First Defiance Financial Corp
“Annual Shareholder Meeting”

Tuesday, April 21, 2009
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James L. Rohrs
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WILLIAM SMALL: Well, good afternoon. The Annual Meeting of First Defiance Financial Corp is now called to order. My name is William Small. I am Chairman, President and CEO of First Defiance and I am going to act as the presiding officer for this meeting and I would like to welcome all of our stockholders, those of you I know a number of you have driven down from Southeast Michigan to join us today. We certainly appreciate you making the trip and we are glad it's not nice enough outside for people to be out playing golf or working in the yards so they could join us here today.

Before I start I am going to explain that I am battling spring allergies and if my voice goes out I've got any number of volunteers who will step forward and finish the program for me I think.

I'd like to begin with a few introductions. First off, to my left, this afternoon Jim Rohrs, Executive Vice President of First Defiance and President and CEO of First Federal Bank and Don Hileman, Executive Vice President of First Defiance and Chief Financial Officer. And, I know many of you that have been here for our past meetings know Jack Wahl. I know many of you consider Jack a close friend. I think most of you probably are aware through different releases that we put out, six months ago, yesterday, Jack had a stroke and he is making very good recovery. We are very, very pleased with that. He is coming in the office now, couple days a week and it's great to see him up and around and we certainly look forward to the day that he is back in the office everyday. But…and spending a lot of time talking with Jack and his family and his doctors we made the decision and took action last month to name Don Hileman as our new CFO, again fully expecting that Jack is going to back with us in some capacity and the sooner the better. He is a great guy.

Also with us this afternoon seated up here in front are Members of our Board of Directors. First off, our Vice Chairman, Steve Boomer, John Bookmyer, Dr. Doug Burgei, Peter Diehl, Jean Hubbard, Barbara Mitzel, Dwain Metzger, Sam Strausbaugh and Tom Voigt. And I would also like to acknowledge Jerry Monnin. Jerry had been a Member of our Board for a number of years and Jerry retired as of the end of December 2008. So we certainly appreciate his years of service for the company. Also joining us today from our audit firm Crowe Horwath is Greg McClure and our Legal Counsel from Vorys**,** Sater**,** Seymour and Pease, Terri Abare.

We would like to begin the presentation here this afternoon with kind of an overview of the company, a look at our recent performance and give you a little bit of an indication of what we see ahead. Anytime we do a presentation like this we are always required and especially when our Attorney is present to show our "Safe Harbor" statement.

Just a kind of a profile of First Defiance. We have a single focus within the company and that's to offer community financial services. Today we do that through our organization that has now exceeded 2 billion in assets as of the end of the first quarter of this year and we do offer those services through two distinct business units the first, of course, First Federal Bank of the Midwest, 35 offices now, 47 ATM locations and we have offices in three states, of course, are based here in Ohio where we've operated since 1920 and we moved into Fort Wayne, Indiana in August of 2007 and then the acquisition of Pavilion Bancorp up in Adrian, Michigan that we closed March 14th of last year.

Our second business unit is First Insurance and Investments and with this…through this we offer a full line of insurance products and we have locations in Defiance where our original two acquisitions into the insurance business were here in Defiance and then in March of '07 we followed that up with an acquisition of an agency in Bowling Green, Ohio.

As far as recent growth initiatives, I mentioned the acquisition of Pavilion and I am going to…I will go into a little bit more detail on that later on in the presentation, but they gave us eight new offices in Southeast Michigan and we just celebrated our first anniversary of that acquisition last month. The offices in Fort Wayne in August of '07 and one in Glandorf, Ohio for, you know, those of you that are very familiar with Northwest Ohio, know that that's located very close to Ottawa where we had a very strong…have a very strong presence within the office and took advantage of that strong presence and expanded it by opening the office in Glandorf in February of last year and both of these offices have exceeded our original projections.

The Insurance acquisition I mentioned before, The Huber, Harger, Welt & Smith Agency, a very, very strong agency in Bowling Green, that acquisition was done in March of 2007. So the combination of our organic growth and these acquisitions we've had growth in assets between 12/31/2006 and 12/31/2008 of just over $400 million.

