obligation at end of year	**2,393**	2,118
Change in fair value of plan assets:		
Balance at beginning of year	**–**	–
Employer contribution	**256**	134
Participant contribution	**42**	38
Benefits paid	**(298)**	(172)
Balance at end of year	**–**	–
Funded status at end of year	**$ (2,393)**	$ (2,118)

Net periodic postretirement benefit cost includes the following components:

	Years Ended December 31,		
	2007	**2006**	**2005**
		(In Thousands)	
Service cost-benefits attributable to service during the period	**$ 49**	$ 40	$ 49
Interest cost on accumulated postretirement benefit obligation	**125**	107	97
Net amortization and deferral	**44**	32	25
Net periodic postretirement benefit cost	**218**	179	171
Net loss during the year	**357**	–	–
Amortization of prior service cost and actuarial losses	**(44)**	–	–
Total recognized in comprehensive income	**313**	–	–
Total recognized in net periodic postretirement benefit cost and other comprehensive income	**$ 531**	$ 179	$ 171

The following assumptions were used in determining the components of the postretirement benefit obligation:

	2007	**2006**
Weighted average discount rates:		
Used to determine benefit obligations at December 31	**6.00%**	5.75%
Used to determine net periodic postretirement benefit cost for years ended December 31	**5.75%**	5.75%
Assumed health care cost trend rates at December 31:		
Health care cost trend rate assumed for next year	**9.50%**	10.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**4.00%**	4.00%
Year that rate reaches ultimate trend rate	**2019**	2019

The following benefits are expected to be paid over the next five years and in aggregate for the next five years thereafter. Because the plan is unfunded, the expected net benefits to be paid and the estimated Company contributions are the same amount. The Company has elected to opt for the Federal subsidy approach in lieu of coverage under Medicare Part D. These amounts include an estimate of that tax-free Federal subsidy:

	Before Reflecting Medicare Part D Subsidy	**Impact of Medicare Part D Subsidy**	**After Reflecting Medicare Part D Subsidy**
		(In Thousands)	
2008	$ 130	$ (20)	$ 110
2009	142	(23)	119
2010	157	(25)	132
2011	170	(27)	143
2012	180	(30)	150
2013 through 2017	1,141	(197)	944

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effect (in thousands):

	One-Percentage-Point Increase		**One-Percentage-Point Decrease**	
	Year Ended December 31		**Year Ended December 31**	
	2007	**2006**	**2007**	**2006**
		(In Thousands)		
Effect on total of service and interest cost	**$ 30**	$ 25	**$ (25)**	$ (21)
Effect on postretirement benefit obligation	**293**	262	**(249)**	(222)

The Company expects to contribute $130,000 before reflecting expected Medicare retiree drug subsidy payments in 2008.

17. Regulatory Matters

First Federal is subject to various regulatory capital requirements administered by the federal 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 consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, First Federal must meet specific capital guidelines that involve quantitative measures of First Federal's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. First Federal's 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 First Federal to maintain minimum amounts and ratios of Tier I and total capital to risk-weighted assets and of Tier I capital to average assets. As of December 31, 2007 and 2006, First Federal meets all capital adequacy requirements to which it is subject and the most recent notification from the Office of Thrift Supervision (OTS) categorized First Federal as well capitalized under the regulatory framework. There are no conditions or events since these notifications that management believes have changed any of the well-capitalized categorizations of First Federal. The following schedule presents First Federal's regulatory capital ratios:

	Actual		Required for Capital Adequacy Purposes		Required to be Well Capitalized	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2007						
Tangible Capital	**$ 156,856**	**10.03%**	**$ 23,469**	**1.50%**	**N/A**	**N/A**
Tier 1 (Core) Capital	**156,856**	**10.03%**	**62,584**	**4.00%**	**$ 78,231**	**5.00%**
Tier 1 Capital to risk-weighted assets	**156,856**	**11.68%**	**53,723**	**4.00%**	**80,585**	**6.00%**
Risk-Based Capital	**170,746**	**12.71%**	**107,446**	**8.00%**	**134,308**	**10.00%**
As of December 31, 2006						
Tangible Capital	$ 140,017	9.42%	$ 22,293	1.50%	N/A	N/A
Tier 1 (Core) Capital	140,017	9.42%	59,448	4.00%	$ 74,311	5.00%
Tier 1 Capital to risk-weighted assets	140,017	10.80%	51,859	4.00%	77,787	6.00%
Risk-Based Capital	153,596	11.85%	103,716	8.00%	129,645	10.00%

First Defiance is a unitary thrift holding company and is regulated by the OTS. The OTS does not have defined capital requirements for unitary thrift holding companies.

