FIRST DEFIANCE FINANCIAL CORP.
Annual Meeting
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WILLIAM SMALL: Good afternoon. The Annual Meeting of First Defiance Financial Corp. is now called to order. My name is William Small. I'm Chairman, President and CEO of First Defiance, and I will act as the presiding officer of the meeting today.

I'd like to welcome the stockholders who are present, and I assume everybody signed in as they came by the table on the registration list out there. If you did not, before you leave today, we'd really appreciate it if you would sign the register out there.

Before we start with the presentation, I'd like to do a few introductions. First off, to my right here at the table is Jim Rohrs, Executive Vice President, President and CEO of First Federal Bank. To my left is Don Hileman, Executive Vice President and CFO, Chief Financial Officer, of First Defiance. Directors with us today are Vice Chairman Steve Boomer, John Bookmyer, Dr. Douglas Burgei, Peter Diehl, Jean Hubbard, Dwain Metzger, Barbara Mitzel, Sam Strausbaugh, and Tom Voigt. Also, Jennifer Carey from our audit firm, Crowe Horwath, is with us, and Terri Abare, General Counsel for First Defiance, from Vorys, Sater, Seymour and Pease.

We're going to start off with a presentation, kind of an overview of 2009 and the start of 2010. We have to start every one of our presentations with our safe harbor statements. Just kind of a profile of First Defiance, our focus has been, and it has been since we were founded over 90 years ago, to be offering community financial services. We have consolidated assets as of March 31 of this year of $2.06 billion, and we operate with two separate business units — First Federal Bank of the Midwest, which has 33 banking offices and 45 ATMs throughout the three states that we're in now. We also offer trust and wealth management services through the bank. Our second business unit is First Insurance & Investments, and through that agency we offer pretty much a full line of insurance products, both on the property and casualty side, and group health and life insurance products as well. We have locations here in Defiance and Bowling Green with our First Insurance & Investments.

Kind of an overview of 2009, you can see here that it was a great year for us from a deposit gathering standpoint, as our deposits reached $1.6 billion, but probably the most significant part of the business in 2009, and certainly in the first half of 2009, was the mortgage business. We originated over $500 million in mortgage loans last year, and that was a new record for our company. We also throughout the year provided over $50 million in finance and new financing to local area farmers, and we continue to be a very strong ag lender throughout our entire market area.

We are now the largest community bank based in Northwest Ohio, and, you know, I think that's important from the standpoint that, you know, we're large enough that we can service virtually anybody's needs, but at the same time we can keep the decision-making close to home and offer true relationship banking, and you can see the growth that we've experienced, going from $1.53 billion at the end of 2006 up to our over $2 billion in assets at the end of March of this year.

Some of the other things in 2009, there certainly were a lot of challenges that we faced — the economy in general, the unemployment rate that went with that, a lot of regulatory challenges, and it seemed like every time you turned on the news, banks were getting kicked around pretty good in Washington, but I think that we stayed true to our basic conservative business plan. A few years back somebody referred to our business plan as being plain vanilla. I like to tell people that, you know, today I'm glad it's plain vanilla rather than tutti-frutti, because it, you know, I think, has been one of the reasons that we've been able to stay as solid as we have.

We did, in December — we did go under what's called a memorandum of understanding. This is an agreement with our primary regulator, who is the Office of Thrift Supervision, and it's considered — the memorandum is considered an informal enforcement action, and if you go to any of the regulatory websites, you will not see us listed because of the fact that it is informal. But the primary reason was in this economy they felt that, you know, the risk profile, they wanted us to put together a capital plan for them, a three-year capital plan that would show that — and we stress test everything as we went through that to make sure that if the economy continued in a — you know, a downward direction, that, you know, we had the capital to withstand it. There was no prescribed guidance. It wasn't that you have to be at X level by a given date or anything like that. It was just, you know, give us a capital plan that kind of, you know, lets us see where you — where you think you'll be in any of these cases. We did that. At this point we're well aligned with that capital plan, and, you know, we don't anticipate that that's going to create any issues for us. We continue to be — to build capital, and we continue to be well above the regulatory requirement of 10 percent total risk-based capital. Our risk-based capital is well in excess of 13 percent now.*

Our core operation, as I said before, I think that's one of the things that I have a lot of confidence in, is that the fundamentals are strong. Obviously that has not — you know, that's not translating into earnings at this point in time, and we're going to talk a lot about that throughout — later on here in the presentation. But the — certainly the credit quality has been the number one thing that has been the stumbler as far as improving the earnings. But I think that, you know, again, when you look at the core fundamentals, you look at — a lot of times the analysts will look at pre-provision, pre-tax performance, and in that way, on that measurement, we're doing very, very well, so I think that really bodes well for the future.

