FIRST DEFIANCE FINANCIAL CORP
Form 10-K
February 28, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year Ended December 31, 2013
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 0-26850

FIRST DEFIANCE FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨ Smaller reporting Company ¨

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant computed by reference to the average bid and ask price of such stock as of June 30, 2013 was approximately $210.8 million.

As of February 21, 2014, there were issued and outstanding 9,653,238 shares of the Registrant's common stock.

Documents Incorporated by Reference

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive Proxy Statement for the 2014 Annual Shareholders' Meeting.

First Defiance Financial Corp.
Annual Report on Form 10-K

Table of Contents

		Page
PART I		
Item 1.	Business	3
Item 1A.	Risk Factors	26
Item 1B.	Unresolved Staff Comments	31
Item 2.	Properties	31
Item 3.	Legal Proceedings	33
Item 4.	Mine Safety Disclosures	33
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	33
Item 6.	Selected Financial Data	36
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operation	37
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	57
Item 8.	Financial Statements and Supplementary Data	59
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	133
Item 9A.	Controls and Procedures	133
Item 9B.	Other Information	133
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	133
Item 11.	Executive Compensation	133
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	133
Item 13.	Certain Relationships and Related Transactions, and Director Independence	134
Item 14.	Principal Accounting Fees and Services	134
PART IV		
Item 15.	Exhibits, Financial Statement Schedules	135
SIGNATURES		136

PART I

Item 1. Business

First Defiance Financial Corp. ("First Defiance" or "the Company") is a unitary thrift holding company that, through its subsidiaries, First Federal Bank of the Midwest ("First Federal"), First Insurance Group of the Midwest, Inc. ("First Insurance"), and First Defiance Risk Management Inc. (collectively, "the Subsidiaries"), focuses on traditional banking and property and casualty, life and group health insurance products. First Federal's banking activities include originating and servicing residential, commercial, and consumer loans and providing a broad range of depository services. First Insurance's activities consist primarily of selling property and casualty, life and group health insurance products. First Defiance Risk Management is a wholly-owned insurance company subsidiary of the Company to insure the Company and its subsidiaries against certain risks unique to the operations of the Company and for which insurance may not be currently available or economically feasible in today's insurance marketplace.

The Company's philosophy is to grow and prosper, building long-term relationships based on top quality service, high ethical standards and safe and sound assets. The Company operates as a locally oriented, community-based financial services organization, augmented by experienced, centralized support in select critical areas. The Company's local market orientation is reflected in its market area management and local advisory boards, which are comprised of local business persons, professionals and other community representatives that assist area management in responding to local banking needs.

The Company's operating objectives include expansion, diversification within its markets, growth of its fee-based income and growth organically and through acquisitions of financial institutions, branches and financial services businesses. The Company seeks merger or acquisition partners that are culturally similar, have experienced management and possess either significant market area presence or have the potential for improved profitability through financial management, economies of scale and expanded services. The Company regularly evaluates merger and acquisition opportunities and conducts due diligence activities related to possible transactions with other financial institutions. As a result, merger or acquisition discussions and, in some cases, negotiations may take place and future mergers or acquisitions involving cash, debt or equity securities may occur. Acquisitions typically involve the payment of a premium over book and market values and, therefore, some dilution of the Company's tangible book value and net income per common share may occur in any future transaction.

At December 31, 2013, the Company had consolidated assets of $2.14 billion, consolidated deposits of $1.74 billion, and consolidated stockholders' equity of $272.1 million. The Company was incorporated in Ohio in June of 1995. Its principal executive offices are located at 601 N. Clinton Street, Defiance, Ohio 43512, and its telephone number is (419) 782-5015.

On February 18, 2014, the Company announced the signing of a definitive agreement to acquire First Community Bank (FCB"). Under the merger agreement First Federal will acquire FCB in a cash transaction in which FCB will merge with and into First Federal. FCB operates four branches in the Columbus, Ohio market and at December 31, 2013, had assets of $101.4 million, loans of $65.4 million, deposits of $90.5 million and common equity of $10.6 million. Under the terms of the merger agreement, First Federal will pay $12.9 million in cash for all outstanding shares of FCB, subject to certain adjustment factors. The transaction is expected to close by the end of the third quarter of 2014.

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

The Subsidiaries

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

First Federal Bank of the Midwest: First Federal is a federally chartered stock savings bank headquartered in Defiance, Ohio. It conducts operations through 26 full service banking center offices in Allen, Defiance, Fulton, Hancock, Henry, Lucas, Ottawa, Paulding, Putnam, Seneca, Williams and Wood counties in northwest Ohio, 1 full service banking center office in Allen County in northeast Indiana and 5 full service banking center offices in Lenawee County in southeast Michigan.

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

First Insurance Group of the Midwest: First Insurance is a wholly owned subsidiary of First Defiance. First Insurance is an insurance agency that conducts business in the Defiance, Maumee, Oregon, Bryan and Bowling Green, Ohio areas. First Insurance offers property and casualty insurance, life insurance and group health insurance. On July 1, 2011, First Insurance acquired Payak-Dubbs Insurance Agency, Inc. ("PDI") headquartered in Maumee and Oregon, Ohio. In May 2010, First Insurance acquired a group medical benefits business line from Andres O'Neil & Lowe Insurance Agency. See Note 3 Acquisitions in the Notes to the financial statements for additional information.

First Defiance Risk Management: First Defiance Risk Management was incorporated on December 20, 2012, as a wholly-owned insurance company subsidiary of the Company to insure the Company and its subsidiaries against certain risks unique to the operations of the Company and for which insurance may not be currently available or economically feasible in today's insurance marketplace. First Defiance Risk Management pools resources with several other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves.

Business Strategy

First Defiance's primary objective is to be a high performing community banking organization, well regarded in its market areas. First Defiance accomplishes this through emphasis on local decision making and empowering its employees with tools and knowledge to serve its customers' needs. First Defiance believes in a "Customer First" philosophy that is strengthened by its Trusted Advisor initiative. First Defiance also has a tagline of "Better Together" as an indication of its commitment to local, responsive, personalized service. First Defiance believes this strategy results in greater customer loyalty and profitability through core relationships. First Defiance is focused on diversification of revenue sources and increased market penetration in areas where the growth potential exists for a balance between acquisition and organic growth. The primary elements of First Defiance's business strategy are commercial banking, consumer banking, including the origination and sale of single family residential loans, enhancement of fee income, wealth management and insurance sales, each united by a strong customer service culture throughout the organization.

Commercial and Commercial Real Estate Lending - Commercial and commercial real estate lending have been an ongoing focus and a major component of First Federal's success. First Federal provides primarily commercial real estate and commercial business loans with an emphasis on owner occupied commercial real estate and commercial business lending with a focus on the deposit balances that accompany these relationships. First Federal's client base tends to be small to middle market customers with annual gross revenues generally between $1 million and $50 million. First Federal's focus is also on securing multiple guarantors in addition to collateral where possible. These customers require First Federal to have a high degree of knowledge and understanding of their business in order to provide them with solutions to their financial needs. First Federal's Customer First philosophy and culture complements this need of its clients. First Federal believes this personal service model differentiates First Federal from its competitors, particularly the larger regional institutions. First Federal offers a wide variety of products to support commercial clients including remote deposit capture and other cash management services. First Federal also believes that the small business customer is a strong market for First Federal. First Federal participates in many of the Small Business Administration lending programs and has implemented a new program in 2014 targeting the small business customer. Maintaining a diversified portfolio with an emphasis on monitoring industry concentrations and reacting to changes in the credit characteristics of industries is an ongoing focus.

Consumer Banking - First Federal offers customers a full range of deposit and investment products including demand, checking, money market, certificates of deposits, Certificate of Deposit Account Registry Service ("CDARS") and savings accounts. First Federal offers a full range of investment products through the wealth management department and a wide variety of consumer loan products, including residential mortgage loans, home equity loans, and installment loans. First Federal also offers online banking services, which include mobile banking, online bill pay along with debit cards.

Fee Income Development - Generation of fee income and the diversification of revenue sources are accomplished through the mortgage banking operation, insurance subsidiary and the wealth management department as First Defiance seeks to reduce reliance on retail transaction fee income.

Deposit Growth - First Federal's focus has been to grow core deposits with an emphasis on total relationship banking with both our retail and commercial customers. First Federal has initiated a pricing strategy that considers the whole relationship of the customer. First Federal will continue to focus on increasing its market share in the communities it serves by providing quality products with extraordinary customer service, business development strategies and branch expansion. First Federal will look to grow its footprint in areas believed to further complement its overall market share and complement its strategy of being a high performing community bank.

Asset Quality - Maintaining a strong credit culture is of the utmost importance to First Federal. First Federal has maintained a strong credit approval and review process that has allowed the Company to maintain a credit quality standard that balances the return with the risks of industry concentrations and loan types. First Federal is primarily a collateral lender with an emphasis on cash flow performance, while obtaining additional support from personal guarantees and secondary sources of repayment. First Federal has directed its attention on loan types and markets that it knows well and in which it has historically been successful. First Federal strives to have loan relationships that are well diversified in both size and industry, and monitor the overall trends in the portfolio to maintain its industry and loan type concentration targets. First Federal maintains a problem loan remediation process that focuses on detection and resolution. First Federal maintains a strong process of internal control that subjects the loan portfolio to periodic internal reviews as well as independent third party loan review.

Expansion Opportunities - First Defiance believes it is well positioned to take advantage of acquisitions or other business opportunities in its market areas, including FDIC-assisted transactions. First Defiance believes it has a track record of successfully accomplishing both acquisitions and de novo branching in its market area. This track record puts the Company in a solid position to enter or expand its business. First Defiance has successfully integrated acquired institutions in the past with the most recent bank acquisition completed in 2008. First Defiance will continue

to be disciplined as well as opportunistic in its approach to future acquisitions and de novo branching with a focus on its primary geographic market area, which it knows well and has been competing in for a long period of time as well as surrounding market areas. First Defiance completed its acquisition of PDI on July 1, 2011, which was merged into First Insurance with offices located in Maumee and Oregon, Ohio.