18. Income Taxes

The components of income tax expense are as follows:

	Years Ended December 31,		
	2007	**2006**	**2005**
Current:		*(In Thousands)*	
Federal	**$ 6,636**	$ 6,579	$ 5,367
State and local	**90**	2	7
Deferred	**(257)**	870	479
	$ 6,469	$ 7,451	$ 5,853

The provision for income taxes differs from that computed at the statutory corporate tax rate as follows:

	Years Ended December 31,		
	2007	2006	2005
	(In Thousands)		
Tax expense at statutory rate (35%)	**$ 7,130**	$ 8,068	$ 6,238
Increases (decreases) in taxes from:			
State income tax – net of federal tax benefit	**59**	–	–
ESOP adjustments	**152**	163	193
Tax exempt interest income	**(472)**	(414)	(394)
Bank owned life insurance	**(511)**	(367)	(268)
Stock option expense under FAS 123(R)	**89**	90	–
Other	**22**	(89)	84
Totals	**$ 6,469**	$ 7,451	$ 5,853

Deferred federal income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of First Defiance's deferred federal income tax assets and liabilities are as follows:

	December 31,	
	2007	2006
Deferred federal income tax assets:	*(In Thousands)*	
Allowance for loan losses	**$ 4,768**	$ 4,584
Postretirement benefit costs	**838**	741
Deferred compensation	**796**	669
Impaired loans	**508**	589
Accrued vacation	**336**	291
Allowance for real estate held for sale losses	**245**	–
Deferred loan origination fees and costs	**205**	134
Net unrealized losses on available-for-sale securities	–	52
Other	**488**	325
Total deferred federal income tax assets	**8,184**	7,385
Deferred federal income tax liabilities:		
FHLB stock dividends	**2,949**	2,949
Goodwill	**1,884**	1,484
Mortgage servicing rights	**1,766**	1,478
Fixed assets	**1,244**	1,321
Other intangible assets	**1,132**	1,039
Net unrealized gains on available-for-sale securities	**196**	–
Other	**319**	409
Total deferred federal income tax liabilities	**9,490**	8,680
Net deferred federal income tax liability	**$ (1,306)**	$ (1,295)

The realization of the Company's deferred tax assets is dependent upon the Company's ability to generate taxable income in future periods and the reversal of deferred tax liabilities during the same period.The Company has evaluated the available evidence supporting the realization of its deferred tax assets and determined it is more likely than not that the assets will be realized and thus no valuation allowance was required at December 31, 2007.

Retained earnings at December 31, 2007 include approximately $11.0 million for which no tax provision for federal income taxes has been made. This amount represents the tax bad debt reserve at December 31, 1987, which is the end of the Company's base year for purposes of calculating the bad debt deduction for tax purposes. If this portion of retained earnings is used in the future for any purpose other than to absorb bad debts, the amount used will be added to future taxable income. The unrecorded deferred tax liability on the above amount at December 31, 2007 was approximately $3.85 million.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at January 1, 2007	$	**588**
Additions based on tax positions related to the current year		−
Additions for tax positions of prior years		−
Reductions for tax positions of prior years		−
Reductions due to the statute of limitations		**(90)**
Settlements		−
Balance at December 31, 2007	$	**498**

As of December 31, 2007 the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods totaled $430,000. The Company does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

The total amount of interest and penalties recorded in the income statement, net of the related federal tax benefit, for the year ended December 31, 2007 was $27,000, and the amount accrued for interest and penalties (net of the related federal tax benefit) at December 31, 2007 was $101,000.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax in the state of Indiana. The Company is no longer subject to examination by taxing authorities for years before 2004. The Company currently operates primarily in the state of Ohio, which taxes financial institutions based on their equity rather than their income.

19. Employee Benefit Plans

ESOP Plan

First Defiance has established an Employee Stock Ownership Plan (ESOP) covering all employees of First Defiance age 21 or older who have at least one year of credited service. Contributions to the ESOP are made by First Defiance and are determined by First Defiance's Board of Directors at their discretion. The contributions may be made in the form of cash or First Defiance common stock. The annual contributions may not be greater than the amount deductible for federal income tax purposes and cannot cause First Federal to violate regulatory capital requirements.

To fund the plan, the ESOP borrowed funds from First Defiance for the purpose of purchasing shares of First Defiance common stock. The ESOP acquired a total of 863,596 shares in 1993 and 1995. The loan outstanding at December 31, 2007 and 2006 was $493,000 and $1,134,000 respectively. Principal and interest payments on the loan are due in equal quarterly installments through June of 2008. The loan is collateralized by the shares of First Defiance's common stock and is repaid by the ESOP with funds from the Company's contributions to the ESOP, dividends on allocated and unallocated shares and earnings on ESOP assets.

As principal and interest payments on the loan are paid, shares are released from collateral and committed for allocation to active employees, based on the proportion of debt service paid in the year. Shares held by the ESOP which have not been released for allocation are reported as stock acquired by the ESOP plan in the statement of financial condition. As shares are released, First Defiance records compensation expense equal to the average fair value of the shares over the period in which the shares were earned. Also, the shares released for allocation are included in the average shares outstanding for earnings per share computations. Dividends on allocated shares are recorded as a reduction of retained earnings and dividends on unallocated shares reduce debt and accrued interest. ESOP compensation expense was $859,000, $891,000, and $976,000, for 2007, 2006 and 2005, respectively.

Shares held by the ESOP at December 31 were as follows:

	Year Ended December 31, 2007			Year Ended December 31, 2006		
	Allocated	**Unallocated**	**Total**	**Allocated**	**Unallocated**	**Total**
Beginning Balance	**498,249**	**83,618**	**581,867**	474,200	132,408	606,608
Allocation of shares to participants	**48,790**	**(48,790)**	**–**	48,790	(48,790)	–
Distribution of shares to former participants	**(31,421)**	**–**	**(31,421**	(24,741)	–	(24,741)
Ending Balance	**515,618**	**34,828**	**550,446**	498,249	83,618	581,867

Of the 34,828 unallocated shares at December 31, 2007, 12,197 were released during the 2007 fourth quarter for allocation in 2008. The 22,631 unreleased shares have a fair value of $498,000 at December 31, 2007. Of the 83,618 unallocated shares at December 31, 2006, 12,197 were released during the 2006 fourth quarter for allocation in 2007. The fair value of 71,421 unreleased shares at December 31, 2006 was $2.2 million. A total of $543,000 and $553,000 of dividends in 2007 and 2006, respectively, were used for debt service.