As far as asset quality trends, we've always thought that the best way to approach lending is from a conservative approach, and, you know, we've been able to do that and be successful at building our portfolio. Our asset quality metrics, while they are well below what we have operated at on a historic basis, relative to the industry, and that's both locally and nationally, we're performing very well, and just to give you a couple of indications of that, as of March 31 our loans that were 90 days or more past due were 1.39 percent. And I don't have — March 31 data is not out yet on the other banks, but as of December 31, our S&L is one of the agencies that produces a lot of the data and everything, and their peer group that they have established for us had 90-day plus loans at 3.75 [percent]. Our non-performing assets to total assets at 2.6 percent as of March 31 measure up against the peer group, which was at 3.39 percent.

So I think those are a couple of indicators that give you some feel for where we stand on a relative basis. Management is taking a very proactive approach in addressing the credit issues. This is a tough environment. You know, one of the — one of the saddest things, I think, is customers that you've had for — you know, that have been solid with you for ten years or better that really were brought down by this economy, and you knew that they were doing everything, we were doing everything to try to avoid some of those people going out of business, but unfortunately that could not be prevented in all cases. But, you know, I really do appreciate the hard work that our credit people have done in trying to make sure that we're making every effort to work with these people and keep everybody afloat as much as possible.

I think we're — hopefully we're finally starting to see the end of the stress on the economy. Some of the early indicators right now show that we're starting to get some improvement out there, and hopefully that's going to continue on.

Some of the things that we do from a credit quality management standpoint — first off, we’re an in-market lender. You're not going to — we don’t have loan offices in other cities outside of our market area. We don’t have offices in Cleveland, Columbus, Cincinnati, Indianapolis or Detroit. Everything that we do is basically in-market. If we’ve got a loan out of market — and we consider out of market anything outside of Ohio, Indiana and Michigan, but if we have a loan outside of market, it’s to an established customer that we have back here that we’ve worked with in a situation like that.

Our underwriting standards, as I mentioned before, are conservative. We have a very solid credit administration infrastructure that’s very active throughout the loan process, doing the analysis for us as we take a loan through the approval process, and we have an asset review committee that meets on a monthly basis to review all of our watch list loans, and this helps us assure that we have the ongoing monitoring. And our loan officers actually have relatively low individual loan authority. Most of them, those that came from larger banks, were used to having much larger individual authority. With us, we don’t give out large individual authority, but at the same time we promise and we have structured a program so that we can get a quick response so that we don’t bog down the system and keep the customer waiting.

Capital management, the dividend — I know many of you have been shareholders for, you know, probably from the outset, and we did — we suspended the dividend in the fourth quarter of 2009. That was a very, very tough decision for our Board to come to, but it was a prudent decision in the environment that we’re in right now. Capital preservation is very important, and we feel that — you know, I mentioned earlier that 10 percent risk base. We really anticipate that we’re going to see the regulators probably come through with higher capital standards in the not-too-distant future, and we want to make sure that we’re ahead of the curve instead of playing catch-up when that happens. We will continue to monitor this on a quarterly basis. We’re going to be looking at what our capital — as we monitor it, we’ll look at our capital position, we’ll look at our earnings forecast, and we’ll look at the overall economic forecast as we make the decision as to, you know, when we will reinstate the dividend.

We continue to be participants in the Capital Purchase Program. Many of you probably know that as TARP. We actually took down capital purchase funds in December of 2008. It was a very sound decision at the time that we made that decision. We still feel that it’s a very sound decision. Capital at that — at a 5 percent rate, that’s a great rate today for capital. Back then it was an unbelievable rate. Capital was unavailable, virtually totally unavailable, through any other sources at that point in history. There have been — you know, there's been some changes to the program. The changes impact compensation as much as anything else, and at this point in time we’ll continue to monitor what the government decides to do with the Capital Purchase Program. If they continue to put more constraints on it and put it in a position where we feel that it’s not going to be beneficial to our shareholders, then we will exit the program.

The last thing I want to talk about in the capital management, those of you that, you know, follow the SEC filings know that we filed a shelf registration in November of 2009. Basically what the shelf registration does is it puts us in a position that if we want to go out into the market s and raise capital, we are in a position to do that. We filed a registration at the $80 million level. That just sits on the shelf, basically, but what it does is it expedites the process tremendously if we decide to do a capital raise, whether that capital raise is to make another acquisition, whether it’s to pay back TARP funds, whatever the reason might be to raise additional capital, we’re ready to go once a decision would be made to do that.

So I know I had some phone calls right after that registration notice went out, wanting to know why we were, you know, offering $80 million or putting out $80 million in preferred stock. That is not what we were doing. The shelf registration allows us great flexibility as far as, you know, what type of equity offering we might want to do, and, again, we wanted to have all the flexibility in there that we could. The $80 million level, there's nothing magical about that. It isn't, you know — if we decide to move forward, that does not mean that we would be raising $80 million, but that's what we're eligible to go out and do, again, if and when we found that it might be the right time and the right decision.