This is a map of our market area. Quite often, when we are out doing presentations outside of Northwest Ohio, the Southeast Michigan, Northeast Indiana area people look at this and they say were you in the heart of the hardest hit economic region in the country? We certainly know those statistics, but we also know that it's made up of good hardworking people and even in times like this there are good business opportunities that are looking for good banking relationship and that's where we try to base our whole operation. We feel there is a very good mix as far as business is concerned in this region industrial, small business and a very strong agricultural area.

We have been able to…over the years we have been operating up here; we have been able to develop a very strong market share. We hold the top position either the 1 or 2 position in most of our mature markets and we are continuing to grow on a relatively rapid basis in many of our newer market areas both in Banking and Insurance.

I think we've, you know, part of the reason we have been able to do that is our positive reputation. Any one of the communities where we have offices, and if you go out to community events, you are going to see First Federal, First Insurance people that are actively involved in what's going on in those community events and we really stress that and our people are very open to it and really respond to that.

As a result of all this growth, we've become the largest community bank in Northwest Ohio which allows us to offer a full array of products. We are able to service both large and small credit needs and we are able to do that and still maintain a high touch relationship approach to our business. We think that's really important. I had…I did a presentation up in Toledo a month or so ago and somebody asked me, they said, you know, is that important to be the largest community bank in Northwest Ohio? And, I think it is important because, you know, we are able to, you know, still maintain the way we have structured ourselves, the ability to keep the decision making close to the client so that, you know, we are not sending off loans to Columbus, or Cleveland or Cincinnati to be decisioned like the larger banks do and by doing that we are able to respond to our customers and stand top of their needs and, you know, I think that is very, very important combined with the fact that because of our size, there is very few credits in this area that we cannot handle if they are larger than what our lending limits allow, we have been able to build a successful group of participating banks to work with us on those projects.

2008, I don't have to tell you that it was an extremely tough year. That was a profitable year for us but it was not up to our historical performance. Some banks fared better but many of them fared a lot worse. I think the one thing that we felt was really important was the fact that we stuck with our community financial services business plan. When you get into difficult economic times, sometimes it's easy to start straying from plans like that but I think that by maintaining our conservative fundamental approach it's, you know, allowed us to weather this as well as we have through these tough economic times.

Our core fundamentals I think are very strong. We had excellent loan and deposit growth throughout 2008. Our net interest margin, which is so key to our overall performance maintained very strong. Our non-interest income continued to grow and our expenses were under control and especially when you net out the one-time acquisition charges related to the Pavillion transaction, we did a very good job on expense control last year.

But we had a lot of challenges in 2008. Our provision for loan losses last year was $12.6 million. The year before, in 2007, that provision was $2.3 million and this is the money we set aside to protect against any losses, potential losses in our loan portfolio when you get into economic times like this and you expect that provision to go up.

We also had what is referred to or is called other than temporary impairment on some of our investment securities. You know, this is something that from an accounting standpoint for years nobody had to worry about but you get into markets like we are in now and all of a sudden, you have to start writing down and take permanent charges against some of your investments and our other than temporary impairment last year and this is a non-recoverable charge, was $2.6 million.

Mortgage servicing rate impairment is a…that's nothing more than a factor of what's happening to the interest rate market. We service over $1.1 billion in mortgage loans and that's those…those loans or the servicing of those loans has an economic value. When interest rates drop, the value of those servicing rights drops also and you have to mark that valuation down based on that. In the fourth quarter alone that was a $2.7 million charge that we had to take.

Now, the good thing about mortgage servicing rate impairment is that that's recoverable and it's recoverable in a couple of different ways. First off, you can recover if interest rates start back up then the value of that portfolio goes up and you get to mark it back to that level or you take part in the refinancing that usually comes along with lower interest rates and rebuild your loan portfolio and have it revalued that way and without a doubt that's kind of been the way that things have been going for us. In the first three months of this year, we originated $160 million in mortgage loans and to put that in perspective that was more than we did in all of 2007 and it's also in 2008, which was a fairly decent year for us in the mortgage business, it's…we are already I think at 76% of our 2008 origination level. So my hats off to all of our mortgage lenders, all of our processors and everybody else that has to try to keep them sane during a busy time like this. So, the mortgage servicing rate impairment, even though, you know, it was a hit that, you know, we have no control over that hit in the fourth quarter, we certainly expect that, you know, we are going to get back on track with that.