410(k) Plan

Employees of First Defiance are eligible to participate in the First Defiance Financial Corp. 401(k) Employee Savings Plan (First Defiance 401(k)) if they meet certain age and service requirements. Under the First Defiance 401(k), First Defiance matches 50% of the participants' contributions, to a maximum of 3% of compensation. The First Defiance 401(k) also provides for a discretionary First Defiance contribution in addition to the First Defiance matching contribution. First Defiance matching contributions totaled $409,000, $355,000 and $333,000 for the years ended December 31, 2007, 2006 and 2005 respectively. There were no discretionary contributions in any of those years.

20. Stock Option Plans

First Defiance has established incentive stock option plans for its directors and its employees and has reserved 1,727,485 shares of common stock for issuance under the plans.A total of 1,467,204 shares are reserved for employees and 260,281 shares are reserved for directors.As of December 31, 2007, 418,339 options (408,453 for employees and 9,886 for directors) have been granted and remain outstanding at option prices based on the market value of the underlying shares on the date the options were granted.There are 600 options granted under the 1993 plan that are currently exercisable, 73,639 options granted under the 1996 plan that vest at 20% per year beginning in 1997 of which 71,407 are fully vested and currently exercisable, 216,350 options granted under the 2001 plan which vest at 20% per year beginning in 2002, of which 171,460 are fully vested and currently exercisable and 127,750 options granted under the 2005 plan which vest at 20% per year beginning in 2006, of which 24,320 are fully vested and currently exercisable.All options expire ten years from date of grant.Vested options of retirees expire on the earlier of the scheduled expiration date or five years after the retirement date for the 1993, 2001 and 2005 plans and on the earlier of the scheduled expiration date or twelve months after the retirement date for the 1996 plan.

The fair value of each option award is estimated on the date of grant using the Black-Scholes model using the assumptions noted in the table below. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding, which takes into account that the options are not transferable. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

The fair value of options granted was determined using the fillowing weighted-average assumptions as of grant date.

	Year Ended December 31,		
	2007	**2006**	**2005**
Risk-free interest rate	**4.84%**	5.16%	4.40%
Expected term	**6.6 years**	6.5 years	10 years
Expected stock price volatility	**21.8%**	22.4%	22.4%
Dividend yield	**3.67%**	3.62%	3.39%

The following table summarizes stock option activity for 2007:

	Options Outstanding	**Weighted Average Exercise Price**	**Weighted Average Remaining Contractual Term (in years)**	**Aggregate Intrinsic Value (in $000s)**
Outstanding at January 1, 2007	**404,154**	$ 19.36		
Granted	**56,250**	27.24		
Exercised	**(36,865)**	14.17		
Forfeited	**(5,200)**	26.41		
Outstanding at December 31, 2007	**418,339**	$ 20.79	5.48	$ 1,468
Vested or expected to vest at December 31, 2007	**397,011**	$ 20.47	5.34	$ 1,468
Exercisable at December 31, 2007	**267,787**	$ 17.68	4.04	$ 1,445

Information related to the stock option plans follows:

	Year Ended December 31,		
	2007	**2006**	**2005**
	(Thousands, except per share amounts)		
Intrinsic value of options exercised	**$ 509**	$ 3,092	$ 1,906
Cash received from option exercises*	**521**	2,348	1,561
Tax benefit realized from option exercises	**64**	481	261
Weighted average fair value of options granted	**$ 5.27**	$ 5.96	$ 5.67

* *Includes $240,000 and $1.1 million of option exercises paid by optionees in First Defiance common stock in 2007 and 2006 respectively*

As of December 31, 2007, there was $663,000 of total unrecognized compensation cost related to nonvested stock options granted under the Company Stock Option Plans. The cost is expected to be recognized over a weighted-average period of 3.2 years.

As of December 31, 2007 and 2006, 223,950 and 275,400 shares, respectively, were available for grant under the Company's stock option plans. Options forfeited or cancelled under the 1996 plan are no longer available for grant to other participants.

21. Parent Company and Regulatory Restrictions

Dividends paid by First Federal to First Defiance are subject to various regulatory restrictions. Because First Federal has not paid any dividends in 2007 or 2006, it can initiate dividend payments equal to its net profits (as defined by statute) for those two years ($30.96 million) plus 2008 net profits without prior regulatory approval. First Federal must notify the Office of Thrift Supervision prior to the payment of any such dividend and it may apply to the OTS to pay total dividends that exceed an amount equal to its 2006 to 2008 net profits. First Insurance paid a $1.0 million dividend to First Defiance in 2006.