Securities

First Defiance's securities portfolio is managed in accordance with a written policy adopted by the Board of Directors and administered by the Investment Committee. The Chief Financial Officer of First Federal, Chief Executive Officer of First Federal, and the Chief Executive Officer of First Defiance can each approve transactions up to $3 million. Two of the three officers are required to approve transactions between $3 million and $5 million. All transactions in excess of $5 million must be approved by the Board of Directors.

First Defiance's investment portfolio includes 48 collateralized mortgage obligation ("CMO") issues totaling $59.8 million, all of which are fully amortizing securities. Management does not believe the risks associated with any of its CMO investments are significantly different from risks associated with other pass-through mortgage-backed securities. First Defiance did not have any off-balance sheet derivative securities at December 31, 2013.

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

The carrying value of securities at December 31, 2013 by contractual maturity is shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. For purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal prepayments.

	Contractually Maturing								Total
	Under 1 Year	Weighted Average Rate	1 - 5 Years	Weighted Average Rate	6-10 Years	Weighted Average Rate	Over 10 Years	Weighted Average Rate	Amount
	(Dollars in Thousands)								
Mortgage-backed securities	$ 6,088	3.54 %	$ 17,057	3.36 %	$ 11,061	3.21 %	$ 5,362	3.03 %	$ 39,56
CMOs	9,646	3.33	27,274	3.05	16,840	2.71	5,293	2.53	59,05
U.S. government and federal agency obligations	-	-	-	-	5,000	1.80	-	-	5,000
Obligations of states and political subdivisions (1)	135	4.79	4,343	3.42	30,876	3.44	42,516	3.84	77,87
Trust preferred stock and preferred stock	-	-	-	-	17	-	3,247	2.38	3,264
Corporate bonds	2,000	1.04	3,854	0.64	3,000	1.16	-	-	8,854
Total	$ 17,869		$ 52,528		$ 66,794		$ 56,418		$ 193,6
Unamortized premiums/ (discounts)									3,550
									1,399

Unrealized gain on securities available for sale	
Total	$ 198,5

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

- 6 -

The carrying value of investment securities is as follows:

	December 31 2013 (In Thousands)	2012	2011
Available-for-sale securities:			
Obligations of U.S. government corporations and agencies	$ 4,921	$ 11,069	$ 17,085
U.S. treasury bonds	-	1,002	2,010
Obligations of state and political subdivisions	80,220	82,611	71,503
CMOs, REMICS and mortgage-backed securities	101,133	88,927	132,619
Trust preferred stock and preferred stock	2,954	1,608	1,450
Corporate bonds	8,942	8,884	8,252
Total	$ 198,170	$ 194,101	$ 232,919
Held-to-maturity securities:			
Mortgage-backed securities	$ 201	$ 291	$ 353
Obligations of state and political subdivisions	186	217	308
Total	$ 387	$ 508	$ 661

For additional information regarding First Defiance's investment portfolio, refer to Note 5 Investment Securities to the consolidated financial statements.

Interest-Bearing Deposits

The Company had $143.0 million and $91.0 million in overnight investments at the Federal Reserve at December 31, 2013 and 2012, respectively, which amount is included in interest-bearing deposits. First Defiance had interest-earning deposits in the FHLB of Cincinnati and other financial institutions amounting to $2.3 million and $1.7 million at December 31, 2013 and 2012, respectively.

Residential Loan Servicing Activities

Servicing mortgage loans for investors involves a contractual right to receive a fee for processing and administering loan payments on mortgage loans that are not owned by the Company and are not included on the Company's balance sheet. This processing involves collecting monthly mortgage payments on behalf of investors, reporting information to those investors on a monthly basis and maintaining custodial escrow accounts for the payment of principal and interest to investors and property taxes and insurance premiums on behalf of borrowers. At December 31, 2013, First Federal serviced 14,319 loans totaling $1.37 billion. The vast majority of the loans serviced for others are fixed rate conventional mortgage loans. The Company primarily sells its loans to Freddie Mac, Fannie Mae and FHLB. At December 31, 2013, 60.50%, 38.48% and 0.88% of the Company's sold loans were to Freddie Mac, Fannie Mae and FHLB, respectively.

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

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

- 7 -

Rate	December 31 2013 Number of Loans	Aggregate Principal Balance	Percentage of Aggregate Principal Balance	2012 Number of Loans	Aggregate Principal Balance	Percentage of Aggregate Principal Balance	2011 Number of Loans	Aggregate Principal Balance	Percent of Aggr Princip Balance
	(Dollars in Thousands)								
Less than 3.00%	1,901	$ 220,376	16.07 %	1,182	$ 148,144	11.15 %	109	$ 12,501	0.98
3.00% -3.99%	4,771	544,512	39.71	3,822	454,634	34.22	1,693	208,158	16.39
4.00% -4.99%	3,508	333,469	24.32	3,597	346,528	26.08	4,485	476,007	37.47
5.00% - 5.99%	2,537	177,999	12.98	3,218	243,077	18.29	4,457	370,355	29.15
6.00% - 6.99%	1,316	80,457	5.87	1,746	116,855	8.79	2,383	177,353	13.96
7.00% and over	286	14,428	1.05	362	19,479	1.47	449	26,013	2.05
Total	14,319	$ 1,371,241	100.00 %	13,927	$ 1,328,717	100.00 %	13,576	$ 1,270,387	100.00

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

Maturity	December 31 2013 Number of Loans	% of Number of Loans	Unpaid Principal Amount	% of Unpaid Principal Amount	2012 Number of Loans	% of Number of Loans	Unpaid Principal Amount	% of Unpaid Principal Amount	2011 Number of Loans	% o Nu of
	(Dollars in Thousands)									
1 5 years	846	5.91 %	$ 19,593	1.43 %	507	3.64 %	$ 10,537	0.79 %	375	2.7
6 10 years	1,009	7.05	52,404	3.82	4,030	28.94	395,066	29.73	1,677	12.
11 15 years	4,340	30.31	420,362	30.66	1,391	9.99	134,916	10.16	3,326	24.
16 20 years	1,704	11.90	158,467	11.56	1,846	13.25	163,929	12.34	1,026	7.5
21 25 years	1,218	8.51	102,844	7.50	1,370	9.84	60,618	4.56	2,347	17.
More than 25 years	5,202	36.32	617,571	45.03	4,783	34.34	563,651	42.42	4,825	35.
Total	14,319	100.00 %	$ 1,371,241	100.00 %	13,927	100.00 %	$ 1,328,717	100.00 %	13,576	10(

Lending Activities

General A savings bank generally may not make loans to one borrower and related entities in an amount which exceeds 15% of its unimpaired capital and surplus, although loans in an amount equal to an additional 10% of unimpaired capital and surplus may be made to a borrower if the loans are fully secured by readily marketable collateral. Real estate is not considered “readily marketable collateral.” Certain types of loans are not subject to these limits. In applying these limits, loans to certain borrowers may be aggregated. Notwithstanding the specified limits, a savings bank may lend to one borrower up to $500,000 “for any purpose.” At December 31, 2013, First Federal’s limit on loans-to-one borrower was $39.1 million and its five largest loans (including available lines of credit) or groups of loans to one borrower, including related entities, were $33.4 million, $30.4 million, $29.2 million, $27.0 million and $23.3 million. All of these loans or groups of loans were performing in accordance with their terms at December 31, 2013.

Loan Portfolio Composition The net increase or (decrease) in net loans receivable over the prior year was $57.0 million, $44.7 million and ($24.6 million) at December 31, 2013, 2012, and 2011, respectively. The loan portfolio contains no foreign loans. The Company’s loan portfolio is concentrated geographically in its northwest Ohio, northeast Indiana and southeast Michigan market areas. Management has identified lending for income generating rental properties as an industry concentration. Total loans for income generating property totaled $408.4 million at December 31, 2013, which represents 25.3% of the Company’s loan portfolio.

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

	December 31								
	2013		2012		2011		2010		2009
	Amount	%	Amount	%	Amount	%	Amount	%	Amount
	(Dollars in Thousands)								
Real estate:									
Single family residential	$ 195,752	12.2 %	$ 200,826	13.0 %	$ 203,401	13.6 %	$ 205,938	13.5 %	$ 227,592
Five or more family residential	148,952	9.2	122,275	7.9	126,246	8.4	120,534	7.9	103,169
Nonresidential real estate	670,666	41.6	675,110	43.7	649,746	43.3	646,478	42.2	703,721
Construction	86,058	5.3	37,788	2.5	31,552	2.1	30,340	2.0	48,625
Total real estate loans	1,101,428	68.3	1,035,999	67.1	1,010,945	67.4	1,003,290	65.6	1,083,107
Other:									
Consumer finance	16,902	1.0	15,936	1.0	18,887	1.3	22,848	1.5	34,105
Commercial	388,236	24.1	383,817	24.9	349,053	23.2	369,959	24.2	379,408
Home equity and improvement	106,930	6.6	108,718	7.0	122,143	8.1	133,593	8.7	147,977
Total non-real estate loans	512,068	31.7	508,471	32.9	490,083	32.6	526,400	34.4	561,490
Total loans	1,613,496	100.0 %	1,544,470	100.0 %	1,501,028	100.0 %	1,529,690	100.0 %	1,644,597
Less:									
Loans in process	32,290		18,478		13,243		9,267		26,494
Deferred loan origination fees	758		735		709		920		981
Allowance for loan losses	24,950		26,711		33,254		41,080		36,547
Net loans	$ 1,555,498		$ 1,498,546		$ 1,453,822		$ 1,478,423		$ 1,580,575

In addition to the loans reported above, First Defiance had $9.1 million, $22.1 million, $13.8 million, $18.1 million, and $10.3 million in loans classified as held for sale at December 31, 2013, 2012, 2011, 2010 and 2009, respectively. The fair value of such loans, which are all single-family residential mortgage loans, approximated their carrying value for all years presented.