And the bad thing about this is, these challenges don't disappear just because we turned the calendar from 2008 to 2009, it doesn't mean that they are all in the past. So we will continue to evaluate those and assess those on a quarter-by-quarter basis as we are required to do.

The Pavillion acquisition was our first entry north of Ohio as we moved into Lenawee and Hillsdale Counties in Michigan. The Bank of Lenawee has offices up there. We made that acquisition; we I think signed the agreement back in October of 2007, closed down it in March of 2008 and we had good reasons to pursue that acquisition and those reasons still exist today. Obviously from a geographic standpoint, it was contiguous to our market area. I think we had offices within probably 10 to 12 miles of each other already. The philosophy that that bank operated under was very, very similar to ours. They were firm believers in relationship banking and did a very good job at it. Their mortgage lending business…some of our, you know, we are just absolutely amazed when you look at the distress that South East Michigan and the State of Michigan is under right now, absolutely amazed at the mortgage volume that we are able to churn out of there. So we were certainly excited about that and then agricultural lending, that I think is probably the single biggest segment in the Bank of Lenawee portfolio, was their Ag lending and again that was a great fit for us.

I am very, very pleased with the progress we've made up there in one year. We continue to not only deepen relationships with existing customers but we've been able to attract some great new relationships both on the loan side, the deposit side and through our Trust and Wealth Management areas. We've been very successful up there and I think probably much to the surprise of some of our competitors. But that doesn't bother us.

The other…the last thing I want to touch on as far as 2008 was concerned was our decision to participate in the capital purchase program with the US Treasury. This is, I think a program that is misunderstood by many and I think that misunderstanding probably has its roots in the fact that it's a program that actually came out of the Troubled Asset Relief Program or TARP. CPP is not a bailout program as some of the other TARP programs are but it's an investment by the government in well capitalized banks that was set up to help spur lending. Our Federal regulator, the Office of Thrift Supervision actually called us; I think it was like three days after this program was announced and we had already…the day it was announced, we already had started to do an analysis to see whether it was a program that we felt would be worthwhile to participate in. We got a call from our Federal Regulator urging us to participate and to play a lead role in the program. That was not our decision maker; our decision maker was whether or not we felt that it will deliver value to our shareholders. We firmly believe that.

We did a very…as I said a very detailed analysis under the program and we could have taken up to $51 million. After running all of our different scenarios we determined that the right number for us was $37 million. Our Board was very involved in the decision working with different advisors that we used to help us run through all the different analysis and we are still pleased with that decision today. We certainly realize that it seems to be in vogue for banks to announce that they are going to get out of TARP, out of the CPP as quickly as they can but in talking with, you know, my executive team, talking with the Board, I told them, you know, when you go back to the analysis we did last fall, roughly six months ago and what has changed since then? The only thing that really has definitely changed since then is that the government has gotten a little bit more involved, but their involvement basically is additional restrictions on compensation. Beyond that there is nothing that we see that the government has done that should change our decision to stay with the CPP Program. Everything that we ran through the analysis is still true today and, you know, we will continue to review and analyze it but at this point in time, I don't, you know, I don't see us making any near-term decision to exit the Capital Purchase Program.

With that, I am going to turn the program over to Don Hileman, our CFO and Don is going to give you a little bit of the financial data through 2008, the first quarter of 2009.

DONALD HILEMAN: Thank you, Bill. I just want to spend a few minutes kind of covering some of the highlights of the financial position for the year 2008 compared to 2007. We had a very strong growth in our net interest income. We ended the year at $62 million compared to $47 million in 2007. A lot of that growth was combined both from the acquisition standpoint but also a tremendous amount of core growth through increased relationships and pricing strategy on both the asset and liability side that led us to improve our net interest income.

