



FIRST DEFIANCE
FINANCIAL CORP.

2011
ANNUAL
REPORT

Company Profile



First Defiance Financial Corp., headquartered in Defiance, Ohio, is the holding company for First Federal Bank of the Midwest and First Insurance Group. First Federal Bank operates 33 full service branches and 44 ATMs in northwest Ohio, southeast Michigan and in Fort Wayne, Indiana. First Insurance Group is a full-service insurance agency with six offices throughout northwest Ohio.

Founded in the 1920s 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 better reflect our community banking business strategy.

Since 2003, First Defiance has acquired three banking offices, opened five de novo offices, acquired three insurance agencies and completed acquisitions of ComBanc, Inc. based in Delphos, Ohio; Genoa Savings and Loan based in Genoa, Ohio; and Pavilion Bancorp, based in Adrian, Michigan.

Safe Harbor Statement

Statements contained in this Annual Report may not be based on historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21B of the Securities Act of 1934, as amended. Actual results could vary materially depending on risks and uncertainties inherent in general and local banking and insurance conditions, competitive factors specific to markets in which the Company and its subsidiaries operate, future interest rate levels, legislative and regulatory decisions or capital market conditions. The Company assumes no responsibility to update this information. For more details, please refer to the Company's SEC filings, including its most recent Annual Report on Form 10-K and quarterly reports on Form 10-Q.



Financial Highlights

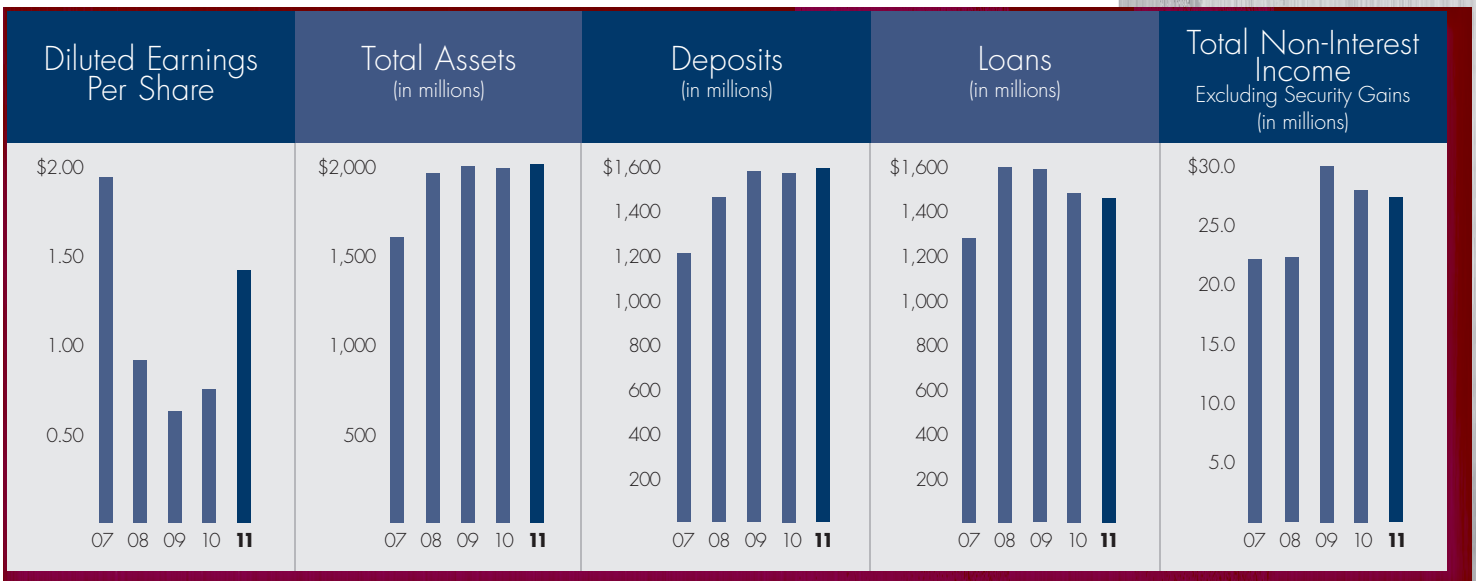
(Dollars in thousands, except per share amounts)