With that, I'm going to turn it over to Don Hileman for a few minutes, and Don's going to talk about some of the financial results.

DON HILEMAN: Thanks, Bill. I'll spend a little time with some of the numbers and talk about, you know, the financial performance. All the detailed 2009 performance can be found in our Form 10-K, which was mailed out with the proxy statement. As Bill said, 2009 was a challenging year, and you can see we did have some improvement in the top line. Our net interest income improved up to $67 million in 2009 from $48 million — $49 million in 2007 and $62 million in 2008. So our top line revenue, the net interest income, has improved. That's one of our strengths.

As we talked about, asset quality has been the biggest driver and impact of our earnings. You can see the provision for loan loss, is basically the money we set aside from earnings that provides cushion for potential future losses, was $23 million in 2009, compared to $2 million in 2007. So you can see the credit cycle has dramatically impacted our earnings stream. We've offset a lot of that impact on the expense side with improved margin or net interest income, but clearly the bottom line was affected.

Our core earnings were $7 million for 2009, compared to $14 million in 2007 and $8 million in 2008. So even on a year-to-year basis, we improved about $11 million of additional expense, but our bottom line only dropped, you know, approximately $1 million in core income, so we were able to look at other ways to help offset some of that additional provision or credit quality expense. Some of those additional ways were controlling cost as far as salaries, benefits, staffing reductions. We closed two branches in the fourth quarter of 2009, relocated another one. On a run rate basis, that's saving us about $83,000 a quarter. So we're making a lot of the hard decisions, and people decisions are very difficult to make, but we think they're the right decisions in this economic environment, and they're decisions other companies are making as well.

So we're looking at ways to keep the core values of the company. Customer service is very important, making sure we have decision makers at the level of our customers, and we're not trying to do anything that affects that delivery system as far as staffing goes, but where we have opportunities, we're looking at those opportunities.

One of the other impacts that we had in 2009, and it's carrying forward when I talk about the first quarter of 2010, is the impact on credit costs, and credit costs are defined as basically the OREO cost. If we have additional write-downs in the properties that we take back through — in lieu of foreclosure or foreclosure, we have to maintain those properties. We have to pay the taxes and do the cleanup, keep those properties in good condition for us to sell them eventually, and those all — all those costs are expensive, and especially as we increase the level of OREO, those costs are going up, and that's impacting our bottom line performance.

First quarter — we had available first quarter press releases. We announced our earnings last night after the close of business. We had our earnings call with our analysts this morning at 11:00, so I wanted to present a couple of the highlights. Our net income was

12 cents per common share for the quarter. I think we performed a little bit better from a relative standpoint than we were — you know, not as well as we would have hoped, but still a very acceptable standpoint.

Provision for loan losses, again, was a major contributor to the overall results, at $6.9 million provision in the first quarter. That reflects the continued challenging credit environment, but we did see some improvements. We saw some improvements in non-accruals dropping in the first quarter. Non-accrual loans are the loans that we have that are nonperforming, that we don't record interest income from. Those are loans that basically are a zero earning asset. And then our overall classified loan totals, loans where we consider some type of potential problem in the collectibility of those loans, actually declined a little bit.

So we're not ready to declare, you know, that we've hit the peak, but it's some positive signs that maybe there's some stabilization in that trending, which would be a benefit as we move forward. We continue to see and expect some distress in the economy in the first half of the year. As we move forward, we expect that to be abated somewhat, but yet still a very challenging economy.

One of the things we've talked about in the past, and had a pretty major impact in 2009, is other-than-temporary impairment. The first quarter we had other-than-temporary impairment of $70,000, compared to $1.4 million last quarter, so we've, I think, definitely turned the corner in the amount of other-than-temporary impairment on our securities portfolio. This was investments in other banks and financial institutions that offered preferred stock. As those institutions have stress, they defer and default on those investments that we made in them, and when you look at all the banks that are failing, some of our pools of investments were in those banks.

A positive we had in the first quarter was net interest income increased by $1 million, or 6.5 percent, over the first quarter of 2009. We have a major focus and continue to focus on our ability to show good results in our net interest income and our margin, which is basically the spread we earn on our assets and liabilities. So that was a positive in the first quarter, and our margin was up 10 basis points from the first quarter of 2009 and basically flat. So overall a very solid first quarter.

Bill?

WILLIAM SMALL: Thanks, Don. Just to kind of wrap up and tell you what our focus is here as we proceed on through 2010, we have three items that are really at the top of our list as far as our focus this year — core deposit growth, asset quality, and expense control. All three of these are going to be really key not only to this year's performance, but setting us up for future years. Managing the regulatory environment is going to be very tough. We certainly see that the — you know, the regulators are operating under a much stricter set of rules and guidelines than they have in the past, and understandably so. The financial regulatory reform bill that is currently being bandied about in Washington, I believe the Senate — I know the House has passed their version of it. The Senate version is out of the Banking Committee and very well could go to the Senate floor yet this week. There are a number of things in there that cause us and the industry a lot of concern. One of those is the fact that they too often don't differentiate between Wall Street and Main Street.