As Bill mentioned, one of the main dramatic issues that we have was the change in our provision for loan loss in 2008 and 2007. Clearly, the economic environment and the credit quality, you know, was a major player. We ended up with $12.6 million of provision compared to $2.3 million in 2007. So, I'd say, if you want to look at one main driver of what, you know, the biggest change in our earning stream and the bottom-line for First Federal was our provision.

Core net income, Core is basically defined; we exclude the acquisition charges and look at on a run rate operating basis, on a core basis. So from a core income standpoint, we had $7.9 million compared to $13.9 million in the year before. Core net income per share was a $1 compared to $1.94 was still strong pretty positive numbers and we saw some momentum carrying this forward on a core basis at the end of the fourth quarter and carried over into the first quarter of 2009.

Our equity numbers, 4.23 compared to 8.5 and still a positive return on assets of 0.44 compared to 0.90. So, 2008, you know, was as challenging year. We did see balance sheet growth from both a core prospective and an acquisition perspective. We saw improvements in our fee income. We saw improvements in our ability to generate additional client relationships. It was a very positive aspect for us, especially in a trying environment. We felt that customers wanted to bank with us. They wanted to use our products and we were very successful at that and I think that's going to help us as we go through continuously challenging environment with that credit quality.

We did release our first quarter results last night. The press release is available, I believe out at the table as you came in, for those who didn't pick those up. We were pretty pleased with our overall results in the first quarter. We made $3.4 million or $0.36 per common share that was driven by several different factors. Our Mortgage Banking is, as Bill said, we had a record first quarter in production. We had $2.8 million gain on sale of loans in the first quarter compared to 1.1 previous year's quarter. So, we were very positive in that and took advantages of the challenges there.

Provision for loan losses at $2.7 million still reflects higher than we've traditionally had, lower than the fourth quarter. Which was at $3.8 million, but still a challenge and as we look at where we are going to be positioned in the future, we still look at credit quality as a challenge for us from an earnings perspective. Bill kind of outlined what other than temporary impairment was. We had 672,000 write-down of some of our trust preferreds in the first quarter that put some downward pressure on our earnings which was also by net interest income increase of $2.4 million or 18% over the first quarter of 2008. So, we are moving in the direction with our income streams, little bit pressured by the credit quality right now.

And the last bit of comment is net interest margin was basically flat and we are continuing to look at opportunities to improve our margin and the margin is the difference between the yield under assets and yield under liabilities and deposits. You know, in this environment we continue to see if we can lower our deposits, it affects all of you as depositors, but when we look at where we want to be from a shareholder standpoint, we are also seeing some downward pressure on our asset side in this low interest rate interest environment. We need to try to maintain our margin by being disciplined in the market priced and that will help us going forward. So, with that, Bill?

WILLIAM SMALL: Thanks Don. As we move into 2009, have the first quarter behind us and as Don said, you know, relatively respectable performance in the first quarter. Our focus for the balance of the year is to continue to work on the integration of Pavilion.

Again, we are just very, very pleased with what we've been able to do so far. We picked up some very good people as part of that acquisition, people again, that were use to operating under the same type of business philosophy that we always try to operate under and that certainly makes the integration and the transition a lot smoother.

Our primary focuses are going to be on asset quality, obviously in times like this you've got to devote additional resources to that and I can assure you that Jim and his people in the credit area and the lending area are certainly doing that. Expense control will continue to be a focus. We have an expense control taskforce that is actively working on ways that we can help the bottom line from that side. And then, we are going to continue to stay focused on core deposit growth, checking accounts are really to key to us. If we can continue to build non-interest bearing deposit accounts that's going to be a big, big help for us to continue with a strong net interest margin.

We think organic growth is definitely going to be there for us. We did see a decline in loans in the first quarter, but we also saw in the first quarter that that business started to pick up in the month of March, has continued strong here early in April and we just think there are going to be a lot opportunities. We're seeing what and we sometime refer to as flight to quality. Again, I think the reputation we have built is helping us get opportunities to develop relationships with customers that we've kind of had our eye on for a number of years that we talked to for a numbers for years but now getting an opportunity to actually present and in many cases establish relationships with those different accounts.

We are in the process of implementing a performance management system where each one of our employees will have a score card and that's what they will be evaluated on and they've all…everybody has been involved in developing this. They understand, you know, what the targets are and what they need to do contribute to the bottom line of this company.