Summary of Operating Results	2011	2010	% Change
Net interest income	\$ 69,881	\$ 70,163	(0.4%)
Provision for loan losses	12,434	23,177	(46.4%)
Non-interest income (excluding securities gains/losses)	27,300	27,929	(2.3%)
Securities gains (losses)	216	(339)	163.7%
Non-interest expense	62,530	63,400	(1.4%)
Net income	15,534	8,108	91.6%
Dividends accrued on preferred shares	(1,850)	(1,850)	—
Accretion on preferred shares	(178)	(170)	(4.7%)
Net income applicable to common shares	13,506	6,088	121.8%

Balance Sheet Data	2011	2010	% Change
Total assets	\$ 2,068,190	\$ 2,035,517	1.6%
Loans, net	1,453,822	1,478,423	(1.7%)
Deposits	1,596,241	1,575,419	1.3%
Stockholders' equity	278,127	240,331	15.7%
Allowance for loan losses	33,254	41,080	(19.1%)

Share Information	2011	2010	% Change
Basic earnings per common share	\$ 1.44	\$ 0.75	92.0%
Diluted earnings per common share	1.42	0.75	89.3%
Dividends per common share	0.05	—	—
Tangible book value per common share	17.78	17.16	3.6%
Shares outstanding at end of period	9,726	8,118	19.8%

Key Ratios	2011	2010	% Change
Average net interest margin	3.88%	3.89%	(.3%)
Return on average assets	0.75%	0.39%	92.3%
Return on average equity	5.89%	3.40%	73.2%
Efficiency ratio	63.62%	63.89%	(0.4%)



To Our Shareholders



William J. Small
Chairman, President & CEO

Early in 2011, I told our employees that it finally felt like we were playing offense again after having the defense on the field for the better part of three years. Nationally, the economic indicators were beginning to look positive and throughout our markets we were seeing signs of increased business activity. At First Defiance, we made considerable progress in getting back to more typical operating conditions. Just as we started to enjoy that early year momentum, several disruptions started to present challenges to the national economy. The spring and early summer months were dominated with Congress squabbling over the debt ceiling. From midyear on, we dealt with the overhang of the European financial crisis; and at the end of 2011, Congress again had everything in flux with the payroll tax reduction issue. Because of these events, businesses and consumers were constantly trying to determine the true direction and strength of an economic recovery. With all of this economic “noise” surrounding us, we continued to stay on offense; but it was more like three yards and a cloud of dust, rather than a wide open attack.

Washington, as is often the case, seemed to be the epicenter of the primary influences on the economy and public sentiment in 2011. The Federal Reserve made it clear early in the year that interest rates would possibly be maintained at their historically low levels into 2014. Rates at these levels challenge interest rate margins and significantly reduce investment returns for both businesses and consumers. Even with rates at these low levels, loan demand was soft most of the year. Businesses reduced balances on existing credits as they took advantage of their liquidity to reduce debt. With limited consumer demand and an uncertain operating environment, businesses were not inclined to make capital investments; and therefore, were not borrowing at previous levels. On the consumer side, home purchases remained slow as the housing sector continued to struggle. However, we did have fairly robust single family mortgage loan demand throughout the second

2011

half of 2011, as the low rates encouraged many people to refinance their existing mortgages and, in many cases, reduce the term of their mortgage to 15 years or less.

Along with the improvement in the economy during 2011, First Defiance saw definite improvement in credit related performance.

Provision expense, representing reserves that are set aside to protect against potential future loan losses, dropped 46.4% in 2011 over the prior year. This reduction was a significant factor in the improved earnings performance in 2011 over 2010.

Expenses related to collection efforts and other real estate owned also dropped substantially year over year as asset quality improved and property values stabilized.

The regulatory side of our business was another area of significant change during the past year. The Dodd-Frank Financial Reform and Consumer Protection Act that was passed in July 2010 had many of its sections take effect in 2011. Most notable for us was the change in primary regulators. Our former regulator, the Office of Thrift Supervision was phased out and replaced by the Federal Reserve as the regulator of First Defiance, and the Office of the Comptroller of the Currency (OCC) as the primary regulator of First Federal Bank. We worked with both entities throughout the first half of the year to familiarize ourselves with their approach to regulation and examination prior to the change in July. We feel the transition between regulators has gone well. There are still a number of additional sections of Dodd-Frank that are yet to be finalized, and several of these are sure to have some impact on our future operations.