We've implemented a performance management system that has clear line of sight targets. In other words, we want to make sure that every individual that works for this company knows what their job does to contribute to the bottom line, and if they understand that, we're going to be much better off, and we work hard to make sure that those targets are laid out in front of them, those metrics that they focus on, in order to make us a stronger company.

We work on developing a trusted advisor relationship with all of our customers throughout our entire footprint, and this, again, is very important. Relationship banking is a real differentiator for us, and if we can get in a position where our customers feel that we are their trusted advisor, again, that's going to be good for business, and that's one of the metrics that all of our employees are measured on. They have specific things that they know they need to do under the trusted advisor mantle and they work toward achieving those, and we want to promote the difference between a community bank and the larger banks. There is a defined difference.

I talked earlier about our deposit growth. I think that is one way that we really measure, you know, what our deposit performance has been against some of the larger banks. And it's not that we're out buying it. We are very disciplined on the pricing side of the — of the deposits and — but we've been able to be very, very successful in attracting a lot of business, and we know a lot of that is coming from the — from the larger regional banks. So that difference is definitely real and one that we really focus on.

With that, I would be happy to take any questions. Greg? Go ahead, Chuck.

CHUCK: As far as the dividend is concerned, what are the main criteria to determine whether we have another dividend?

WILLIAM SMALL: The question — I'm going to repeat it, just because this is being recorded, but the question is what are the — what is the main criteria for determining when we would go back to paying a common dividend? And, you know, number one is capital levels. We're going to, you know, keep a very close eye on — you know, on our capital performance, and it, you know, continues to be strong based on current measurements. Again, one of the concerns we have is that, you know, from a regulatory standpoint, there's a lot of anticipation that those limits are going to be raised relatively soon. You know, again, we feel that we're trying to stay ahead of the curve from that standpoint, and, also, capital is very, very important when you're in an environment where you have a lot of stress on the credit side of the business. So that would be number one.

We will continue to look at our earnings forecast and our earnings performance. You know, we need to make sure we return to more normalized levels of profitability, and we'll, you know, also weigh in on what the, you know, national and more localized economic forecasts are. So those are the — those are the things we look at, Chuck. Greg?

GREG: Bill, I guess I was kind of hoping maybe that loan loss provision wouldn't have been as high this quarter, and I guess you and Don both talked about the fact that the non-accrual and those overall statistics you look at with the loans were improved, so I guess how do you reconcile the fact you say they're improving with the fact that you still have a provision that's as high — almost as high as it was in any prior quarters?

WILLIAM SMALL: I'll tell you, that's — we have a pretty well-defined methodology as far as the way you have to calculate the provision, and a big factor in that is charge-offs. Charge-offs, while, you know, we firmly believe that in the migration process of asset quality problems the charge-offs are toward the back end, you know, the end of the distressed period, it still is a — it has to be a major factor in your — in our provision methodology, and that was the biggest driver in it this quarter. I'll let Don also respond on that.

DON HILEMAN: Well, a couple other things when we looked at that. Even though on a short-term basis some of those metrics were positive, we need to in our allowances anticipate what losses have occurred in the portfolio [unintelligible] for the life of those loans. So while, you know, we did have improvement, I'm not sure we're ready to say that's a trend and that level is sustainable indefinitely. So I think if we look at the next quarter and if those trends are still on an improving basis, you know, that will help mitigate somewhat that provision. But, you know, there's still a lot of uncertainty, and we have double-digit unemployment in all our communities right now. So to really, you know, put a firm footing that we have turned the corner on some of those credit issues, I think that provision kind of reflects [inaudible].

GREG: With the current quarter, do the losses in the current quarter really relate to loans that went bad in the current quarter, or would you say maybe in the prior quarter, the end of December, that you maybe could have been more aggressive in increasing your allowance and your provision at that time?

DON HILEMAN: Well, the issue of the provision relates to more of an anticipation of what we know.

GREG: I know it's subjective.

DON HILEMAN: Yeah. The charge-offs are more in line to things that we've actually got resolved and we've —

GREG: [Inaudible] allowance, I guess, is what I'm talking about.

DON HILEMAN: Yeah, the allowance, I think, is — you know, we have some new — not a lot of brand new credits that we provided for in this quarter. I think we increased reserves on several credits that we previously had an allowance or a specific reserve for, and we increased that in this quarter based on new information that we received in this quarter. You know, we look at what we have in the way of information at the end of every reporting period and make our best estimate, at that point in time, of what that loss is going to be. We look at the cash flows, we look at the collateral, you know, and try to say, okay, if we have to bring that property in and sell it, what are we going to get and compare that to our loan balance, in simple terms, and that shortfall is what we need to reserve for.