Contractual Principal, Repayments and Interest Rates The following table sets forth certain information at December 31, 2013 regarding the dollar amount of gross loans maturing in First Defiance's portfolio, based on the contractual terms to maturity. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less.

Years After December 31, 2013
Due Less

	than 1	Due 1-2	Due 3-5	Due 5-10	Due 10-15	Due 15+	Total
	(In Thousands)						
Real estate	$ 274,718	$ 124,116	$ 525,816	$ 95,005	$ 27,520	$ 54,253	$ 1,101,428
Non-real estate:							
Commercial	253,764	48,475	81,270	4,727	-	-	388,236
Home equity and improvement	70,633	8,930	22,389	3,887	382	709	106,930
Consumer finance	7,201	4,274	5,237	167	23	-	16,902
Total	$ 606,316	$ 185,795	$ 634,712	$ 103,786	$ 27,925	$ 54,962	$ 1,613,496

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

The following table sets forth the dollar amount of gross loans due after one year from December 31, 2013 which have fixed interest rates or which have floating or adjustable interest rates.

	Fixed Rates	Floating or Adjustable Rates	Total
	(In Thousands)		
Real estate	$ 302,710	$ 524,000	$ 826,710
Commercial	120,499	13,973	134,472
Other	45,137	861	45,998
	$ 468,346	$ 538,834	$ 1,007,180

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

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

A commercial loan application is first reviewed and underwritten by one of the commercial loan officers, who may approve credits within their lending limit. Another loan officer with limits sufficient to cover the exposure must approve credits exceeding an individual's lending limit. All credits which exceed $100,000 in aggregate exposure must be presented for review or approval to the Senior Loan Committee comprised of senior lending personnel. Credits which exceed $2,000,000 in aggregate exposure must be presented for approval to the Executive Loan Committee.

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

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

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

Adjustable-rate loans represented 9.2% of First Defiance's total originations of one-to-four family residential mortgage loans in 2013 compared to 7.1% and 5.4% during 2012 and 2011, respectively.

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

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

	Years Ended December 31					
	2013		2012		2011	
	(In Thousands)					
Loan originations:						
Single family residential	$	326,700	$	546,773	$	282,321
Multi-family residential		50,874		28,521		11,401
Non-residential real estate		113,999		191,742		125,884
Construction		67,530		33,557		29,189
Commercial		435,248		603,415		186,338
Home equity and improvement		41,552		32,684		19,063
Consumer finance		10,043		9,722		10,216
Total loans originated		1,045,946		1,446,414		664,412
Loans purchased:		4,545		-		25,842
Loan reductions:						
Loan pay-offs		205,254		299,479		227,812
Loans sold		315,812		514,351		266,580
Periodic principal repayments		473,343		580,919		228,810
		994,409		1,394,749		723,202
Net (decrease) increase in total loans and loans held for sale	$	56,082	$	51,665	$	(32,948)

Asset Quality

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

Delinquent Loans The following table sets forth information concerning delinquent loans at December 31, 2013, in dollar amount and as a percentage of First Defiance's total loan portfolio. The amounts presented represent the total outstanding principal balances of the related loans, rather than the actual payment amounts that are past due.

	30 to 59 Days		60 to 89 Days		90 Days and Over		Total	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
	(Dollars in Thousands)							
One to four family residential real estate	$ 2,045	0.12 %	$ 594	0.04 %	$ 1,394	0.09 %	$ 4,033	0.25 %
Nonresidential and Multi-family residential	1,420	0.09	1,410	0.09	5,936	0.36	8,766	0.54
Commercial	37	0.00	26	0.00	3,984	0.25	4,047	0.25
Construction	-	0.00	-	0.00	-	0.00	-	0.00
Home Equity and Improvement	1,153	0.07	153	0.01	413	0.03	1,719	0.11
Consumer Finance	131	0.01	-	0.00	-	0.00	131	0.01
Total	$ 4,786	0.29 %	$ 2,183	0.14 %	$ 11,727	0.73 %	$ 18,696	1.16 %

Overall, the level of delinquencies at December 31, 2013 has decreased from the levels at December 31, 2012, when First Defiance reported that 1.56% of its outstanding loans were at least 30 days delinquent. The level of total loans 90 or more days delinquent has decreased to 0.73% at December 31, 2013 from 0.84% at December 31, 2012. The level of total loans 60-89 days delinquent decreased to 0.14% at December 31, 2013 from 0.32% at December 31, 2012. Overall, the level of loans that were 30 to 59 days past due past due decreased from 0.40% at December 31, 2012 to 0.29% at December 31, 2013. Management has assessed the collectability of all loans that are 90 days or more delinquent as part of its procedures in establishing the allowance for loan losses.

Nonperforming Assets All loans are reviewed on a regular basis and are placed on non-accrual status when, in the opinion of management, the collectability of additional interest is not expected. Generally, First Defiance places all loans more than 90 days past due on non-accrual status. First Defiance also places loans on non-accrual when the loan is paying as agreed but the Company believes the financial condition of the borrower is such that this classification is warranted. When a loan is placed on non-accrual status, total unpaid interest accrued to date is reversed. Subsequent payments are generally applied to the outstanding principal balance but may be recorded as interest income, depending on the assessment of the ultimate collectability of the loan. First Defiance considers that a loan is impaired when, based on current information and events, it is probable that it will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement. First Defiance measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral, if collateral dependent. If the estimated recoverability of the impaired loan is less than the recorded investment, First Defiance will recognize impairment by allocating a portion of the allowance for loan losses on cash flow dependent loans and by charging off the deficiency on collateral dependent loans.

Loans originated by First Federal having principal balances of $57.3 million, $71.1 million and $47.9 million were considered impaired as of December 31, 2013, 2012 and 2011, respectively. The decrease in impaired loans from 2012 to 2013 is mainly due to a concerted effort by management and the lending staff to work specific credits out of the bank or back to performing status. These amounts of impaired loans exclude large groups of small-balance homogeneous loans that are collectively evaluated for impairment such as residential mortgage, consumer installment and credit card loans. There was $2.1 million of interest received and recorded in income during 2013 related to

impaired loans. There was $1.3 million and $1.6 million recorded in 2012 and 2011, respectively. Unrecorded interest income based on the loan's contractual terms on these impaired loans and all non-performing loans in 2013, 2012 and 2011 was $1.1 million, $2.5 million, and $2.3 million, respectively. The average recorded investment in impaired loans during 2013, 2012 and 2011 (excluding loans accounted for under FASB ASC Topic 310 Subtopic 30) was $64.7 million, $53.3 million and $61.0 million, respectively. The total allowance for loan losses related to these loans was $1.4 million, $1.5 million, and $7.2 million at December 31, 2013, 2012 and 2011, respectively.

Real estate acquired by foreclosure is classified as real estate owned until such time as it is sold. First Defiance also repossesses other assets securing loans, consisting primarily of automobiles. When such property is acquired it is recorded at fair value less cost to sell. Costs relating to development and improvement of property are capitalized, whereas costs relating to holding the property are expensed. Valuations are periodically performed by management and a write-down of the value is recorded with a corresponding charge to operations if it is determined that the carrying value of property exceeds its estimated net realizable value. During 2013, First Defiance recognized $740,000 of expense related to write-downs in value of real estate acquired by foreclosure. The balance of real estate owned at December 31, 2013 was $5.9 million.

As of December 31, 2013, First Defiance's total non-performing loans amounted to $27.8 million or 1.76% of total loans (net of undisbursed loan funds and deferred fees and costs), compared to $32.6 million or 2.14% of total loans, at December 31, 2012. Non-performing loans are loans which are more than 90 days past due or on nonaccrual. The nonperforming loan balance includes $23.8 million of loans originated by First Federal also considered impaired or acquired loans accounted for under Topic 310 Subtopic 30.

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

	December 31				
	2013	2012	2011	2010	2009
	(Dollars in Thousands)				
Nonperforming loans:					
One to four family residential real estate	$ 3,273	$ 3,602	$ 3,890	$ 7,232	$ 5,349
Nonresidential and multi-family residential real estate	15,834	23,090	28,150	21,737	24,042
Commercial	8,327	5,661	6,884	11,547	10,615
Construction	-	-	-	64	675
Home Equity and Improvement	413	217	394	446	451
Consumer finance	-	-	10	14	59
Total nonperforming loans	27,847	32,570	39,328	41,040	41,191
Real estate owned	5,859	3,805	3,608	9,591	13,413
Other repossessed assets	-	-	20	-	114
Total repossessed assets	5,859	3,805	3,628	9,591	13,527
Total nonperforming assets	$ 33,706	$ 36,375	$ 42,956	$ 50,631	$ 54,718
Restructured loans, accruing	$ 27,630	$ 28,203	$ 3,380	$ 6,001	$ 6,715
Total nonperforming assets as a percentage of total assets	1.58 %	1.78 %	2.08 %	2.49 %	2.66 %

Total nonperforming loans as a percentage of total loans*	1.76	%	2.14	%	2.64	%	2.70	%	2.55	%
Total nonperforming assets as a percentage of total loans plus REO*	2.12	%	2.38	%	2.88	%	3.70	%	3.77	%
Allowance for loan losses as a percent of total nonperforming assets	74.02	%	73.43	%	77.41	%	81.14	%	66.79	%

* Total loans are net of undisbursed loan funds and deferred fees and costs.