Condensed parent company financial statements, which include transactions with subsidiaries, follow:

Statements of Financial Condition	December 31, 2007	December 31, 2006
	(In Thousands)	
Assets		
Cash and cash equivalents	**$ 3,167**	$ 1,317
Investment securities, available for sale, carried at fair value	**1,388**	1,916
Investment in subsidiaries	**197,839**	177,691
Loan receivable from First Defiance Employee Stock Ownership Plan	**493**	1,134
Other assets	**1,111**	667
Total assets	**$ 203,998**	$ 182,725
Liabilities and stockholders' equity:		
Subordinated debentures	**$ 36,083**	$ 20,619
Accrued liabilities	**1,961**	2,281
Stockholders' equity	**165,954**	159,825
Total liabilities and stockholders' equity	**$ 203,998**	$ 182,725

Statements of Income	Years Ended December 31, 2007	2006	2004
		(In Thousands)	
Dividends from subsidiaries	**$ –**	$ 1,000	$ 34,415
Interest on loan to ESOP	**64**	119	169
Interest expense	**(2,124)**	(1,310)	(275)
Other income	**222**	140	102
Noninterest expense	**(698)**	(653)	(637)
Income (loss) before income taxes and equity in earnings of subsidiaries	**(2,536)**	(704)	33,774
Income tax credit	**(867)**	(577)	(212)
Income (loss) before equity in earnings of subsidiaries	**(1,669)**	(127)	33,986
Undistributed equity in (distributions in excess of) earnings of subsidiaries	**15,573**	15,727	(22,016)
Net income	**$ 13,904**	$ 15,600	$ 11,970

Statements of Cash Flows	Years Ended December 31, 2007	2006	2005
	(In Thousands)		
Operating activities:			
Net income	**$ 13,904**	$ 15,600	$ 11,970
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Distribution in excess of (undistributed equity in) earnings of subsidiaries	**(15,573)**	(15,727)	22,016
Security impairment	**–**	75	–
Change in other assets and liabilities	**(435)**	695	232
Net cash provided by (used in) operating activities	**(2,104)**	643	34,218
Investing activities:			
Investment in unconsolidated trust subsidiary	**(464)**	–	(619)
Cash paid for ComBanc, Inc.,	**–**	–	(18,693)
Cash paid for Genoa Savings and Loan Company	**–**	–	(10,869)
Cash paid for Huber Harger Welt & Smith	**(175)**		
Principal payments received on ESOP loan	**641**	588	552
Purchase of available-for-sale securities	**–**	(500)	(500)
Maturities of available-for-sale securities	**156**	35	
Sale of available-for-sale securities		–	70
Net cash (used in) provided by investing activities	**158**	123	(30,059)
Financing activities:			
Proceeds from issuance of subordinated debt securities	**15,464**	–	20,619
Capital contribution to subsidiary	**–**	(1,000)	(10,000)
Stock options exercised	**281**	1,257	1,561
Excess tax benefit from exercise of stock options	**64**	481	–
Purchase of common stock for treasury	**(4,923)**	(2,852)	(1,547)
Cash dividends paid	**(7,090)**	(6,741)	(5,852)
Net cash used in financing activities	**3,796**	(8,855)	4,781
Net increase (decrease) in cash and cash equivalents	**1,850**	(8,089)	8,940
Cash and cash equivalents at beginning of year	**1,317**	9,406	466
Cash and cash equivalents at end of year	**$ 3,167**	$ 1,317	$ 9,406

22. Fair Value of Consolidated Statement of Financial Condition

The following is a comparative condensed consolidated statement of financial condition based on carrying amount and estimated fair values of financial instruments as of December 31, 2007 and 2006. Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures about Fair Value of Financial Instruments* excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of First Defiance Financial Corp.

Much of the information used to arrive at "fair value" is highly subjective and judgmental in nature and therefore the results may not be precise. Subjective factors include, among other things, estimated cash flows, risk characteristics and interest rates, all of which are subject to change. With the exception of investment securities, the Company's financial instruments are not readily marketable and market prices do not exist. Since negotiated prices for the instruments, which are not readily marketable depend greatly on the motivation of the buyer and seller, the amounts that will actually be realized or paid per settlement or maturity of these instruments could be significantly different.

The carrying amount of cash and cash equivalents, warehouse and term notes payable and advance payments by borrowers for taxes and insurance, as a result of their short-term nature, is considered to be equal to fair value.

For investment securities, fair value has been based on current market quotations. If market prices are not available, fair value has been estimated based upon the quoted price of similar instruments.

The fair value of loans which reprice within 90 days is equal to their carrying amount. For other loans, the estimated fair value is calculated based on discounted cash flow analysis, using interest rates currently being offered for loans with similar terms. The allowance for loan losses is considered to be a reasonable adjustment for credit risk.

SFAS No. 107 requires that the fair value of demand, savings, NOW and certain money market accounts be equal to their carrying amount. The Company believes that the fair value of these deposits may be greater or less than that prescribed by SFAS No. 107.

The carrying value of Subordinated Debentures and deposits with fixed maturities is estimated based on interest rates currently being offered on instruments with similar characteristics and maturities. FHLB advances with maturities greater than 90 days are valued based on discounted cash flow analysis, using interest rates currently being quoted for similar characteristics and maturities. The cost or value of any call or put options is based on the estimated cost to settle the option at December 31, 2007.