You know, in this quarter we had some additional information that really required us to provide more reserve for certain credits that we already had a certain reserve for. So I wouldn't say the trend has been we had a lot of new credits that just popped up the first time on the list. It's a little bit more distressed than some of the credits we've had there for a while. I don't know if that answered your question you had.

WILLIAM SMALL: Yes?

PAT: I have a question. Back years ago, didn't you have to have a certain percent down or somebody to back you if you were going to get a loan? But you just go to the bank today, just put your name down, and you get the loan automatically.

WILLIAM SMALL: The question is in regards to qualifying for a loan, and I think you're probably talking primarily about buying a home, a home mortgage loan?

PAT: [Inaudible] in case the loan failed.

WILLIAM SMALL: Yeah. The —

PAT: Like 20 percent of the money, or something like that.

WILLIAM SMALL: Right. Right. The question was, you know, what is the required down payment. Conventional loans, it is still 20 percent. There are — there are loan programs that accept lower down payments, but those are — those loans are insured with what is called private mortgage insurance. To be honest with you, the loans — the residential mortgage loans, while, yes, there is some stress on that part of the portfolio, overall they have performed relatively well, and, you know, we do not do subprime lending, never did and never will.

Most of the — most of the mortgage lending we do today, the residential mortgage lending, is we originate and then sell to Freddie Mac or Fannie Mae or the Federal Home Loan Bank, so most of those are not on our books. Now, does that mean that we're totally out from under them? No. If there was — if we failed in our underwriting and that loan goes bad, then we are still subject to a potential loss on it, but we work hard on our underwriting, and I think, Pat, we've been rated the top tier underwriter every quarter that — since we've been involved in it, so — but, you know, you're right from thinking from the standpoint that too many people got into loans that really should not have been. Can I say that that never happened here? I would like to think that, but, you know, I would be naïve if I said that that was the case, but that has not been — you know, subprime lending, again, was not — has never been part of our program.

DON HILEMAN: One of the things that's a little different about this credit cycle than some in the past is this dramatic decline in collateral values. So even though, you know, if somebody puts 20 percent down, collateral values are dropping 30 percent, and that collateral is worth a lot less for us when we take that additional 10 percent loss, where with that down payment, you would think you would have a 20 percent cushion. Well, that cushion in this credit cycle has gone away, which is a little bit different than in the prior cycles, where we had recessionary trends and values stayed a lot closer to the original values.

PAT: You know, I have a friend up at Lake James. I think you guys might have inherited the loan through maybe the Michigan bank, and he bought his property up there on Lake James. It was a brand new [inaudible], and he bought it for half of the appraised value, he claimed, of what it was worth, through First Federal Bank, you guys.

WILLIAM SMALL: Well, I guess my question would be, you know, when was that appraisal done, because as Don said, you know, appraised values have dropped tremendously over the last several years. Are we, you know — is that — you know, that certainly is a possibility that he bought it at a — got a very good buy on it. The last thing, you know — it's not in our best interest to hold onto that property. Don talked before about the cost involved with trying to continue to maintain properties like that, pay the taxes on it, keep it insured, and we've got to look at the time value of money, are we better off taking a loss on that property today or are we better off holding it for two more years and hoping the prices come back, and, you know, those are decisions that we have to make on a regular basis, and a lot of times it's better to make the decision to take the loss now.

CHUCK: Bill, this past week the *Crescent-News* had an article on personal bankruptcies on the rise in Ohio, and it said despite the 21 percent increase last year, Ohio fares better than many other states. My question to you is is First Federal going to anticipate that the number of bankruptcies that they have will be above 21 percent or below 21 percent — an approximate figure that you might be able to give us.

WILLIAM SMALL: You know, I don't project numbers on stuff like that, Chuck, but I will say this, that from the standpoint we — our amount of loans that are unsecured is extremely low, and that's where your exposure is. We don't — we have virtually no credit card portfolio. Consumer lending outside of real estate is extremely low, so — you know, even automobile loans, we do not have a very large portfolio there, so —and those are the — those are the categories that you get burned most often on from a bankruptcy standpoint.

Bankruptcies are much higher than we'd like to see them, and a lot of people have used bankruptcy as a way of stalling the foreclosure process. I mean, we'll get to — you know, to the day of the sale — the foreclosure sale and they'll file bankruptcy, and, you know, that sets us back, you know, depending on what jurisdiction, you know, anywhere from several months to sometimes a year, and that's — you know, it isn't, you know, necessarily a case of where it's going to automatically increase our loss, but, again, that time factor does impact us.

CHUCK: You would say, then, it will be less than 21 percent, and you didn't give us an approximate figure?