Allowance for Loan Losses First Defiance maintains an allowance for loan losses to absorb probable incurred credit losses in the loan portfolio. The allowance for loan loss is made up of two components. The first is a general reserve, which is used to record loan loss reserves for groups of homogenous loans in which the Company estimates the losses incurred in the portfolio based on quantitative and qualitative factors. Quantitative factors are primarily the historical loss experience of the portfolio for the most recent three years. Qualitative factors that may lead the Company to add additional general reserves on the non-impaired loan portfolio include such things as: changes in international, national and local economic business conditions, changes in the value of underlying collateral for collateral dependent loans, changes in the political and regulatory environment and changes in the trends of the loan portfolio.

The second component of the allowance for loan loss is the specific reserve in which the Company sets aside reserves based on the analysis of individual credits. In evaluating the adequacy of its allowance each quarter, management grades all loans in the commercial portfolio. In establishing specific reserves, the Company analyzes all substandard, doubtful and loss graded loans quarterly and makes judgments about the risk of loss based on the cash flow of the borrower, the value of any collateral and the financial strength of any guarantors. If the loan is cash flow dependent, then a specific reserve is established for the discount on the net present value of expected future cash flows. If the loan is collateral dependent, then any shortfall is usually charged off. The Company also considers the impacts of any Small Business Association or Farm Service Agency guarantees. An internal loan review of all loan relationships between $250,000 and $1,000,000 is performed annually. Management also engages a third-party to do an annual review of all loan relationships in excess of $1,000,000. Both of these loan reviews, among other things, independently assess management's loan grades.

Loans charged-off are charged against the allowance when such loans meet the Company's established policy on loan charge-offs and the allowance itself is adjusted quarterly by recording a provision for loan losses. As such, actual losses and losses provided for should be approximately the same if the overall quality, composition and size of the portfolio remained static. To the extent that the portfolio grows at a rapid rate or overall quality deteriorates, the provision generally will exceed charge-offs, as in 2009 and 2010. However, in certain circumstances, as in 2011 through 2013, net charge-offs may exceed the provision for loan losses when management determines that loans previously provided for in the allowance for loan losses are uncollectible and should be charged off or as overall credit improves. Although management believes that it uses the best information available to make such determinations, future adjustments to the allowances may be necessary, and net earnings could be significantly affected, if circumstances differ substantially from the assumptions used in making the initial determinations.

At December 31, 2013, First Defiance's allowance for loan losses amounted to $25.0 million compared to $26.7 million at December 31, 2012. The following table sets forth the activity in First Defiance's allowance for loan losses during the periods indicated.

	Years Ended December 31 2013		2012		2011		2010		2009	
	(Dollars in Thousands)									
Allowance at beginning of year	$ 26,711		$ 33,254		$ 41,080		$ 36,547		$ 24,592	
Provision for credit losses	1,824		10,924		12,434		23,177		23,232	
Allowance acquired in acquisitions	-		-		-		-		-	
Charge-offs:										
Single family residential real estate	(643)		(2,515)		(2,753)		(3,092)		(2,281)	
Commercial real estate and multi-family	(2,475)		(11,319)		(13,150)		(9,928)		(5,799)	
Commercial	(1,230)		(4,047)		(4,398)		(5,118)		(2,664)	
Consumer finance	(94)		(133)		(95)		(124)		(320)	
Home equity and improvement	(757)		(1,165)		(1,052)		(1,066)		(762)	
Total charge-offs	(5,199)		(19,179)		(21,448)		(19,328)		(11,826)	
Recoveries	1,614		1,712		1,188		684		549	
Net charge-offs	(3,585)		(17,467)		(20,260)		(18,644)		(11,277)	
Ending allowance	$ 24,950		$ 26,711		$ 33,254		$ 41,080		$ 36,547	
Allowance for loan losses to total non-performing loans at end of year	89.60	%	82.01	%	84.56	%	100.10	%	88.73	%
Allowance for loan losses to total loans at end of year*	1.58	%	1.75	%	2.24	%	2.70	%	2.26	%
Allowance for loan losses to net charge-offs for the year	695.96	%	152.92	%	164.14	%	220.34	%	324.08	%
Net charge-offs for the year to average loans	0.23	%	1.18	%	1.41	%	1.21	%	0.70	%

* Total loans are net of undisbursed loan funds and deferred fees and costs.

The provision for credit losses has decreased in 2013 and 2012 from previous years due to improved credit quality of the loan portfolio. Charge-offs trended downward in 2013. Management anticipates a stable to lower level of net charge-offs in 2014 compared to 2013 and feels that the level of the allowance for loan losses at December 31, 2013 is sufficient to cover the estimated losses incurred but not yet recognized in the loan portfolio.

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

	December 31								
	2013		2012		2011		2010		20
	Amount	Percent of total loans by category	Amount	Percent of total loans by category	Amount	Percent of total loans by category	Amount	Percent of total loans by category	Ar
	(Dollars in Thousands)								
Single family residential and construction	$ 2,981	17.5 %	$ 3,581	15.5 %	$ 4,158	15.7 %	$ 6,029	15.5 %	$ (
Nonresidential and Multi-family residential real estate	14,508	50.8	14,899	51.6	20,490	51.7	22,355	50.1	1
Other: Commercial loans	5,678	24.1	6,325	24.9	6,576	23.2	10,871	24.2	9
Consumer and home equity and improvement loans	1,783	7.6	1,906	8.0	2,030	9.4	1,825	10.2	2
	$ 24,950	100.0 %	$ 26,711	100.0 %	$ 33,254	100.0 %	$ 41,080	100.0 %	$ 3

Sources of Funds

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

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

To supplement its funding needs, First Defiance also utilizes the national market for Certificates of Deposit. Such deposits have maturities ranging from one to thirty-five months. These deposits are issued at the current rates available to customers in our market areas. The total balance of national certificates of deposit was $0 and $2.0 million at December 31, 2013 and 2012, respectively.

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

	Years Ended December 31					
	2013		2012		2011	
	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollars in Thousands)					
Non-interest-bearing demand deposits	$ 308,591	-	$ 266,913	-	$ 231,343	-
Interest bearing demand deposits	677,903	0.17 %	629,568	0.20 %	592,093	0.36 %
Savings deposits	179,041	0.05	164,508	0.07	153,318	0.16
Time deposits	496,360	0.95	558,648	1.21	613,374	1.60
Totals	$ 1,661,895	0.36 %	$ 1,619,637	0.50 %	$ 1,590,128	0.77 %

The following table sets forth the maturities of First Defiance's retail certificates of deposit having principal amounts greater than $100,000 at December 31, 2013 (in thousands):

Retail certificates of deposit maturing in quarter ending:	
March 31, 2014	$ 28,608
June 30, 2014	28,862
September 30, 2014	30,192
December 31, 2014	15,194
After December 31, 2014	69,598
Total retail certificates of deposit with balances greater than $100,000	$ 172,454

At December 31, 2013, the Company had total deposits having principal amounts greater than $250,000 of $393.0 million.

- 16 -

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

	2013	2012
	(In Thousands)	
Interest bearing demand deposits and money market accounts	$ 14	$ 13
Certificates of deposit	34	58
	$ 48	$ 71

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

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

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

	December 31		
	2013	2012	2011
	(Dollars in Thousands)		
Long-term:			
FHLB advances	$ 22,520	$ 12,796	$ 81,841
Weighted average interest rate	2.36 %	2.80 %	3.66 %
Short-term:			
Securities sold under agreement to repurchase	$ 51,919	$ 51,702	$ 60,386
Weighted average interest rate	0.31 %	0.63 %	0.92 %

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

	Years Ended December 31		
	2013	2012	2011
	(Dollars in Thousands)		
Long-term:			
FHLB advances:			
Maximum balance	$ 22,765	$ 81,838	$ 116,882
Average balance	16,569	66,121	93,652
Weighted average interest rate	2.62 %	3.67 %	3.43 %

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

	Years Ended December 31								
	2013			2012			2011		
	(Dollars in Thousands)								
Short-term:									
FHLB advances:									
Maximum balance	$	50,000		$	-		$	-	
Average balance		1,164			-			16	
Weighted average interest rate		0.09	%		-			0.17	%
Securities sold under agreement to repurchase:									
Maximum balance	$	57,182		$	57,050		$	61,240	
Average balance		50,877			53,171			56,495	
Weighted average interest rate		0.44	%		0.70	%		0.94	%

First Defiance borrows funds under a variety of programs at the FHLB. As of December 31, 2013, there was $22.5 million outstanding under various long-term FHLB advance programs. First Defiance utilizes short-term advances from the FHLB to meet cash flow needs and for short-term investment purposes. At December 31, 2013 and December 31, 2012, no outstanding balances existed under First Defiance's Cash Management Advance Line of Credit. The total available under this line is $15.0 million. Additionally, First Defiance has $100.0 million available under a REPO line of credit. Amounts are generally borrowed under these lines on an overnight basis. First Federal's total borrowing capacity at the FHLB is limited by various collateral requirements. Eligible collateral includes mortgage loans, home equity loans, non-mortgage loans, cash, and investment securities. At December 31, 2013, other than amounts available on the REPO and Cash Management line, First Federal had additional borrowing capacity with the FHLB of $428.7 million as a result of these collateral requirements.

As a member of the FHLB of Cincinnati, First Federal must maintain a minimum investment in the capital stock of that FHLB in an amount defined in the FHLB's regulations. First Federal is permitted to own stock in excess of the minimum requirement and is in compliance with the minimum requirement with an investment in stock of the FHLB of Cincinnati of $19.3 million at December 31, 2013. First Federal also acquired $2.0 million in stock of the FHLB of Indianapolis from the Pavilion acquisition, which had a balance of $1.3 million at December 31, 2012. The balance of this stock was $10,000 at December 31, 2013.