	December 31, 2007		**December 31, 2006**	
	Carrying Value	**Estimated Fair Values**	**Carrying Value**	**Estimated Fair Values**
		(In Thousands)		
Assets:				
Cash and cash equivalents	**$ 65,553**	**$ 65,553**	$ 50,023	$ 50,023
Investment securities	**113,487**	**113,531**	112,123	112,174
Loans, net, including loans held for sale	**1,281,557**	**1,298,305**	1,229,736	1,223,886
	1,460,597	**$ 1,477,389**	1,391,882	$ 1,386,083
Other assets	**148,807**		135,997	
Total assets	**$ 1,609,404**		$ 1,527,879	
Liabilities and stockholders' equity:				
Deposits	**$ 1,217,858**	**$ 1,218,391**	$ 1,138,445	$ 1,137,904
Advances from Federal HomeLoan Bank	**139,536**	**145,117**	162,228	160,403
Subordinated debentures	**36,083**	**28,027**	20,619	19,967
Short term borrowings and other interest bearing liabilities	**30,055**	**30,055**	30,424	30,424
Advance payments by borrowers for taxes and insurance	**762**	**762**	667	667
	1,424,294	**$ 1,422,352**	1,352,383	$ 1,349,365
Other liabilities	**19,156**		15,671	
Total liabilities	**1,443,450**		1,368,054	
Stockholders' equity	**165,954**		159,825	
Total liabilities and stockholders' equity	**$ 1,609,404**		$ 1,527,879	

23. Quarterly Consolidated Results of Operations (Unaudited)

The following is a summary of the quarterly consolidated results of operations:

	Three Months Ended			
	March 31	June 30	September 30	December 31
	(In Thousands, Except Per Share Amounts)			
2007				
Interest income	**$ 24,033**	**$ 24,532**	**$ 24,989**	**$ 25,197**
Interest expense	**12,048**	**12,410**	**12,962**	**12,669**
Net interest income	**11,985**	**12,122**	**12,027**	**12,528**
Provision for loan losses	**457**	**575**	**671**	**603**
Net interest income after provision for loan losses	**11,528**	**11,547**	**11,356**	**11,925**
Gain (loss) on sale or write-down of securities	**–**	**–**	**21**	**–**
Noninterest income	**5,608**	**5,670**	**5,563**	**5,268**
Noninterest expense	**11,774**	**11,882**	**12,296**	**12,161**
Income before income taxes	**5,362**	**5,335**	**4,644**	**5,032**
Income taxes	**1,756**	**1,724**	**1,515**	**1,474**
Net income	**$ 3,606**	**$ 3,611**	**$ 3,129**	**$ 3,558**
Earnings per share:				
Basic	**$ 0.51**	**$ 0.51**	**$ 0.44**	**$ 0.51**
Diluted	**$ 0.50**	**$ 0.50**	**$ 0.44**	**$ 0.50**
Average shares outstanding:				
Basic	**7,105**	**7,129**	**7,080**	**7,037**
Diluted	**7,215**	**7,229**	**7,171**	**7,108**
2006				
Interest income	$ 21,709	$ 22,953	$ 24,092	$ 24,311
Interest expense	9,400	10,694	11,883	12,066
Net interest income	12,309	12,259	12,209	12,245
Provision for loan losses	383	683	373	317
Net interest income after provision for loan losses	11,926	11,576	11,836	11,928
Gain on sale of securities	–	–	–	(2)
Noninterest income	4,515	5,127	5,060	4,924
Noninterest expense	10,742	10,795	11,091	11,211
Income before income taxes	5,699	5,908	5,805	5,639
Income taxes	1,848	1,955	1,982	1,666
Net income	$ 3,851	$ 3,953	$ 3,823	$ 3,973
Earnings per share:				
Basic	$ 0.55	$ 0.56	$ 0.54	$ 0.56
Diluted	$ 0.54	$ 0.55	$ 0.53	$ 0.55
Average shares outstanding:				
Basic	7,005	7,029	7,032	7,051
Diluted	7,182	7,162	7,146	7,168

Shareholder Information

Annual Meeting

The Annual Meeting of Shareholders of First Defiance Financial Corp. will be held on Tuesday, April 22, 2008 at 1:00 p.m. in the conference room at the First Federal Bank Operations Center at 25600 Elliott Road, Defiance, Ohio 43512.

Investor Information

Shareholders, investors and analysts interested in additional information about First Defiance Financial Corp. may contact John C. Wahl, Chief Financial Officer, at the corporate office, (419) 782-5015.

First Defiance on the Web

First Defiance Financial Corp. is located on the Internet at www.fdef.com

Stock Transfer Agent

Shareholders with questions concerning the transfer of shares, lost certificates, dividend payments, dividend reinvestment, receipt of multiple dividend checks, duplicate mailings or changes of address should contact:

Registrar and Transfer Company

First Defiance Financial Corp. Transfer Agent
10 Commerce Drive
Cranford, NJ 07016-3573
Telephone: 800-368-5948
Internet: www.rtco.com

Securities Listing

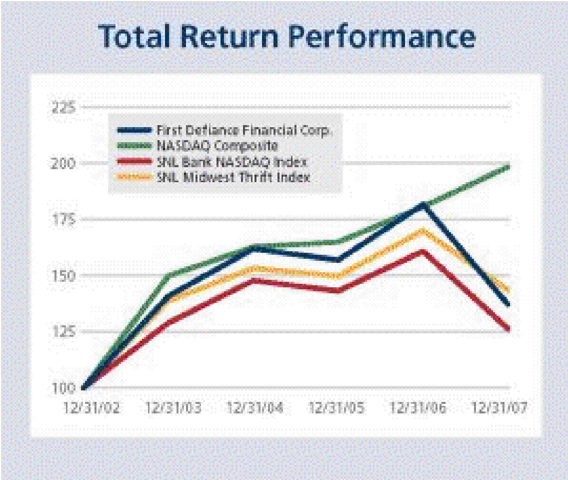
First Defiance Financial Corp. common stock trades on the Global Select Market NASDAQ under the symbol FDEF.