We tried to develop a…what we call a Trusted Advisor System throughout our organization. We want to be viewed by all of our clients as their trusted advisor. We want to be the ones that they turn to with any of their banking needs and we want to build on that community bank difference. As I said, we think there definitely is an important differentiation between a community bank business plan and a big bank business plan and that's, you know, one of our big charges is that as we continue to grow, we've got to make sure that we adapt our structure and our operating strategy and plan to be able to take advantage of that difference and continue to grow this organization for you.

With that, we will be happy to answer any questions that you might have and we will…we've got a microphone that John, I think you are going to take care of getting the microphone to anybody that has questions?

Q&A

ANALYST: [Multiple Speakers]. Mr. Chairman, I thought it was of interest that on the date that Don signed off as Interim Chief Financial Officer, it was the same day that he was promoted to The Chief Financial Officer. Congratulations Don.

DONALD HILEMAN: Thank you.

WILLIAM SMALL: It…we are fortunate Don was part of our organization. He and Jack have known each other for too many years and had worked with Jack on a number of projects and, you know, organizations talk about succession planning and that's a very important part of some of the things our Board works on and, you know, in this case, we were very, very fortunate to have somebody with Don's background. So, thank you, Chuck.

COMPANY REPRESENTATIVE: Yes Henry.

HENRY: What would provoke First Federal to take another look at NCVP (Ph)? What will the government do that would tell you, "well, let's try and get it back?"

WILLIAM SMALL: I think that the government came out and started putting additional pressure or even stipulations on some, say like loan modification programs, things like that. If they started mingling or meddling in those types of affairs and trying to get into what I would consider, you know, decisions that individual banks should make, those are the types of things that would concern me and that's the "what if" out there right now.

As far as, you know, what we were doing right now, I think what it…with this additional…with the additional capital that we have been able to take in through the CPP program, not only does it give us the ability to do more loans, but it also gives us the ability to work a lot more with some of our existing relationships during difficult times like this. Rather than pulling the trigger right away, we can go through, we can work on modifications for variance agreements and so on that if you are running at a lower capital level you would not be able to do that. Now if the government comes in and starts trying to mandate some of those types of programs where we cannot do it and we think are the best terms for the company those are the type…that type of meddling, I think, would require us to definitely take a good hard look at this.

CHUCK: Have you tried to payback any of the money.

WILLIAM SMALL: Have we tried? No, at this point we have not, we have not. We've talked about that, you know, is there any advantage to paying back small amounts at a time, and at this point in time, Chuck we don't see any real advantage to us doing that.

There is a question back, right now.

ANALYST: Thank you Mr. Chairman. Steve (Ph), I have just a quick question on the money, the CPP money, it's not…I presume it's not free money. Is it payback 5% like the TARP money?

STEVE BOOMER: Yes. The CPP program, you pay a 5% dividend to the treasury, so from their standpoint, you know, that as a tax payer, I feel it's probably a fairly good investment on their part. From our side of the coin, 5% capital is something that, you know, and especially in today's market, the last trust preferred we did and that's been 2.5 years, we…that trust preferred cost I think it was 6.44, and I mean, we hit the absolute low in the market at that point. I know of only one other institution of people that I know that ever offered trust preferred at a rate lower than that. So, you know, 5% even the all-in cost is probably closer to that 6.44 when you factor in all your cost. But if you were try to go out and raise capital today, which is, you know, number one is extremely difficult and you go back six months ago and it was virtually impossible. I think the most recent offerings prior to that were probably and the ones we saw were in the 9.5 to 10% range. So the 5% is the dividend we pay to the treasury and that is for 5 year program. However we can exit the program at any time and there is…the original program had restrictions as to how soon you could get out and what you had to do to get out. That was lifted as part of the Stimulus Bill.

ANALYST: Okay, thanks. I mean there is a very negative public reception on banks, not necessarily First Federal although I've heard it around the area a very negative public perception about banks taking this and I think maybe when you do a little bit better job or whatever of explaining that to our community, and so I just…because of that, because you are, I guess, you are really the only bank in town that took the TARP funds or at least…

STEVE BOOMER: That's what we read. I said that's what we have read.