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

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

Subordinated Debentures - In March 2007, the Company sponsored an affiliated trust, First Defiance Statutory Trust II ("Trust Affiliate II") that issued $15 million of Guaranteed Capital Trust Securities (Trust Preferred Securities). In connection with the transaction, the Company issued $15.5 million of Junior Subordinated Deferrable Interest Debentures (Subordinated Debentures) to Trust Affiliate II. Trust Affiliate II was formed for the purpose of issuing Trust Preferred Securities to third-party investors and investing the proceeds from the sale of these capital securities solely in Subordinated Debentures of the Company. The Subordinated Debentures held by Trust Affiliate II are the sole assets of the trust. Distributions on the Trust Preferred Securities issued by Trust Affiliate II are payable quarterly at a variable rate equal to the three-month LIBOR rate plus 1.5%. The Coupon rate payable on the Trust

Preferred Securities issued by Trust Affiliate II was 1.75% and 1.89% as of December 31, 2013 and 2012 respectively.

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

In October 2005, the Company formed an affiliated trust, First Defiance Statutory Trust I ("Trust Affiliate I") that issued $20 million of Trust Preferred Securities. In connection with the transaction, the Company issued $20.6 million of Subordinated Debentures to Trust Affiliate I. Trust Affiliate I was formed for the purpose of issuing Trust Preferred Securities to third-party investors and investing the proceeds from the sale of these capital securities solely in Subordinated Debentures of the Company. The Subordinated Debentures held by Trust Affiliate I are the sole assets of the trust. Distributions on the Trust Preferred Securities issued by Trust Affiliate I are payable quarterly at a variable rate equal to the three-month LIBOR rate plus 1.38%, or 1.63% and 1.77% as of December 31, 2013 and 2012 respectively.

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

Repurchase of Preferred Shares related to the Capital Purchase Program

In June 2012, the U.S. Treasury sold its preferred shares of the Company through a public offering structured as a modified Dutch auction. The Company bid on its preferred shares in the auction after receiving approval from its regulators. The clearing price per preferred share was $962.66 (compared to a par value of $1,000.00 per share) and the Company was successful in repurchasing 16,560 of the 37,000 preferred shares outstanding through the auction process. The Company also acquired an additional 19,440 preferred shares in the secondary market prior to the end of the second quarter of 2012. The remaining 1,000 outstanding preferred shares were purchased at par value on July 18, 2012. The clearing prices per preferred share purchased in the secondary market were as follows: 1,100 shares at $997.50, 2,500 shares at $1,000.00 and 16,840 shares at $998.75.

The net balance sheet impact of the repurchase was a reduction to stockholders' equity of $36.4 million which is comprised of a decrease in preferred shares of $37.0 million and a $642,000 increase to retained earnings related to the discount on the shares repurchased, which is also included in net income applicable to common shares for purposes of calculating earnings per share.

Included in the 2012 operating results is $181,000 of costs incurred by the Company related to the U.S. Treasury's offering. These costs were not tax-deductible.

Balance Sheet Restructure

In the fourth quarter of 2012, the Company executed a balance sheet restructuring strategy to enhance the Company's current and future profitability while increasing its capital ratios and protecting the balance sheet against rising rates. The strategy required taking an after tax loss of approximately $260,000 by selling $60 million in securities for a gain of $1.6 million and paying off $62.0 million in FHLB advances with a prepayment penalty of $2.0 million.

Employees

First Defiance had 549 employees at December 31, 2013. None of these employees are represented by a collective bargaining agent, and First Defiance believes that it maintains good relationships with its personnel.

Competition

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

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

Regulation

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

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

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

The following table sets forth the amount and percentage level of regulatory capital of First Federal at December 31, 2013, and the amount by which it exceeds the minimum capital requirements. Tier 1 capital is reflected as a percentage of adjusted total assets. Tier 1 capital to risk-weighted assets and total (or risk-based) capital, which consists of core and supplementary capital, is reflected as a percentage of risk-weighted assets. Assets, excluding the collateralized debt obligation securities, are weighted at percentage levels ranging from 0% to 100% depending on their relative risk. The collateralized debt obligations securities are subject to the dollar-for-dollar capital requirement.

	Actual		Minimum Required for Adequately Capitalized		Minimum Required for Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Capital (1)						
Consolidated	$ 246,258	11.86 %	$ 83,045	4.0 %	N/A	N/A
First Federal	$ 235,699	11.36 %	$ 82,978	4.0 %	$ 103,722	5.0 %
Tier 1 Capital (to Risk Weighted Assets) (1)						
Consolidated	$ 246,258	13.98 %	$ 70,473	4.0 %	N/A	N/A
First Federal	$ 235,699	13.39 %	$ 70,418	4.0 %	$ 105,627	6.0 %
Total Capital (to Risk Weighted Assets) (1)						
Consolidated	$ 268,317	15.23 %	$ 140,947	8.0 %	N/A	N/A
First Federal	$ 257,741	14.64 %	$ 140,836	8.0 %	$ 176,046	10.0 %

(1) Core capital is computed as a percentage of adjusted total assets of $2.08 billion and $2.07 billion for consolidated and First Federal, respectively. Risk-based capital is computed as a percentage of total risk-weighted assets of $1.76 billion and $1.76 billion for consolidated and First Federal, respectively.

To be categorized as a well-capitalized institution, institutions need to maintain a tier 1 (core) capital ratio of 5%, a tier 1 capital to risk-weighted assets ratio of 6%, and a risk-based capital ratio of 10%. First Federal's capital at December 31, 2013 meets the standards for a well-capitalized institution. There are no conditions or events since the most recent notification from any of the regulatory agencies regarding those capital standards that management believes have changed any of the well-capitalized categorizations of First Federal. First Defiance does not have capital requirements at this time.

Dividends - First Defiance's payment of dividends to its shareholders is generally funded by the payment of dividends by the Subsidiaries. Dividends paid by First Federal to First Defiance are subject to various regulatory restrictions. First Federal can initiate dividend payments equal to its net profits (as defined by statute) for the current year plus the preceding two calendar years. First Federal paid $3.0 million and $37.0 million in dividends in 2013 and 2012, respectively. First Insurance paid $1.5 million and $300,000 in dividends to First Defiance during 2013 and 2012, respectively.

First Defiance's ability to pay dividends to its shareholders is primarily dependent on the ability of the Subsidiaries to pay dividends to First Defiance. Capital distributions include, without limitation, payments of cash dividends, repurchases and certain other acquisitions by an association of its shares and payments to shareholders of another association in an acquisition of such other association.

Transactions with Insiders and Affiliates - Loans to executive officers, directors and principal shareholders and their related interests must conform to the lending limits. Most loans to directors, executive officers and principal shareholders must be approved in advance by a majority of the "disinterested" members of board of directors of the association with any "interested" director not participating. All loans to directors, executive officers and principal

shareholders must be made on terms substantially the same as offered in comparable transactions with the general public or as offered to all employees in a company-wide benefit program. Loans to executive officers are subject to additional restrictions. In addition, all related party transactions must be approved by the Company's audit committee pursuant to NASDAQ Rule 5630, including loans made by financial institutions in the ordinary course of business. All transactions between savings associations and their affiliates must comport with Sections 23A and 23B of the Federal Reserve Act (FRA) and the Federal Reserve's (FRB) Regulation W. An affiliate of a savings association is any company or entity that controls, is controlled by, or is under common control with the savings association. First Defiance and First Insurance are affiliates of First Federal.

Holding Company Regulation - First Defiance is a unitary thrift holding company and is subject to the Federal Reserve regulations, examination, supervision and reporting requirements. Federal law generally prohibits a thrift holding company from controlling any other savings association or thrift holding company, without prior approval of the Federal Reserve, or from acquiring or retaining more than 5% of the voting shares of a savings association or holding company thereof, which is not a subsidiary.

Deposit Insurance - First Federal is a member of the Deposit Insurance Fund ("DIF"), which is administered by the FDIC. Deposit accounts at First Federal are insured by the FDIC, generally up to a maximum of $250,000. Further, from December 31, 2010 through December 31, 2012, deposits held in noninterest-bearing transaction accounts were fully insured by the FDIC regardless of the amount in the account. The Bank opted to participate in the FDIC's Transaction Account Guarantee Program, which expired on December 31, 2012.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the fund reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. Under the new restoration plan, the FDIC will maintain the current schedule of assessment rates for all depository institutions. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required.

Insurance of deposits may be terminated by the FDIC upon finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. Management does not currently know of any practice, condition or violation that might lead to termination of the deposit insurance.

Recent Developments

Impact of Legislation - Over the last several years, Congress and the U.S. Department of the Treasury have enacted legislation and taken actions to address the disruptions in the financial system, declines in the housing market, and the overall regulation of financial institutions and the financial system. In this regard, the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), includes provisions affecting large and small financial institutions alike, including several provisions that profoundly affect the regulation of community banks, thrifts, and bank and thrift holding companies, such as First Defiance. Also, the Dodd-Frank Act abolished the Office of Thrift Supervision effective July 21, 2011 and transferred its functions to the Office of the Comptroller of the Currency ("OCC"), FDIC, and Federal Reserve. The Dodd-Frank Act relaxed rules regarding interstate branching, allows financial institutions to pay interest on business checking accounts, changed the scope of federal deposit insurance coverage, imposed new capital requirements on bank and thrift holding companies, and imposed limits on debit card interchange fees charged by issuer banks (commonly known as the Durbin Amendment).