As of March 7, 2008, there were approximately 2,020 stockholders of record and 7,070,669 shares outstanding.

Price Range

Year Ended December 31, 2007				
		High		**Low**
First Quarter	$	30.25	$	27.25
Second Quarter	$	30.00	$	26.71
Third Quarter	$	29.64	$	23.99
Fourth Quarter	$	26.93	$	20.58

Year Ended December 31, 2006				
		High		**Low**
First Quarter	$	28.88	$	25.39
Second Quarter	$	30.29	$	25.09
Third Quarter	$	28.69	$	25.18
Fourth Quarter	$	30.70	$	26.87



Dividends Policy

Cash dividends on the common stock are declared quarterly and have been paid since First Defiance and its predecessor, First Federal Savings and Loan, went public in 1993. The company's Board of Directors has increased the rate annually since 1997. The current annual dividend rate is $1.04 per share.

Dividend Reinvestment Plan

Shareholders may automatically reinvest dividends in additional First Defiance Financial Corp. common stock through the Dividend Reinvestment Plan, which also provides for purchase by voluntary cash contributions. For additional information, please contact the Registrar and Transfer Company at 800-368-5948.

Auditors

Crowe Chizek and Company LLC
Landerbrook Corporate Center
5900 Landerbrook Drive, Suite 205
Cleveland, OH 44124

General Counsel

Vorys, Sater, Seymour and Pease LLP
Suite 2100 Atrium Two
221 East Fourth Street
Cincinnati, Ohio 45201

FIRST DEFIANCE FINANCIAL CORP.

First Defiance Financial Corp.
601 Clinton Street
Defiance, OH 43512
www.fdef.com
419-782-5015

FIRST FEDERAL BANK

First Federal Bank of the Midwest
601 Clinton Street
Defiance, OH 43512
www.first-fed.com
419-782-5015

First Insurance & Investments
419 Fifth Street, Suite 1200
Defiance, OH 43512
www.firstii.com
419-784-5431

For investor relations information access www.fdef.com

(Back To Top)

Section 5: EX-14 (EXHIBIT 14)

Exhibit 14

First Defiance Financial Corp. and Subsidiaries
Conflict of Interest/Code of Ethics Policy
February 20, 2006

In order to protect First Defiance Financial Corp. (Company) and its subsidiaries from self-dealing, fraud and misconduct of directors, management and employees, the Board of Directors of the Company (Board) intends to hold its directors and employees accountable to the policies and procedures contained in this code of ethics and to require the reporting of any violations hereof. This code of ethics shall apply to the directors and employees of the Company and its wholly owned subsidiaries, First Federal Bank of the Midwest (First Federal) and First Insurance and Investments. References to the Company herein shall be deemed to include First Federal and First Insurance and Investments.

Conflicts of Interest

First Federal Bank employees should not represent the bank in any transaction where he/she has a material connection or a financial interest in the transaction. Examples of material connection include a member of the employee's immediate family, which includes siblings, spouse, children, parents, or someone living in the same household as the employee, whether the transaction involves them as individuals or as principals in a firm doing business with First Federal Bank.

Employees should avoid taking part in transactions involving any of the above circumstances. By "transactions" we mean not only should a loan officer not originate, underwrite, or approve credit to him/herself or any member of the loan officers' immediate family, or to any business in which the loan officer has a personal financial or business interest or relationship, but also no employee should approve overdrafts, accept a check on uncollected funds, or waive loan or deposit fees in any transaction that they have a material connection or a financial interest as defined above. Refraining from this type of activity will avoid the appearance of a conflict of interest and impropriety. Another loan officer/employee must administer these types of transactions.

No loan officer shall extend credit to a client who is purchasing an item of personal or real property owned by the loan officer, their immediate family, or their related interest.

No employee of First Federal shall engage in the purchase of real or personal property that has become the possession of First Federal by repossession unless the item is purchased by normal bidding process. The Market Area President will establish the minimum bid.

Authorized Infringements to the Policy

If exceptions to the Board of Directors' approved Loan Policy are properly documented and justified by the loan officer, and approved by the Market Area President, it shall not be considered a violation of policy.

All directors and employees are required to act in a responsible and respectable manner and to remain free of influences that may result in the loss of objectivity regarding business conducted with the Company's customers or the Company itself. Each director and employee must disclose and avoid any interest or activities involving another organization or individual that may result in a conflict of interest between the Company or its subsidiary and that organization or individual. This code of ethics has been adopted to assist all directors and employees in determining what is appropriate personal and professional conduct and reaffirms the Company's policies of ethical conduct. Violations of these rules, policies or procedures provide a basis for disciplinary action, which may include termination.