Several positive events took place throughout the past year. Most notable was the decision to pay a common dividend to our shareholders. At the end of 2009, we suspended common dividends as a means to preserve capital as the recession worsened. The Board continued to assess our dividend position on a quarterly basis and made the decision to pay a five cent per share dividend in the fourth quarter of 2011. We will continue to prudently review our capital position, in light of the economic environment,

the challenges with the right game plan. I believe we have that plan in place."

as we evaluate future dividend decisions. Also in 2011, we acquired the Payak-Dubbs Insurance Agency located in Maumee, Ohio. This acquisition continues to build and strengthen our insurance business unit, which has become an important source of non-interest income for First Defiance.

As we move into 2012, I believe First Defiance is well positioned to build for the future. There are still a number of factors that weigh on the pace of recovery for the economy. Businesses continue to take a cautious approach to capital investment and expansion as they remain wary of the economic and regulatory environment. Housing will continue to be a drag on the recovery as prices stay suppressed and inventories stay high. Both of these issues may have a dampening effect on significant loan

growth. Also, the fact that 2012 is a presidential election year will create additional disturbance with campaign rhetoric creating concerns as to the future of taxes and federal regulations. The banking industry will continue to closely monitor the regulatory front as the Dodd-Frank legislation continues to unfold through additional required regulations for financial services.

Even in light of these challenges, First Defiance has an established strategy that has brought us through the recession and positioned us

for future success. While we saw significant improvement in credit quality during the past year, we see room for additional growth. The interest rate environment will continue to challenge the net interest margin, but if we are able to maintain our momentum with additional loan growth, it should help offset the

impact on net interest income. The challenges will always be there in this, or any other industry, the key is being prepared to meet the challenges with the right game plan. I believe we have that plan in place.

As always, we remain committed to all of our stakeholders – shareholders, employees, and clients – and appreciate their trust and commitment in us as we work to grow the company to benefit everyone. Thank you for your interest in First Defiance Financial Corp.

Sincerely,

William J. Small
Chairman, President & CEO

First Defiance Financial Corp. Board of Directors

William J. Small
Chairman, President &
Chief Executive Officer
First Defiance Financial Corp.
1, 7, 8 & 9

Stephen L. Boomer
Vice Chairman & Lead Director
First Defiance Financial Corp.
President &
Chief Executive Officer
Arps Dairy, Inc.
Defiance, Ohio
1, 2, 3, 4, 6, 8 & 9

John L. Bookmyer
Chief Executive Officer
Pain Management Group
Findlay, Ohio
2, 3 & 7

Douglas A. Burgei, D.V.M.
Veterinarian
Napoleon, Ohio
5, 6 & 7

Peter A. Diehl
Retired Business Owner
Defiance, Ohio
2, 4, 5 & 6

Jean A. Hubbard
Business Manager &
Corporate Treasurer
The Hubbard Company
Defiance, Ohio
2, 3 & 6

Dwain I. Metzger
Farmer
Elida, Ohio
4 & 5

Barbara A. Mitzel
Area Manager
Consumers Energy
Adrian, Michigan
4, 5 & 7

James L. Rohrs
President &
Chief Executive Officer
First Federal Bank
Executive Vice President
First Defiance Financial Corp.
1, 7 & 9

Samuel S. Strausbaugh
Chairman,
Chief Executive Officer
& Chief Financial Officer
JB & Company, Inc.
Tiffin, Ohio
2, 3, 6 & 9

Thomas A. Voigt
Vice President &
General Manager
Bryan Publishing Company
Bryan, Ohio
3, 4 & 5

Key For Board of Directors:

1. Executive Committee
2. Audit Committee
3. Compensation Committee
4. Corporate Governance Committee
5. Strategic Planning
6. Succession Planning
7. Investment Committee
8. Trust Committee
9. First Insurance Group Board