ANALYST: And I read the same thing. I guess it's just, you know, there is a public perception, there is a negative public perception. I just think that maybe more of a positive whatever from the bank would be helpful. And the other issue, I just wanted to mention or just ask we're here because we're shareholders, and we know that the stock price has dropped from a high of $29.78 on June 26th of '07 to a low of $4.05 on March 9th '09; however, it is back at 8 plus or whatever I saw yesterday. I guess, for all shareholders here we just want to know why and other than this is what happened in banking industry, but why and what is the board and what is the bank doing to improve our shareholder value?

COMPANY REPRESENTATIVE: Well, we give our high right before we hired Don.

WILLIAM SMALL: No, I will address that last one first because, you know, there certainly are, there are things we can control and there are things we cannot control. The part of our operation that we can control, we've got to make sure that we stay on top of that our core fundamentals, the core part of the operation we are doing the best, you know, we need to do the best we can. We measure ourselves against, you know, a peer group that is basically Midwest financial institutions roughly between $1 and $3 billion. You know, we continue to measure very well against that peer group. We certainly, you know, I think we are taking the beating that a lot of the banking industry is. The fact that we are located where we are geographically doesn't help that. Our stock and I have been asked this question by a couple of different people, you know, why did First Federal stock, First Defiance's stock go down considerably lower than some of other banks in the area. Again, I don't have an absolute firm answer but I do know that our…the institutional ownership of our stock is up in the 30% range. I think it was actually, I think, now it's in the 27%, 28% range. So we have a large…for a company our size that's a large percentage of institutional investors. You know, if they are pressured to convert the cash you know, they don't care who they are selling or what price they just have to get the cash. We know there was a lot of activity in that regard.

The plus side of that is we have a lot more liquidity in our stock where we are trading…I think our 50-day average right now is around 17,000 shares a day and that's not huge but compared to most of the community banks in this area that is a significantly higher volume than what they trade at. I don't know when the last time was that our stock didn't trade but, you know, that's not true again for a lot of other. So, you know, there…trust me, we are very aware of how that stock moves. I honestly, I can stand here and say that I do not know of anything that we have done operationally that would warrant the drop in the stock price other than, you know, the industry and the geographic factors.

Now, you know, some people might say the CPP, our participation in that has hurt. Our stock, you know, hasn't…I don't think has varied that much since we actually took that money down in December. I think we were in the $7 or $8 range at that time. Yes, we went down, I think we traded actually, traded as low as $3.76 on one day, that was not a closing price, but that was a trade, a mid day trade. And I think your observation is very correct. There is a, I think, a gross misunderstanding of the CPP program. From the time it was announced, right up through recent times, if you go home at night, turn on the network news, all you hear about is bank bailout, bank bailout, and every program that was associated with the Troubled Asset Relief Program got painted with the same brush and you know the CPP, again, was basically…there were banks that weren't allowed to participate because they were not well capped lines. There are banks that you know made a conscious decision not to. You know, we feel that everybody, you know, that's what everybody should do, is go through and do the evaluation.

We are going to be out trying to tell that story some more, say during your rotary programs, we may, you know, may try to get on the agenda for that even, but we have been out…we did, we have done a number of financial analyst presentations over the last three or four months and February, March, we did I think we did a total of three and we really tried to drive home that point. Now, there, you know, when you are talking to financial analysts, sometimes they have a little bit better grasp on that than the general public, but you know, I am at the point now where I think I probably ought to be in more coffee shops every morning and talking about it. That's probably the best way to educate.

ANALYST: Do you know of any banks in Northwest Ohio that have taken TARP funds and have tied to pay them back and the results of their trying to pay them back and being able to do it?

WILLIAM SMALL: I am not aware of anybody that…the only bank in Ohio that I know has announced that they are paying back is FirstMerit over in Akron, Ohio. I think they took at $122 million, is that somewhere around there and they announced last week that they were going to pay it back. It's my understanding that that transaction is going to take place tomorrow. At least that's what has been reported. I am not aware of anybody in this, you know, immediate area that has tried to pay it back.