WILLIAM SMALL: No, I will not give an approximate figure, but I — you know, I think that the bankruptcies will stay at an elevated level this year. I think that, you know, when you look at the state of Ohio, I would expect that this part of Ohio will average less than it would statewide. I'll go that — I'll go out on a limb and say that. Write that down. Yes [unintelligible]?

MALE SPEAKER: As far as you mentioned acquisitions, are you currently actively seeking any acquisitions? And a related question. The acquisition of [unintelligible] was — did that contribute more to your loan losses than your present business before you acquired it?

WILLIAM SMALL: I'll answer them in reverse order. Yes, we — the situation up in Michigan is much tougher than it is here. From the standpoint of credit issues, I think we've done a pretty good job working through those, and, you know, our people are on top of it, but it did bring a, you know, higher percentage of credit problems than what we had on our books prior to the acquisition, and, you know, that — the State of Michigan gets a little bit complicated when it comes to foreclosures because of some quirks that they have in their system as far as reclamation periods and everything as to how soon, even after a foreclosure sale, that we're allowed to take control of the property. But, you know, it was — it has been a higher percentage up there than the core bank was, but, again, I think that, you know, we've done a good job. We've tried to [unintelligible] you know, as Don described, the provision process, where we go through and we look at these loans on an individual basis to evaluate potential losses and such, and I think we've done a good job up there of identifying those and reserving for them.

The answer to the first part of your question, if I said yes, I'd have I don't know how many employees in here attacking me right now. No, you know, we were on a very — back in 2002, those of you that were familiar with us, we sold the Leader Mortgage Company, a mortgage banking company that was based over in Cleveland, Ohio, which we had owned for four years or so, and we made the decision to — you know, to sell that. In hindsight, we were brilliant. I mean, you know, nobody could have predicted what was going to happen as far as the refinance business, and then following that with the collapse of the real estate market, and that was primarily a first time homebuyers' portfolio up there. But, anyway, we sold that. We needed to really be very actively looking for ways to redeploy that capital, and one of those ways was through acquisitions, and, you know, back then I was out basically pounding on doors, talking to banks. I think of the — of the four bank acquisitions we did, three of them we initiated the talks. They were not banks that were in play, so to speak, that had already made the decision, and, you know, it just — it worked out that, you know, we were able to do those.

Today, with the — you know, the environment we're in, we are not actively seeking them. To be honest with you, there's very, very little activity in mergers and acquisitions at this point in time, outside of FDIC-facilitated transactions, where they've got a problem bank and they're looking for someone to take that over. We did our investor conference call this morning and somebody asked us that question, you know, are you — are you actively seeking FDIC-assisted transactions, and we basically told him there aren't any institutions in our market area or contingent to our market area that — contiguous to our market area that we would — that are on the list, basically.

So, you know, that's good news for the area, obviously, and we have no — you know, I've seen banks that have — you know, from all over the country that have gone down and bought problem banks in Florida and Arizona. You know, that's just — that's not our business plan. You know, we're a Midwest, Ohio, Indiana, Michigan banking institution, and that's where we'll stay. So, you know, if, by chance, an FDIC transaction became available, we would — we owe it to ourselves and to our shareholders to take a look at it, but we are not actively seeking bank acquisitions at this time.

BRANDON: I gave you a little bit of time here, but — sorry. Did you guys get to run through any of those numbers on your percentage of non-performings that were under compliance or that were under contract and still paying as agreed?

WILLIAM SMALL: Yeah, Brandon was on our conference call this morning and asked us a question, and he wanted to know on our — our non-performings, how many of those are current.

BRANDON: Yeah.

WILLIAM SMALL: Yeah.

BRANDON: What we run into, at least in my business, a lot is, you know, you'll have $100 million in non-performing loans. $50 million of these loans would be people that are still paying on time, but because the collateral value dropped, the bank has to reserve against them, and I think that's something that probably the public doesn't see that often, and I'm always curious, you know, factoring what your reserve needs to be. If 50 percent of your non-performings are performing, then you're probably over-reserved.

WILLIAM SMALL: Since Jim danced around that on the phone today, I'm going to let him give you the answer. But he does have it.

JIM ROHRS: Yeah, I said I didn't have the number, but I thought it was a number of loans. We have about $40 million in non-performing loans, and $17 million of those, of that $40 million, is less than 90 days delinquent. $14 million of the $40 million is less than 30 days delinquent. So less than 30 days delinquent, about — a little over 34, almost 35 percent of our non-performings are paying current.

WILLIAM SMALL: Yes, Greg?

GREG: Is there a limited life to that shelf registration that you — is there a limited life to that shelf registration that you mentioned, that you need to do something within a year or some time frame that that expires, and, if so, would you, well —

WILLIAM SMALL: Would we — would we renew it?

GREG: Right.

MALE SPEAKER: It's unlimited?

WILLIAM SMALL: Unlimited?

MALE SPEAKER: The shelf registration life?