First Insurance Group, Inc. Corporate Officers

Donald P. Hileman
Chief Executive Officer

Kenneth G. Keller
Executive Vice President
Group Health & Life

Lawrence H. Woods
Executive Vice President
Property & Casualty

Marvin K. Dubbs, Jr.
Executive Vice President
Property & Casualty

John Payak, III
Executive Vice President
Property & Casualty

First Defiance Financial Corp. Corporate Officers

William J. Small
Chairman, President &
Chief Executive Officer

James L. Rohrs
Executive Vice President

Donald P. Hileman
Executive Vice President,
Chief Financial Officer

John W. Boesling
Senior Vice President,
Secretary

Richard Mitsdarfer
Senior Vice President,
Risk Management

First Federal Bank of the Midwest Corporate Officers

William J. Small
Chairman

James L. Rohrs
President &
Chief Executive Officer

Donald P. Hileman
Executive Vice President,
Chief Financial Officer

Dennis E. Rose, Jr.
Executive Vice President,
Chief Operations Officer

Michael D. Mulford
Executive Vice President,
Chief Credit Officer

Gregory R. Allen
Executive Vice President,
Southern Market Area
President

Timothy K. Harris
Executive Vice President,
Eastern Market Area
President

Jeffrey D. Vereecke
Executive Vice President,
Northern Market Area
President

James R. Williams
Executive Vice President,
Western Market Area
President

Brent L. Beard
Senior Vice President,
Controller

John W. Boesling
Senior Vice President,
Secretary

Philip R. Bundy
Senior Vice President,
Fort Wayne Market Executive

Lisa R. Christy
Senior Vice President,
Trust Advisor

Patricia A. Cooper
Senior Vice President,
Bank Secrecy,
Fraud & Security

David L. Kondas
Senior Vice President,
Wealth Management

Kathleen A. Miller
Senior Vice President,
Information Technology

Richard J. Mitsdarfer
Senior Vice President,
Risk Management

Linda R. Moening
Senior Vice President,
Deposit Operations

Eric A. Morman
Senior Vice President,
Commercial Lending

Randall L. Rice
Senior Vice President,
Senior Credit Officer

Marybeth Shunck
Senior Vice President,
Retail Administration

Martha J. Woelke
Senior Vice President,
Residential Lending

Shareholders Information

Annual Meeting

The Annual Meeting of Shareholders of First Defiance Financial Corp. will be held on Tuesday, April 24, 2012 at 2:00 p.m. in the basement 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 Investor Relations at the corporate office, 419-782-5104.

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.rtc.com

Securities Listing

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

As of March 2, 2012, there were approximately 2,205 stockholders of record and 9,726,454 shares outstanding.

Price Range

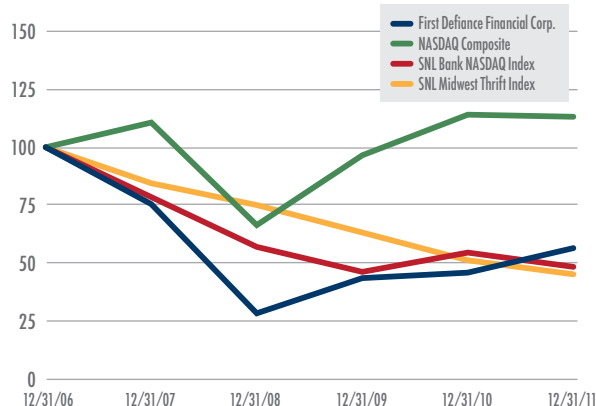
Year Ended December 31, 2011

	High	Low
First Quarter	\$ 14.64	\$ 11.89
Second Quarter	\$ 15.00	\$ 13.22
Third Quarter	\$ 15.51	\$ 12.60
Fourth Quarter	\$ 15.39	\$ 13.00

Year Ended December 31, 2010

	High	Low
First Quarter	\$ 12.33	\$ 9.20
Second Quarter	\$ 14.85	\$ 8.53
Third Quarter	\$ 10.63	\$ 8.55
Fourth Quarter	\$ 12.32	\$ 9.94

Total Return Performance



Dividends Policy

The First Defiance Financial Corp. Board reviews and determines on a quarterly basis whether to declare dividends. Dividends declared in 2011 totalled \$.05 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 Horwath LLP
330 East Jefferson Boulevard
South Bend, Indiana 46624

General Counsel

Vorys, Sater, Seymour & Pease LLP
221 East Fourth Street
Suite 2000 Atrium Two
Cincinnati, Ohio 45202



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FINANCIAL CORP.**

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GROUP**

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