COMPANY REPRESENTATIVE: Dwain?

DWAIN: A two-part question. First, you hear a lot of horror stories about what banks did with this CPP money buying [Inaudible] bank et cetera. So, I am wondering if there were any restrictions on what they do with the money and are there any follow-up reporting requirements and secondly, we hear a lot about stress test and we had a stress test in [Inaudible].

WILLIAM SMALL: I passed my physical in December. First off, Yeah, I'd say, you know, there were a lot of horror stories, again I think a lot of those were blown out of proportion. I mean it depends on which call a horror story, Fifth Third, you know, I am not here to defend Fifth Third but I will tell you a story that I think is just absolutely ridiculous. They had a program their marketing department set up a year ago, this was a – they set this program up in March of 2008 and it is program we use where you know you pay people to open an account relationship but you've got to open the checking account, online bill pay, direct deposits there is, you know, variety of things. In their program if you fulfilled all the requirements they deposited $100 in your account. Well, all of a sudden that shows up in the newspaper that that's a just an absolute malicious use of TARP funds. It had nothing to do with those funds and this is even the misperception they have in Washington. We got a questionnaire from the Treasury Department. They wanted to know if we had segregated the CPP funds from other institutional funds.

ANALYST: [Inaudible].

WILLIAM SMALL: Yeah, I mean, they have this vision that it arrived in the box and you set it in the vault. The CPP money isn't what's you lend out, deposits is what you lend out. I mean, we have taken that capital, we are leveraging that capital. For every $0.12 of TARP money we figure we can loan a $1 out. So, that's the way the program works from a reporting standpoint, you know, and then I think there obviously there has been some abuses whether it's a result of TARP money or it was just poor decisions that people make, you know, I am as baffled by some of those decision as anybody but as far as reporting they have now initiated additional reporting requirements. We will report monthly on different loan data and such they have regular spreadsheet that we will complete and send in a monthly basis. Those will be available to the public at least that is our understanding. So, they are really trying to create transparency in the program.

We've also been told by our regulator, by the OTS that that will be a focus when they come in for their next examination they are going to want to sit down and have conversation with us about the use of the CPP funds. So, I think that, you know, you are going to start to see more and more reporting on that, yes.

ANALYST: Yes, Mr. Chairman, on a provision for loan loss ending first quarter, fourth quarter of last year was $3.8 million performing and non-performing loans were $34.3 million. In first quarter of this year, the 2.7 provision for loan loss was an increase 36.7 non-performing loan [Inaudible]?

WILLIAM SMALL: Well, the provision adds on, on top of what the reserves were already there. So, you know, that goes into…when we go through and we do this and to a certain degree on a monthly basis and then more so, we have quarterly meetings that we sit down in each market and we review any loan that's on our what we would consider our watch list and determine how much money we may need to set aside based on, you know, what we are looking at the cash flow involved with the credit, we are looking collateral and what those values maybe and there are times where we've already taken reserve against the loan and we will go back, revaluate that collateral determine that maybe that value has dropped and take additional. So, there is a lot of moving parts in that. It's not always going to be a direct correlation between what your MPA level is reported at any one quarter and what the provision of expense is.

ANALYST: Are we pretty transparent on the collateral we have for mortgage loans?

WILLIAM SMALL: Yeah, actually our mortgages loans, we sell most of our mortgage loan production. I think in fact we are selling probably 95% right now…

ANALYST: Yes.

WILLIAM SMALL: So most of that credit risk leaves on the mortgage loans. On commercial lending, you know we don't sell…are our very little. I mean, there is some of our commercial production that's sold but that's on, you know, just special program type of things that we do that on. So that's where…the risk in the portfolio is really more on the commercial side.

ANALYST: Yes, the dividend payout ratio…

WILLIAM SMALL: Yes.

ANALYST: …47 is that in the comfort zone of most corporation of what they would like to pay out for dividend?