TERRI ABARE: Essentially.

WILLIAM SMALL: Okay. Yeah, it's —

MALE SPEAKER: Our counsel says essentially it's unlimited.

MALE SPEAKER: On foreclosed properties that you hold, if an investor wanted to invest, how do they approach the bank or whom do they approach about those properties?

WILLIAM SMALL: I think anybody would take a call. No, I — you know, if you have — if you have somebody that you work with at the bank right now, you know, you could certainly start with that individual, if you have somebody that, you know, you've dealt with on loans or on the deposit side, and they can — you know, we'll get you — get you started right away. Basically, our credit department — and I don't think — is Sue here? I didn't — I didn't see Sue. She's probably up making phone calls. But basically it's through our credit department, but anybody at the bank that you feel comfortable talking to would be more than happy to get you in touch with the right individual here.

MALE SPEAKER: A follow up to that—

WILLIAM SMALL: Yes.

CHUCK: —approximately how many foreclosed properties do you have that you would like to settle?

WILLIAM SMALL: All.

MALE SPEAKER: That's not acceptable. Approximately how many?

CHUCK: Approximately how many?

WILLIAM SMALL: Yeah, I'm not — you know, right here locally, I don't think there's very many. You know, we've had very, very few.

CHUCK: [Inaudible] 40, 50?

WILLIAM SMALL: Locally?

CHUCK: Yeah.

WILLIAM SMALL: Oh, I don't think there's ten.

MALE SPEAKER: No.

WILLIAM SMALL: I know there's not ten. I'm not sure there's five, so —

CHUCK: [Inaudible]

WILLIAM SMALL: Yeah. I didn't look at the — you know, we have a regular report that comes out, and occasionally I'll go through and just, you know, look at them on a — on a location basis, and, you know, we have very few. And I'm not talking just Defiance. I'm talking in Northwest Ohio; you know, in Defiance, Henry, Fulton, Williams County in particular, very, very few.

DON HILEMAN: Chuck, we have about $12 million in real estate owned.

WILLIAM SMALL: In total.

DON HILEMAN: I don't know what the number of properties are, but it's about $12 million. We've been adding to that and moving properties off of that, and we've been successful about the last three quarters, about $2 million a quarter that we've sold to investors and homeowners.

WILLIAM SMALL: That's a combination of homes and commercial real estate. That's not all homes.

MALE SPEAKER: As a follow-up to that, I've had realtors tell me that recently the properties that are going bankrupt are $100,000 properties or above, where previously it has been properties below $100,000. Are you finding that to be the case here?

WILLIAM SMALL: I don't — I don't know that we've seen any real change in any trend that — you know, not that I've recognized.

MALE SPEAKER: The real estate market is more active in the smaller end, primarily because of the first-time homebuyer program. A lot of people are buying their first home, so they're buying properties at the low end.

MALE SPEAKER: Do you anticipate that will be extended?

WILLIAM SMALL: The first time — no, I don't. I think it will — you know, ten days from now it's scheduled to expire, and I think it will. There's been very little — very little talk of it, you know, on a — you know, from the people that control that, as far as to expand it anymore, or extend it.

Any other questions? Okay. Well, if not, we will proceed with the business part of our meeting. The Board of Directors has appointed Terri Abare as Inspector of Elections, and all executed proxies and the list of stockholders have been turned over to the Inspector of Elections. John Boesling is the — acting as secretary of this meeting and Danny Norden [phonetic] is acting as our recording secretary. Mr. Boesling will now report on the notice of the annual meeting. John?

JOHN BOESLING: Thank you, Mr. Chairman. On or about March 19, 2010, notice of this annual meeting, together with a proxy statement, form of proxy and copy of the corporation's Annual Report for the fiscal year ended December 31, 2009, were mailed to stockholders of record as of March 5, 2010. I have submitted an affidavit verifying the mailing of these items. The Inspector of Elections will now report on the votes present at this —

TERRI ABARE: I'm sorry. There are 8,040,668 shares present in person or by proxy at this meeting.

WILLIAM SMALL: A quorum is present either by person or proxy, and this is a legal meeting called to transact the business set forth in the proxy statement and such other business as may come before the meeting. Would any stockholder or proxy holder who has not already done so give the Inspector of Elections his or her proxy for verification? Is there anybody that brought their proxy that wants to — there are three items to be considered at this meeting. Item one is to elect four directors for three-year terms. This item requires only a simple majority of the shares actually voted. The company bylaws provide for a classified Board, currently composed of eleven members. Therefore, four persons have been nominated for election for a three-year term expiring in the term — in the year 2013.

I now recognize Dr. Doug Burgei, who will present the slate set forth in the proxy statement. Doug?