The Dodd-Frank Act also established the Consumer Financial Protection Bureau ("CFPB") as an independent bureau within the Federal Reserve, which has broad authority to regulate consumer financial products and services and entities offering such products and services, including banks. Many of the consumer financial protection functions formerly assigned to the federal banking and other designated agencies are now performed by the CFPB. The CFPB has broad rulemaking authority over providers of credit, savings, and payment services and products. In this regard, the CFPB has the authority to implement regulations under federal consumer protection laws and enforce those laws against, and examine, financial institutions. State officials also will be authorized to enforce consumer protection rules issued by the CFPB. This bureau also is authorized to collect fines and provide consumer restitution in the event of violations, engage in consumer financial education, track consumer complaints, request data, and promote the availability of financial services to underserved consumers and communities. The CFPB also is directed to prevent "unfair, deceptive or abusive practices" and ensure that all consumers have access to markets for consumer financial products and services and that such markets are fair, transparent, and competitive. Although the CFPB has begun to implement its regulatory, supervisory, examination, and enforcement authority, there continues to be significant

uncertainty as to how the agency's strategies and priorities will impact First Defiance.

The CFPB has indicated that mortgage lending is an area of supervisory focus and that it will concentrate its examination and rulemaking efforts on the variety of mortgage-related topics required under the Dodd-Frank Act, including steering consumers to less-favorable products, discrimination, abusive or unfair lending practices, predatory lending, origination disclosures, minimum mortgage underwriting standards, mortgage loan originator compensation, and servicing practices. The CFPB recently published several final regulations impacting the mortgage industry, including rules related to ability-to-pay, mortgage servicing, and mortgage loan originator compensation. The ability-to-repay rule makes lenders liable if they fail to assess ability to repay under a prescribed test, but also creates a safe harbor for so called "qualified mortgages." The "qualified mortgages" standards include a tiered cap structure that places limits on the total amount of certain fees that can be charged on a loan, a 43% cap on debt-to-income (i.e., total monthly payments on debt to monthly gross income), exclusion of interest-only products, and other requirements. The 43% debt-to-income cap does not apply for the first seven years the rule is in effect for loans that are eligible for sale to Fannie Mae or Freddie Mac or eligible for government guarantee through the FHA or the Veterans Administration. Failure to comply with the ability-to-repay rule may result in possible CFPB enforcement action and special statutory damages plus actual, class action, and attorney fees damages, all of which a borrower may claim in defense of a foreclosure action at any time. First Defiance's management team is currently assessing the impact of these requirements on our mortgage lending business.

In addition, the Federal Reserve and other federal bank regulatory agencies have issued a proposed rule under the Dodd-Frank Act that would exempt "qualified residential mortgages" from the securitization risk retention requirements of the Dodd-Frank Act. The final definition of what constitutes a "qualified residential mortgage" may impact the pricing and depth of the secondary market into which the Company may sell mortgages it originates. At this time, First Defiance cannot predict the content of the final CFPB and other federal agency regulations or the impact they might have on First Defiance's financial results. The CFPB's authority over mortgage lending, and its authority to change regulations adopted in the past by other regulators, or to rescind or ignore past regulatory guidance, could increase First Defiance's compliance costs and litigation exposure.

In addition to the CFPB's authority over mortgage lending, the Dodd-Frank Act includes a series of provisions covering mortgage loan origination standards affecting, among other things, originator compensation, minimum repayment standards, and pre-payments. Moreover, the Dodd-Frank Act requires public companies like First Defiance to hold shareholder advisory "say-on-pay" votes on executive compensation at least once every three years and submit related proposals to a vote of shareholders. First Defiance held its first such "say-on-pay" vote at its 2013 annual meeting of shareholders.

New Volcker Rules - On December 10, 2013, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Securities and Exchange Commission, and the Commodity Futures Trading Commission ("Regulators") adopted the final version of the Volcker Rule ("Final Volcker Rule"). The Final Volcker Rule restricts United States banks from making certain kinds of speculative investments that do not benefit their customers. The Final Volcker Rule's purpose is to put in place, as mandated under Section 619 of the Dodd-Frank Act, regulations to help avoid the financial crisis that occurred during the recent past. The Final Volcker Rule is intended to effectively reduce risks posed to banking entities by proprietary trading activities and investments in or relationships with covered funds while permitting banking entities to continue to provide client-oriented financial services that are critical to capital generation and liquid markets.

On January 14, 2014, the Regulators issued an interim final rule ("Interim Final Volcker Rule") regarding the treatment of certain collateralized debt obligations backed by trust preferred securities ("TruPS-backed CDOs") under the Final Volcker Rule implementing Section 619 of the Dodd-Frank Act. The Interim Final Volcker Rule, which does not technically amend the Final Volcker Rule but will operate as a "companion rule" to the Final Volcker Rule, specifies that the Final Volcker Rule's covered fund restrictions do not apply to the ownership by a banking entity of an interest in, or sponsorship of, any issuer of TruPS-backed CDOs if certain conditions are met. Contemporaneously with the Regulators release of the Interim Final Volcker Rule, the Regulators issued a non-exclusive list of issuers of TruPS-backed CDOs that meet the requirements of the Interim Final Volcker Rule. The Interim Final Volcker Rule provides that a banking entity "may rely" on this list.

First Defiance owns eight collateralized debt obligations ("CDOs"). Six of those CDOs were on the Regulators non-exclusive list or have no book value while the other two CDOs were deemed to be disallowed under the Interim Final Volcker Rule. These two CDOs were subsequently sold on January 15, 2014.

First Defiance's management team continues to actively monitor the implementation of the Dodd-Frank Act and the regulations promulgated thereunder and assess its probable impact on the business, financial condition, and results of operations of First Defiance. However, the ultimate effect of the Dodd-Frank Act on the financial services industry in general, and First Defiance in particular, continues to be uncertain.

New Proposed Capital Rules - On July 2, 2013, the Federal Reserve approved final rules that substantially amend the regulatory risk-based capital rules applicable to First Defiance and First Federal. The FDIC and the OCC have subsequently approved these rules. The final rules were adopted following the issuance of proposed rules by the Federal Reserve in June 2012, and implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act.

The rules include new risk-based capital and leverage ratios, which will be phased in from 2015 to 2019, and will refine the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to First Defiance and First Federal under the final rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a "capital conservation buffer" above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

The final rules implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than $15 billion in total assets as of December 31, 2009 (which includes First Defiance) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including First Federal, if their capital levels begin to show signs of weakness. These revisions take effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions will be required to meet the following increased capital level requirements in order to qualify as “well capitalized”: (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The final rules set forth certain changes for the calculation of risk-weighted assets, which First Federal will be required to utilize beginning January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with $50 billion or more in total assets that are not subject to the “advanced approaches rules” that apply to banks with greater than $250 billion in consolidated assets.

Based on our current capital composition and levels, management believes it will be in compliance with the requirements as set forth in the final rules.

Item 1A. Risk Factors

The risks listed below present risks that could have a material impact on the Company's financial condition, results of operations, or business. The risks and uncertainties described below are the not the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company's business operations.

Economic conditions may adversely affect First Defiance's operations and financial condition.

Local Economic Conditions - First Defiance conducts its banking and insurance business primarily in northwest Ohio, northeast Indiana and southeast Michigan. Unemployment rates for most of the counties within our geographic market area are above the median rate for the United States and above the median rates for the states of Ohio, Indiana, and Michigan. As reported for December 2013, the 14 counties in which our offices are located had unemployment rates between 5.2% and 11.5%, and 10 either stayed the same or experienced an improvement in their unemployment rate in 2013 compared to 2012. However, real estate values in certain First Defiance's markets are still unstable and may continue to be so in 2014. While the Company has seen improvement in the unemployment rates in its market areas and housing values starting to recover, high unemployment and unstable real estate values could have a negative impact on the Company's earnings and financial condition because:

- more borrowers are unable to make payments on their loans;
- the value of collateral securing loans has declined; and
- the overall quality of the loan portfolio has declined.

General Economic Conditions - Dramatic declines in real estate values, along with high unemployment, disrupted the national credit and capital markets over the last several years.

While economic conditions are beginning to improve slightly, First Defiance continues to face the following risks:

- inability of borrowers to make timely repayments of their loans, or decreases in value of real estate collateral securing the payment of such loans resulting in significant credit losses, which could result in increased delinquencies, foreclosures and customer bankruptcies, any of which could have a material adverse effect on our operating results;
- increased regulation of the financial services industry, including heightened legal standards and regulatory requirements or expectations; compliance with such regulation will likely increase costs and may limit the Company's ability to pursue business opportunities;
- further disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, may result in an inability to borrow on favorable terms or at all from other financial institutions;
- increased competition among financial services companies due to the consolidation of financial institutions, which may adversely affect our ability to market the Company's products and services; and
- further increases in FDIC insurance premiums due to the market developments which have significantly depleted the insurance fund of the FDIC and reduced the ratio of reserves to insured deposits.

Declining Real Estate Values - Approximately 74.9% of the loans in First Defiance's portfolio are secured in whole or in part by real estate. Because residential real estate prices have declined, some of our borrowers have mortgages that exceed the value of their homes. The decline in home values, coupled with the weakened economy, has increased defaults and foreclosures. Commercial real estate values have also declined, and the owners of many income-producing properties are experiencing declines in their revenue, which may adversely affect their ability to repay their loans. Foreclosures and resolutions of nonperforming loans require significant personnel resources and involve other costs that may increase our operating expenses. Properties acquired through foreclosure or by deed in lieu of foreclosure are taking longer to sell in the current economy, which increases the Company's expenses for managing, maintaining and insuring real estate owned. If First Defiance is unable to sell properties at a price that will cover its expenses as well as the unpaid principal and interest on the loan, the resulting write-downs and losses will adversely affect First Defiance's net income. The reduced levels of home sales have had a materially adverse effect on the prices achieved on the sale of foreclosed properties. Further decline in home values may escalate these problems, resulting in higher delinquencies, greater charge-offs, and increased losses on the sale of foreclosed real estate in future periods.