WILLIAM SMALL: I think it is. You know, we think if we are in that 40 to 50 range that's where you want to be not just because you know sway out of that maybe one quarter but, you know, like fourth quarter of last year, if you go back and look at that, you will see that that was way outside of that range but you don't want to get into a knee jerk reaction on that probably right now and I know that's a question we get a lot is you know what's the dividend story going to be going forward and you know all we can do is tell you that, you know, we are going to look at it on a quarter-by-quarter basis. We are going to look at what current earnings are, what our forecasted earnings are and then we are going to look at what we feel the capital needs are and make a decision based on that. We did make a cut May last year, cut it from 26 down to 17 shareholders that were shareholders of record as of what was it…the 14th of this month or whenever, 10th of this month we will be getting a dividend check, Friday of this week based on the $0.17 that we held at but yeah that's…47 is what we will consider the normal range.

ANALYST: [Inaudible].

WILLIAM SMALL: Oh, yeah, the yield on the… even at…I don't know, we were little over $9 today. So that's, yeah that's still a pretty good yield that $0.68 annually, you know, you are talking $7.5, $0.8…7.5% to 8% yield. Any other questions?

Okay, if not, we will move on with the business part of the meeting. The Board of Directors has appointed Terri Abare as Inspector of Elections. All Executive proxies and the list of stockholders have been turned over to the Inspector of Elections. John Boesling will act as Secretary of this meeting and Danny Nordon (Ph) on my far right will act as Recording Secretary. John Boesling will now report on the notice of the annual meeting. John?

JOHN BOESLING: Thank you, Mr. Chairman. On or about March 25, 2009 here notice of this annual meeting together with the proxy statement, form of proxy and copy of the corporation annual report for the fiscal year ended December 31, 2008 were mailed to stockholders of record as of March 6, 2009. I have submitted an affidavit verifying the mailing of these items. The Inspector of election will now report on the votes present at this meeting. Ms. Abare?

TERRI ABARE: Mr. Chairman of the 8,055,741 votes eligible to cast in this meeting. There are 5,929,071 present in person or by proxy.

WILLIAM SMALL: The 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 Election his or her proxy for verification? So if anybody brought their proxy with them?

There are two items to be considered at this meeting number one, to elect three 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 11 members. Therefore three persons have been nominated for election for a three-year term expiring in the year 2012. I now recognize Mr. Steve Boomer who will present the slate set forth in the proxy statement. Steve?

STEVE BOOMER: Those persons nominated by the Board of Directors and the term of each is as follows: Douglas A. Burgei, three years expiring 2012; Dwain I. Metzger, three years expiring 2012 and Samuel S. Strausbaugh, three years expiring 2012. 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 second to that motion?

Thank you, Dwain.

Item 2 is a non-binding advisory vote required by the economic stimulus legislation passed by Congress and signed in the law on February 17, 2009. Shareholders are asked to vote on the following resolution: Resolve that the shareholders approve the compensation of First Defiance Executives as named in the summary compensation table of the company's 2009 proxy statement as described in the compensation discussion and analysis, the compensation tables and the related disclosure contained on Pages 11 through 24 in the proxy statement. There have been no other nominations or items submitted to First Defiance pursuant to its bylaws and our bylaws require 30 days written notice prior to the annual meeting. Are there any questions concerning the items on the ballot? If there are no questions, the items will be put to a vote. If you have not already cast a ballot, ballots are available and we just ask you to raise your hand and we will distribute a ballot to you.

I think everybody has already cast their votes. So, I am assuming nobody holding a ballot. If you are, the polls are open. Are there any other shares to be voted other than by proxy? If there are none to be voted in person, I now declare the polls closed and ask the Inspector of Election to announce results of the voting. Terri?

TERRI ABARE: Mr. Chairman, the three nominees have been approved through election with the following votes: Douglas Burgei 5,643,099 votes; Dwain Metzger, 5,291,116 votes; Samuel Strausbaugh, 5,381,633 votes. Also proposal number #2 regarding the advisory vote on compensation was approved by a vote of 5,385,846 votes.

WILLIAM SMALL: There is no other official business to be brought before this meeting. Does anyone present have any other questions? If not, we do thank you for attending. The Executive Officers and Directors will be available for you for discussion afterwards and again, we thank you very much for coming out this afternoon and I will entertain a motion to adjourn the meeting. So is there a second?

The meeting is adjourned and thank you very much. Drive safely.