

**Report of Organizational Actions  
Affecting Basis of Securities**

▶ See separate instructions.

**Part I Reporting Issuer**

<b>1</b> Issuer's name		<b>2</b> Issuer's employer identification number (EIN)	
First Defiance Financial Corp. as successor in interest to Commercial Bancshares, Inc.		34-1803915	
<b>3</b> Name of contact for additional information	<b>4</b> Telephone No. of contact	<b>5</b> Email address of contact	
Kevin Thompson	419-783-1098	kthompson@first-fed.com	
<b>6</b> Number and street (or P.O. box if mail is not delivered to street address) of contact		<b>7</b> City, town, or post office, state, and Zip code of contact	
601 Clinton Street		Defiance, OH 43512	
<b>8</b> Date of action		<b>9</b> Classification and description	
February 24, 2017		Commercial Bancshares common stock	
<b>10</b> CUSIP number	<b>11</b> Serial number(s)	<b>12</b> Ticker symbol	<b>13</b> Account number(s)
20114L105		CMOH	

**Part II Organizational Action** Attach additional statements if needed. See back of form for additional questions.

**14** Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ On February 24, 2017, First Defiance Financial Corp. (First Defiance) acquired Commercial Bancshares, Inc. (Commercial), EIN 34-1787239, in a statutory merger that is being treated as a reorganization within the meaning of Section 368(a)(1)(A) of the Internal Revenue Code. Pursuant to the terms of the merger, in exchange for each share of Commercial common stock, each Commercial shareholder could elect to receive either a) \$51.00 in cash, b) 1.1808 shares of First Defiance common stock, or c) \$51.00 in cash for a designated number of Commercial shares and 1.1808 shares of First Defiance common stock for a designated number of Commercial shares. Non-electing shareholders received 0.699944445 shares of First Defiance common stock and \$20.77 in cash in exchange for each share of Commercial common stock. The Commercial shareholders received cash in lieu of fractional shares of First Defiance common stock based on a per share price of \$51.00.

**15** Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ See Statement.

**16** Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ See item 15 above for a description of the calculation. The fair market value of First Defiance common stock at the effective time of the merger was \$49.61 per share, based on the closing price as reported on NASDAQ (symbol FDEF) on February 24, 2017.

**Part II Organizational Action** (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ Sections 354(a), 356(a), 358(a), 368(a), and 1001, and Regulation Section 1.356-1.

18 Can any resulting loss be recognized? ▶ No loss may be recognized by Commercial shareholders receiving a combination of First Defiance common stock and cash, except that any loss on the receipt of cash in lieu of a fractional share of First Defiance stock may be recognized. Commercial shareholders receiving solely cash may recognize loss, if any.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ The reportable tax year is 2017. Each Commercial shareholder should consult his, her, or its tax advisor as to the determination of gain or loss and allocation of basis to any First Defiance common stock received.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature ▶ *Kevin T. Thompson* Date ▶ *3/16/17*

Print your name ▶ Kevin T. Thompson Title ▶ EVP Chief Financial Officer

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Sheryl Vander Baan	<i>SK Vander Baan</i>	2017.03.13 11:32:39 -04'00'		P00242444
	Firm's name ▶ Crowe Horwath LLP			Firm's EIN ▶ 35-0921680	
	Firm's address ▶ 55 Campau Ave NW, Suite 500, Grand Rapids, MI 49503-2642			Phone no. 616-774-0774	

First Defiance Financial Corp. as successor in interest to Commercial Bancshares, Inc.  
EIN 34-1803915  
Statement to Form 8937

**Part II, Item 15**

- Commercial shareholders receiving solely cash will experience no effect on basis of their Commercial common stock.
  - These holders should recognize gain or loss equal to the difference between the cash received and the tax basis in their Commercial shares surrendered.
- Commercial shareholders receiving solely First Defiance stock will experience the following effects:
  - The aggregate basis in the Commercial shares immediately before the exchange should be allocated proportionately to the 1.1808 (or fraction of 1.1808) First Defiance shares received in the exchange. The quantitative effect is  $1/1.1808 = 0.846883468834688$  of the basis in each whole Commercial share is allocated to each whole First Defiance share. Generally, the tax basis is allocated to individual First Defiance shares received on a block-by-block basis. Since a whole number of First Defiance shares were not issued in exchange for each Commercial share, this could result in a single share of First Defiance stock having a split basis and a split holding period.
  - Commercial shareholders who received cash instead of a fractional share of First Defiance common stock will be treated as having received the fractional share in the merger and then as having exchanged the fractional share for cash. These holders will generally recognize gain or loss equal to the difference between the tax basis allocable to the fractional share and the amount of cash received.
- Commercial shareholders receiving First Defiance stock and cash will experience the following effects:
  - Gain, but not loss, will be recognized equal to the lesser of: (a) the amount of cash received in the merger; or (b) the amount, if any, by which the sum of the cash received and the fair market value of the First Defiance stock received exceeds the holder's adjusted tax basis in the Commercial shares exchanged in the merger. For this purpose, in computing the gain to be recognized on the exchange of Commercial common stock for First Defiance common stock and cash, the amount of cash considered to be received in the merger does not include cash received in lieu of fractional shares. Gain or loss should be calculated separately for each identifiable block of shares surrendered in the merger, and a loss realized on one block of shares may not be used to offset a gain realized on another block of shares.
  - The aggregate tax basis of the First Defiance shares received will equal the aggregate basis of Commercial shares exchanged (not counting the basis of any shares allocated to the receipt of fractional First Defiance shares), reduced by cash received in the merger (not counting cash received for fractional shares), and increased by any gain recognized in the exchange (not counting any gain on fractional shares). Generally, the tax basis is allocated to individual First Defiance shares received on a block-by-block basis. A pro rata portion of First Defiance stock and cash should be treated as received for each Commercial share surrendered. Since a whole number of First Defiance shares were not issued in exchange for each Commercial share, this could result in a single share of First Defiance stock having a split basis and a split holding period.
  - Commercial shareholders who received cash instead of a fractional share of First Defiance common stock will be treated as having received the fractional share in the merger and then as having exchanged the fractional share for cash. These holders will generally recognize gain or loss equal to the difference between the tax basis allocable to the fractional share and the amount of cash received.