Volatile Capital Markets - The capital and credit markets have experienced volatility and disruption. In some cases, the markets have produced downward pressure on credit availability for certain issuers. Continuing market disruption and volatility could have an adverse effect on the Company's ability to access capital and on its business, financial condition and results of operations.

First Defiance's stock price may fluctuate significantly in the future and these fluctuations may be unrelated to the underlying performance of First Defiance. General market price declines and overall market volatility in the future could adversely affect the price of its common stock, and the current market price of the stock may not be indicative of future market prices.

First Defiance's stock price has been volatile in the past and several factors could cause the price to fluctuate substantially in the future. These factors include:

- Actions by government regulators;
- First Defiance's announcements of developments related to its business;
- Fluctuation in First Defiance's results of operation;
- Sales of substantial amounts of First Defiance's securities into the marketplace; and
- New reports of trends, concerns and other issues related to the financial services industry.

First Defiance's loan portfolio includes a concentration of commercial real estate loans and commercial loans, which involve risks specific to real estate value and the successful operations of these businesses.

At December 31, 2013, First Federal's portfolio of commercial real estate loans totaled $819.6 million, or approximately 50.8% of total loans. First Federal's commercial real estate loans typically have higher principal amounts than residential real estate loans, and many of our commercial real estate borrowers have more than one loan outstanding. As a result, an adverse development on one loan can expose First Defiance to greater risk of loss on other loans. Additionally, repayment of the loans is generally dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic conditions and events outside of the control of the borrower or lender could negatively impact the future cash flow and market values of the affected properties.

At December 31, 2013, First Federal's portfolio of commercial loans totaled $388.2 million, or approximately 24.1% of total loans. Commercial loans generally expose First Defiance to a greater risk of nonpayment and loss than commercial real estate or residential real estate loans since repayment of such loans often depends on the successful operations and income stream of the borrowers. First Federal's commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower such as

accounts receivable, inventory, machinery or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The collateral securing other loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business. Credit support provided by the borrower for most of these loans and the probability of repayment is based on the liquidation of the pledged collateral and enforcement of a personal guarantee, if any exists.

First Defiance targets its business lending towards small and medium-sized businesses, many of which have fewer financial resources than larger companies and may be more susceptible to economic downturns. If general economic conditions negatively impact these businesses, First Defiance's results of operations and financial condition may be adversely affected.

Increases to the allowance for loan losses may cause First Defiance's earnings to decrease.

First Federal makes a number of assumptions and judgments about the collectability of its loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the amount of the allowance for loan losses, First Federal relies on loan quality reviews, past loss experience, and an evaluation of economic conditions, among other factors. If its assumptions prove to be incorrect, First Federal's allowance for loan losses may not be sufficient to cover actual losses, resulting in additions to the allowance. In addition, bank regulators periodically review First Federal's allowance and may require First Federal to increase its allowance. Material additions to the allowance and any loan losses that exceed First Federal's reserves would materially adversely affect First Defiance's results of operations and financial condition.

Changes in interest rates can adversely affect First Defiance's profitability

First Defiance's earnings and financial condition are dependent to a large degree upon net interest income, which is the difference, or spread, between interest earned from loans and investments and interest paid on deposits and borrowings. Interest rates are highly sensitive to many factors, including:

- the rate of inflation;
- economic conditions;
- federal monetary policies; and
- stability of domestic and foreign markets.

Because First Defiance's interest-bearing liabilities may reprice or mature more quickly than its interest-earning assets, an increase in interest rates could result in a decrease in First Defiance's net interest income.

First Federal originates a significant amount of residential mortgage loans that it sells in the secondary market. The origination of residential mortgage loans is highly dependent on the local real estate market and the current interest rates. Increasing interest rates tend to reduce the origination of loans for sale and consequently fee income, which First Defiance reports as mortgage banking income. Conversely, decreasing interest rates have the effect of causing clients to refinance mortgage loans faster than anticipated. This causes the value of mortgage servicing rights on the loans sold to be lower than originally anticipated. If this happens, First Defiance may be required to write down the value of its mortgage servicing rights faster than anticipated, which will increase expense and lower earnings. Accelerated repayments on loans and mortgage backed securities could result in the reinvestment of funds at lower rates than the loans or securities were paying.

Laws and regulations may affect First Defiance's results of operations.

The earnings of financial institutions are affected by the regulations and policies of various regulatory authorities, including the Federal Reserve, which regulates the money supply, and the Federal Reserve which regulates the Company and OCC which regulates First Federal, and the FDIC, which regulates First Federal. The Federal Reserve has extensive supervisory authority over the Company, affecting a comprehensive range of matters relating to ownership and control of First Defiance's shares, First Defiance's acquisition of other companies and businesses, permissible activities for the Company to engage in, maintenance of adequate capital levels and other aspects of

operations. These supervisory and regulatory powers are intended primarily for the protection for First Defiance's depositors and customers and the deposit insurance fund, rather than First Defiance's shareholders.

Comprehensive revisions to the regulatory capital framework were finalized by the FRB, OCC, and FDIC in 2013. Included within those revisions is Basel III, which incorporates changes made by the Basel Committee on Banking Supervision to the Basel Capital framework in addition to implementing relevant provisions of the Dodd-Frank Act. Basel III specifically revises what qualifies as regulatory capital, raises minimum requirements and introduces the concept of additional capital buffers. The need to maintain more and higher quality capital as well as greater liquidity going forward could limit our business activities, including lending, and our ability to expand, either organically or through acquisitions. In addition, the new liquidity standards could require us to increase our holdings of highly liquid short-term investments, thereby reducing our ability to invest in longer-term assets even if more desirable from a balance sheet management perspective.

The laws and regulations applicable to the banking industry could change at any time. As a result of ongoing challenges facing the U.S. economy in particular, the potential exists for new laws and regulations, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations. Increased regulation could increase First Defiance’s cost of compliance and reduce its income to the extent that they limit the manner in which First Defiance may conduct business, including its ability to offer new products, charge fees for specific products and services, obtain financing, attract deposits, make loans and achieve satisfactory interest spreads.

First Defiance’s ability to meet cash flow needs on a timely basis at a reasonable cost may adversely affect net income.

First Defiance’s principal sources of liquidity are local deposits and wholesale funding sources such as FHLB advances, Federal Funds purchased, securities sold under repurchase agreements, and brokered or other out-of-market certificate of deposit purchases. Also, First Defiance maintains a portfolio of securities that can be used as a secondary source of liquidity. First Defiance’s access to funding sources in amounts adequate to finance or capitalize its activities or on terms that are acceptable could be impaired by factors that affect First Defiance directly or the financial services industry or economy in general, such as further disruptions in the financial markets or negative views and expectations about the prospects for the financial services industry.

Other possible sources of liquidity include the sale or securitization of loans, the issuance of additional collateralized borrowings beyond those currently utilized with the FHLB, the issuance of debt securities and the issuance of preferred or common securities in public or private transactions, or borrowings from a commercial bank. First Defiance does not currently have any borrowings from a commercial bank, but it has used them in the past.

Any decline in available funding could adversely impact our ability to originate loans, invest in securities, meet our expenses, pay dividends to First Defiance’s shareholders, or fulfill obligations such as repaying First Defiance’s borrowings or meeting deposit withdrawal demands, any of which could have a material adverse impact on our liquidity, business, results of operations and financial condition.

Competition affects First Defiance’s earnings.

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

The increasing complexity of First Defiance's operations presents varied risks that could affect its earnings and financial condition.

First Defiance processes a large volume of transactions on a daily basis and is exposed to numerous types of risks related to internal processes, people and systems. These risks include, but are not limited to, the risk of fraud by persons inside or outside the Company, the execution of unauthorized transactions by employees, errors relating to transaction processing and systems, breaches of data security and our internal control system and compliance with a complex array of consumer and safety and soundness regulations. First Defiance could also experience additional loss as a result of potential legal actions that could arise as a result of operational deficiencies or as a result of noncompliance with applicable laws and regulations.

First Defiance has established and maintains a system of internal controls that provides management with information on a timely basis and allows for the monitoring of compliance with operational standards. These systems have been designed to manage operational risks at an appropriate, cost effective level. Procedures exist that are designed to ensure that policies relating to conduct, ethics, and business practices are followed. Losses from operational risks may still occur, however, including losses from the effects of operational errors.

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

Unauthorized disclosure of sensitive or confidential client or customer information, whether through a breach of the Company's computer systems or otherwise, could severely harm its business.

In the normal course of business, First Defiance collects, processes and retains sensitive and confidential client and customer information on behalf of First Defiance and other third parties. Despite the security measures the Company has in place, First Defiance's facilities and systems, and those of the Company's third party service providers, may be vulnerable to security breaches, acts of vandalism, computer viruses, lost or misplaced data, or other similar events. Any security breach involving the unauthorized disclosure or loss of confidential customer information, whether by First Defiance or by the Company's third party vendors, could severely damage First Defiance's reputation, expose the Company to risks of litigation and liability, disrupt First Defiance's operations and have a material adverse effect on First Defiance's business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

At December 31, 2013, First Federal conducted its business from its main office at 601 Clinton Street, Defiance, Ohio, and thirty-one other full service banking centers in northwest Ohio, northeast Indiana and southeast Michigan. First Insurance conducted its business from leased office space at 419 5th Street, Suite 1200, Defiance, Ohio; 209 West Poe Road, Bowling Green, Ohio; 926 East High Street, Bryan, Ohio; 1755 Indian Wood Circle, Maumee, Ohio and 4350 Navarre Ave, Oregon, Ohio.

In September 2013, First Federal closed its branch on 926 E. High Street, Bryan, Ohio. This building is owned by First Federal.