At the Company's discretion and judgment, the Company may revise, withdraw or add any rules, policies, or procedures at any time. Changes and amendments to this code of ethics will be approved by the Company's Board and disclosed or reported in compliance with any SEC or Nasdaq regulations. In addition to this code of ethics, directors and employees must also comply with the Company’s Commercial and Consumer Lending Policies, the Insider Trading Policy, the First Federal Employee Handbook, and Reg FD guidelines.

I. Confidential Information

All oral or written information concerning the Company, its customers, business partners, suppliers or others related to the Company that is acquired during the scope of an employee or director's employment or directorship and that is not otherwise available to the public constitutes confidential information. All directors and employees of the Company may use confidential information for the Company's business purposes only and may not use such information for personal, familial, or other gain. Confidential information may not be disclosed to others except when such disclosure is authorized by the Company or legally required.

In addition, although information may be available to the public, it may be deemed proprietary information that is the property of the Company. Proprietary information includes work product produced for the Company by directors or employees, customer and prospective customer names, presentation materials, marketing materials, product information and business methods or processes. Directors and employees have no personal right to such proprietary information during or after employment with the Company and may use such information for the Company's business purposes only.

II. Investments

Personal investments should be made with prudence, avoiding situations that may raise conflict of interest issues. Directors and employees should avoid substantial investments in the business of a customer or supplier unless there is no possibility for a conflict of interest. Confidential or proprietary information of the Company may not be used as a means for personal gain.

If directors or employees purchase Company stock, they are encouraged to hold such stock for long-term investment. The purchase or sale of Company stock based on insider information is prohibited. Other Company policies related to trading in Company stock are contained in the Company's Insider Trading Policy.

III. Gifts and Entertainment

Employees shall not (a) solicit anything of value from prospective or current customers, associates, or any other individual or business in return for any business, service or confidential information of the Company, or (b) accept anything of value (other than compensation paid by the Company) from prospective or current customers, associates, or any other individual or business either before or after a transaction is discussed or completed.

Unsolicited gifts from prospective or current customers, associates, or any other individual or business should be declined to avoid any appearance of impropriety with the following exceptions:

- Business meals;
- Holiday gifts;
- Gifts based upon a personal relationship pre-dating your involvement with the Company;
- Discounts or rebates generally available to the public.

Even if an unsolicited gift meets one of the above exceptions, directors and employees should consider the reasonableness of the gift's value to avoid potential conflict of interest issues. Generally, if the value of the gift is greater than $100, it should be rejected.

Employees are expected to participate in entertainment and activities of reasonable cost to facilitate business. Tickets for sporting, cultural, or other events purchased by the Company are to be used for entertaining potential or current customers, suppliers, or others for business purposes. If it is determined prior to the event that the tickets will not be used for such business purposes, tickets may be offered to directors or employees.

IV. External Involvement

The Company encourages involvement in outside activities, including charitable and political functions. At no time, however, will directors or employees solicit the Company's employees for political contributions or coerce or pressure others into contributing to any organization. Federal law prohibits First Federal from making contributions to political candidates. Outside activities must not give the perception of benefit to the Company or that connections with the Company are sought or desired.

Offers of directorship to any outside organization that has or desires a business relationship with the Company, or to any institution within the financial industry, must be reported to the Chairman of the Board of Director, or the corporate governance committee prior to acceptance.

Capitalizing on opportunities for personal gain or compensation outside of the Company for the performance of services for the Company is strictly prohibited. Employees must report any additional employment outside of the Company to such employee's immediate supervisor.

V. Conduct of Insiders

"Insider" is defined as a director, executive officer, or 10% shareholder of the Company. Insiders must take care that their conduct does not violate rules relating to self-dealing and personal gain. At no time are Insiders allowed to take advantage of their position in the Company for personal profit or influence over credit and other decisions with regard to their business or personal interest.

Decisions relating to the sale or purchase of Company assets and services must be made in the best interest of the Company, with no influence on insiders resulting from gifts, entertainment, or gratuities. All conduct of such business must be at "arm's length."

VI. Compliance with Laws

The Company is subject to numerous federal, state and local laws, rules and regulations. Directors and employees are expected to comply with these laws, rules and regulations, including the policies, guidelines and procedures that the Company has adopted to facilitate such compliance.

VII. Company Reporting

All directors and employees must disclose to management all information necessary to assist the Company in creating full, fair, accurate, timely and understandable disclosure in reports and documents that the Company files with the SEC and other regulators and in other public communications made by the Company. All directors and employees must honestly and accurately record and report all business information. All financial transactions must be executed in accordance with management's authorization, and must be recorded in a proper manner in order to maintain accountability for the Company's assets.

VIII. Extensions of Credit to Insiders

Any and all loans to Insiders must be made on substantially the same terms including interest rate and collateral, as a loan made to an unrelated party. Loans to Insiders must also be subject to the same underwriting process as comparable transactions made between First Federal and the general public.

A Director or employee is prohibited from being involved in the loan approval process where such director or employee may benefit directly or indirectly from the decision to grant credit. This prohibition extends to professional relationships with any company or firm receiving remuneration as a result of a decision to grant credit.

First Federal is subject to laws regulating and restricting loans to directors and certain employees, including Regulation O. Directors and employees should consult the Company's Commercial and Consumer Lending Policies regarding such lending restrictions.