DOUG BURGEI: Those persons nominated by the Board of Directors and the term of each is as follows: John L. Bookmyer, three years, expiring 2013; Stephen L. Boomer, three years, expiring 2013; Peter A. Diehl, three years, expiring 2013; William J. Small, three years, expiring

2013. I move that these individuals be elected to serve on the Board of Directors of First Defiance Financial Corp. for the term of years stated.

WILLIAM SMALL: Is there a second?

MALE SPEAKER: Second.

WILLIAM SMALL: [Inaudible] Item two is a nonbinding advisory vote required by the economic stimulus legislation passed by Congress and signed into law on February 17, 2009. Shareholders are asked to vote on the following resolution: Resolved that the shareholders approve the compensation of First Defiance's executives as named in the summary compensation table of the company's 2010 proxy statement, as described in the compensation discussion and analysis, the compensation tables, and the related disclosures contained on pages 14 through 30 in the proxy statement.

Item three is a vote to approve the adoption of the First Defiance 2010 Equity Incentive Plan. Shareholders are asked to vote on the following resolution: Resolved that the shareholders approve the adoption of First Defiance's 2010 Equity Incentive Plan, a copy of which is included as Annex A in the proxy statement. This item requires only a simple majority of the shares actually voted. There have been no other nominations or items submitted to First Defiance pursuant to its bylaws. Those bylaws require 30 days written notice prior to the annual meeting.

Are there any questions concerning any of the items on the ballot? If there are — if there are no questions, the items we put to a vote, and the polls are now open. Ballots are available to be distributed to any stockholder who will be voting in person today, so if you did not vote by proxy and you wanted to cast your vote at the meeting today, please raise your hand and we will make sure you get a ballot. So I'm assuming there are no other shares to be voted by proxy or in person, and if that is the case, Terri, do you have the results?

TERRI ABARE: We do. Let me start by — I need to correct my prior statement. The 8 million — the 8 million share number I gave was the number of shares entitled to vote at the meeting. Those actually present in person or by proxy was 6,190,531. Of those votes cast, the four nominees for directors were reelected. The proposal for approval of the company's executive compensation was approved by 92.7 percent of the votes cast on that issue, and the Equity Incentive Plan was approved by 89.5 percent of the votes cast at the meeting. So all three items passed.

WILLIAM SMALL: Thank you. There's no other official business to be brought before this meeting. Does anyone have any other questions before we adjourn? If not, thank you for attending — oh, I'm sorry.

MALE SPEAKER: One more.

MALE SPEAKER: I've got a comment.

WILLIAM SMALL: Sure.

MALE SPEAKER: You know, I know you guys are trying to do a good job.

WILLIAM SMALL: Can you hang on just a second?

MALE SPEAKER: You know, I know you guys are trying to do a good job, and I appreciate it —

WILLIAM SMALL: Thank you.

MALE SPEAKER: But, you know, I'm kind of disappointed, to tell you the truth. You know, I bought stock in First Defiance when you guys opened up [unintelligible] opened up — in the first — in a year, it split. Since that, then I bought the second time, and I've bought some since that, and, you know, when you buy stock at $10 a share and you look several years later and it's still running $10 or below a share a lot of the time, it's very disappointing to me, and you cut the dividends on the stock. A shareholder, you might just as well not — you just have — you have a person's money, but you get no — you don't reap any benefits off them.

WILLIAM SMALL: I understand your —

MALE SPEAKER: Huh?

WILLIAM SMALL: I'm sorry. Go ahead.

MALE SPEAKER: You know, like I said, I'm very disappointed. I just hope things will get better with First Defiance. Thank you.

WILLIAM SMALL: I appreciate your comments. I understand, you know, where you're coming from on it. None of us are pleased with the — you know, the performance. You know, I tell people I think we beat ourselves up a lot over it. I know it's — you know, it doesn't do anything to improve the stock price or the fact that a dividend is not being paid, you know, to look at performance against others in the industry. You know, we will continue to work hard. We certainly have the shareholders in mind. We all have a vested interest in this. Executive management, Board members all have a vested interest in this also, and, you know, the only way we're going to benefit is if we get the stock price up and if we start paying a dividend again. So I understand what you're saying. I wish — you know, I wish I could stand here and give you results of a better performance. And, again, I feel good about the future. I think that, you know, the company is operating with a good business plan, and, you know, we are certainly looking for better days ahead also.

MALE SPEAKER: According to the Annual Report, I see that executive officers in some cases took a pay cut. As far as the rank and file employees are concerned, how about compensation for them? Was it increased, decreased or remains the same?

WILLIAM SMALL: Base pay, none of us got an increase in base pay at the executive level, and throughout the organization we basically went with a — with no pay increase this year. Now, there are some instances where some individuals, because they were well below the scale for their jobs, but none of that was at the, you know, senior VP level and above.

Okay. Well, thank you very much for attending the meeting. The executive officers and directors will be available if you have any further questions or want to talk. If there's cookies left, help yourself to those. And thank you very much, and we hope to see you all next year.