IX. Employee Accounts

All employees are encouraged to maintain their personal accounts at First Federal to allow First Federal to provide services and direct deposit of payroll checks. Under no circumstances will First Federal pay a rate of interest in excess of the rate available to all customers.

All applicable fees, including overdraft charges, will be assessed on all accounts of employees, directors, principal shareholders, and executive officers.

X. Procedures for Reporting Violations

Directors or employees who discover that any other director or employee is engaging in an illegal or unethical act (other than accounting, accounting controls or auditing matters - see the next paragraph) have the responsibility to promptly notify the Audit Committee of the Board of Directors.

Any oral notification should be followed up with a written report. A report can be submitted anonymously or on a confidential basis. If a report is submitted on a confidential basis, the reporting director or employee's name will not be disclosed in the Company's investigation, but the Company may be required to disclose the person's name to government entities. There will be no retaliation against a person making good faith reports or complaints.

If a director or employee has a complaint or a concern about any accounting practice, accounting control, or auditing matters at the Company (for example, if it is believed that an accounting or auditing practice is questionable or incorrect), the director or employee must submit a complaint or concern to:

Audit Committee of the Board of Directors
c/o TeleSentry toll free at 888-883-1499

A complaint or concern can be submitted anonymously or on a confidential basis. If submitted on a confidential basis, the director or employee's name will not be disclosed in the Company's investigation, but the Company may be required to disclose the person's name to governmental entities. There will be no retaliation against any person making good faith reports or complaints.

On an annual basis, the Compliance Officer will conduct a review of procedures, documentation, and minutes of the meetings of the Board to test compliance with code of ethics. It will report its findings to the audit committee of the Board of Directors.

XI. Consequence of Noncompliance

Failure to comply with this code of ethics may result in the termination of employment or other disciplinary action. The action will be commensurate with the seriousness of the conduct and an evaluation of the situation.

All violations of this code of ethics will be reported to the Board. Termination of employment or other disciplinary action may be determined by an officer who is either the direct or indirect supervisor of the employee concerned.

XII. Questions

Refer any question regarding proper conduct or this code of ethics to an immediate supervisor. Director or employee's actions or acceptance of gifts that are not specifically discussed in this code of ethics must be reviewed as to intent and purpose. Directors and employees should ask themselves: "If this situation were to be made public, would my conduct be embarrassing or come into question?"

XIII. Waivers

Any waiver of this code of ethics for directors or executive officers of the Company may be made only by the Board and must be promptly disclosed to shareholders, along with the reasons for the waiver.

(Back To Top)

Section 6: EX-21 (EXHIBIT 21)

Exhibit 21

List of Subsidiaries of First Defiance Financial Corp.

First Federal Bank of the Midwest

First Defiance Loan Servicing Company

First Defiance Service Company

First Insurance & Investments, Inc.

(Back To Top)

Section 7: EX-23.1 (EXHIBIT 23.1)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8) pertaining to the First Defiance Financial Corp. 2005 Stock Option and Incentive Plan; Registration Statement (Form S-8) pertaining to the First Defiance Financial Corp. 2001 Stock Option and Incentive Plan; Registration Statement (Form S-8) pertaining to the First Defiance Financial Corp. 1993 Stock Incentive Plan and the 1993 Director's Stock Option Plan; and Registration Statement (Form S-8) pertaining to First Defiance Financial Corp. Employee Investment Plan of our report dated March 14, 2008 on the consolidated financial statements of First Defiance Financial Corp. and our report dated the same date on the effectiveness of internal control over financial reporting of First Defiance Financial Corp. which reports are included in Form 10-K for First Defiance Financial Corp. for the year ended December 31, 2007.

Crowe Chizek and Company LLC

Cleveland, Ohio
March 12, 2008
(Back To Top)

Section 8: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

SARBANES-OXLEY ACT OF 2002, SECTION 302
CERTIFICATION OF PRESIDENT AND CHIEF EXECUTIVE OFFICER

I, William J. Small, Chairman, President and Chief Executive Officer, certify that:

1) I have reviewed this annual report on Form 10-K of First Defiance Financial Corp. (the "registrant")

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registration and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operations of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 14, 2008

/s/ William J. Small
William J. Small
Chairman, President and Chief Executive Officer

(Back To Top)

Section 9: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

SARBANES-OXLEY ACT OF 2002, SECTION 302
CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John C. Wahl, Chief Financial Officer, certify that:

1) I have reviewed this annual report on Form 10-K of First Defiance Financial Corp. (the "registrant")

2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registration and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operations of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 14, 2008

/s/ John C. Wahl
John C. Wahl
Chief Financial Officer

(Back To Top)

Section 10: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of First Defiance Financial Corp (the "Registrant") on Form 10-K for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Small, Chairman, President and Chief Executive Officer of the Registrant, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

By: /s/ William J. Small
Name: William J. Small
Title: Chairman, President and
Chief Executive Officer

Date: March 14, 2008

(Back To Top)

Section 11: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of First Defiance Financial Corp (the "Registrant") on Form 10-K for the year ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John C. Wahl, Executive Vice President and Chief

Financial Officer of the Registrant, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

By: /s/ John C. Wahl
Name: John C. Wahl
Title: Executive Vice President
and Chief Financial Officer

Date: March 14, 2008

(Back To Top)