In October 2013, First Insurance closed its insurance office on 214 N. Defiance St., Archbold, Ohio. This was a leased facility.

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

The following table sets forth certain information with respect to the offices and other properties of the Company at December 31, 2013. See Note 9 to the Consolidated Financial Statements.

Description/address	Leased/ Owned	Net Book Value of Property (In Thousands)	Deposits
Main Office, First Federal			
601 Clinton St., Defiance, OH	Owned	$ 4,476	$ 220,886
Operations Center			
25600 Elliott Rd., Defiance, OH	Owned	5,311	N/A
Mobile Banking			
1011 W. Beecher St., Adrian, MI	Owned	190	N/A
Branch Offices, First Federal			
204 E. High St., Bryan, OH*	Owned	649	134,120
211 S. Fulton St., Wauseon, OH	Owned	437	52,457
625 Scott St., Napoleon, OH	Owned	999	68,800
1050 East Main St., Montpelier, OH	Owned	347	39,415
926 East High St., Bryan, OH*	Owned	87	-
1800 Scott St., Napoleon, OH	Owned	1,269	28,394
1177 N. Clinton St., Defiance, OH	Owned, Land Lease Leased	875	38,915
905 N. Williams St., Paulding, OH	Owned	738	61,033
201 E. High St., Hicksville, OH	Owned	346	30,422
3900 N. Main St., Findlay, OH	Owned	937	47,654
11694 N. Countyline St., Fostoria, OH	Owned	638	40,681
1226 W. Wooster, Bowling Green, OH	Owned	979	101,144
301 S. Main St., Findlay, OH	Owned	960	56,849
405 E. Main St., Ottawa, OH	Owned	324	88,830
124 E. Main St., McComb, OH	Owned	186	19,862
7591 Patriot Dr., Findlay, OH	Owned	1,115	35,557
417 W Dussell Dr., Maumee, OH	Owned, Land Lease	830	53,861
230 E. Second St., Delphos, OH	Owned	989	95,362
105 S. Greenlawn Ave., Elida, OH	Owned	319	47,180
2600 Allentown Rd., Lima, OH	Owned	770	45,466
22020 W. State Rt. 51, Genoa, OH	Owned	829	30,908
3426 Navarre Ave., Oregon, OH	Owned	910	29,771
1077 Louisiana Ave., Perrysburg, OH	Owned	1,070	30,963
2565 Shawnee Rd., Lima, OH	Owned	1,406	70,821
1595 Dupont Rd., Fort Wayne, IN	Leased	28	21,388
135 South Main St., Glandorf, OH	Leased	-	16,149
300 N. Main St., Adrian, MI	Owned	704	64,288
1701 W. Maumee St., Adrian, MI	Owned	160	45,320
211 W. Main St., Morenci, MI	Owned	159	28,771
539 S. Meridian, Hudson, MI	Owned	555	39,935
1449 W. Chicago Blvd., Tecumseh, MI	Owned	1,472	45,946
1200 North Main St., Bowling Green OH	Owned	1,644	4,644
First Insurance Group			
419 5th Street, Suite 1200, Defiance, OH	Leased	17	N/A
209 West Poe Road, Bowling Green, OH	Leased	8	N/A

926 E. High Street, Bryan, OH	Leased		-		N/A
1755 Indian Wood Circle, Maumee, OH	Leased		-		N/A
4350 Navarre Ave, Oregon, OH	Leased		-		N/A
		$	32,733	$	1,735,792

* The Bryan East (926 East High St.) deposits are now included in the Bryan Main (204 E. High Street) totals.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

The Company's common shares trade on The NASDAQ Global Select Market under the symbol "FDEF." As of February 21, 2014, the Company had 2,020 shareholders of record.

The table below shows the reported high and low sales prices of the common shares and cash dividends declared per common share during the periods indicated in 2013 and 2012.

	Years Ending December 31, 2013			December 31, 2012		
	High	Low	Dividend	High	Low	Dividend
Quarter ended:						
March 31	$ 23.75	$ 18.42	$ 0.10	$ 17.76	$ 14.41	$ 0.05
June 30	23.75	20.80	0.10	17.46	15.23	0.05
September 30	28.46	22.49	0.10	18.06	15.80	0.05
December 31	27.25	23.31	0.10	19.38	15.75	0.05

The line graph below compares the yearly percentage change in cumulative total shareholder return on First Defiance common shares and the cumulative total return of the NASDAQ Composite Index, the SNL NASDAQ Bank Index and the SNL Midwest Thrift Index. An investment of $100 on December 31, 2008, and the reinvestment of all dividends are assumed. The performance graph represents past performance and should not be considered to be an indication of future performance.

	Period Ending					
Index	12/31/08	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13
First Defiance Financial Corp.	100.00	153.53	161.82	199.10	265.02	364.68
NASDAQ Composite	100.00	145.36	171.74	170.38	200.63	281.22
SNL Bank NASDAQ	100.00	81.12	95.71	84.92	101.22	145.48
SNL Midwest Thrift	100.00	84.23	68.28	60.23	77.87	96.03

The following table provides information regarding First Defiance's purchases of its common stock during the three-month period ended December 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares (or Approximate Dollar Value) that May Yet Be Purchased Under the Plans or Programs (2)
October 1 October 31, 2013	-	$ -	-	-
November 1 November 30, 2013	23,127	25.16	23,127	465,873
December 1 December 31, 2013	47,839	25.89	47,839	418,034
Total	70,966	$ 25.65	70,966	418,034

(1) The reported shares were repurchased pursuant to First Defiance's publicly announced stock repurchase program, which became effective September 30, 2013. Up to 489,000 shares were authorized to be purchased under the program. There is no expiration date for the program.

(2) The number of shares shown represents, as of the end of each period, the maximum number of shares of common stock that may yet be purchased under publicly announced stock repurchase programs. The shares may be purchased, from time to time, depending on market conditions.

Item 6. Selected Financial Data

The following table is derived from the Company's audited financial statements as of and for the five years ended December 31, 2013. The following consolidated selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and related notes included elsewhere in this Form 10-K. The operating results of the acquired companies are included with the Company's results of operations since their respective dates of acquisition.

	As of and For the Year Ended December 31				
	2013	2012	2011	2010	2009
	(Dollars in Thousands, Except Per Share Data				
Financial Condition:					
Total assets	$ 2,137,148	$ 2,046,948	$ 2,068,190	$ 2,035,517	$ 2,057,523
Investment securities	198,557	194,609	233,580	166,091	139,378
Loans receivable, net	1,555,498	1,498,546	1,453,822	1,478,423	1,580,575
Allowance for loan losses	24,950	26,711	33,254	41,080	36,547
Nonperforming assets (1)	33,706	36,375	42,956	50,631	54,718
Deposits and borrowers' escrow balances	1,737,311	1,668,945	1,597,643	1,576,356	1,580,891
FHLB advances	22,520	12,796	81,841	116,885	146,927
Stockholders' equity	272,147	258,128	278,127	240,331	234,086
Share Information:					
Basic earnings per share	2.28	1.86	1.44	0.75	0.64
Diluted earnings per share	2.19	1.81	1.42	0.75	0.63
Book value per common share	27.91	26.44	24.74	25.00	24.26
Tangible book value per common share	21.22	19.63	17.78	17.16	16.44
Cash dividends per common share	0.40	0.20	0.05	-	0.295
Dividend payout ratio	17.45 %	10.75 %	3.47 %	NM	46.09 %
Weighted average diluted shares outstanding	10,171	9,998	9,540	8,153	8,196
Shares outstanding end of period	9,720	9,729	9,726	8,118	8,118
Operations:					
Interest income	$ 74,781	$ 80,943	$ 87,067	$ 95,865	$ 100,579
Interest expense	7,170	11,937	17,186	25,702	33,257
Net interest income	67,611	69,006	69,881	70,163	67,322
Provision for loan losses	1,824	10,924	12,434	23,177	23,232
Non-interest income	30,570	34,374	27,516	27,590	26,295
Non-interest expense	64,844	65,780	62,764	63,463	60,524
Income before tax	31,513	26,676	22,199	11,113	9,861
Federal income tax	9,278	8,012	6,665	3,005	2,667
Net Income	22,235	18,664	15,534	8,108	7,194
Performance Ratios:					

Return on average assets	1.08	%	0.90	%	0.75	%	0.39	%	0.36	%
Return on average equity	8.39	%	6.99	%	5.89	%	3.40	%	3.09	%
Interest rate spread (2)	3.65	%	3.64	%	3.69	%	3.68	%	3.50	%
Net interest margin (2)	3.76	%	3.81	%	3.88	%	3.89	%	3.76	%
Ratio of operating expense to average total assets	3.16	%	3.19	%	3.05	%	3.09	%	2.99	%
Efficiency ratio (3)	64.81	%	63.93	%	63.62	%	63.89	%	61.50	%
Capital Ratios:										
Equity to total assets at end of period	12.73	%	12.61	%	13.45	%	11.81	%	11.38	%
Tangible common equity to tangible assets at end of period	9.94	%	9.64	%	8.65	%	7.06	%	6.69	%
Average equity to average assets	12.92	%	12.95	%	12.82	%	11.62	%	11.49	%
Asset Quality Ratios:										
Nonperforming assets to total assets at end of period (1)	1.58	%	1.78	%	2.08	%	2.49	%	2.66	%
Allowance for loan losses to total loans*	1.58	%	1.75	%	2.24	%	2.70	%	2.26	%
Net charge-offs to average loans	0.23	%	1.18	%	1.41	%	1.21	%	0.70	%

(1) *Nonperforming assets consist of non-accrual loans that are contractually past due 90 days or more and real estate, mobile homes and other assets acquired by foreclosure or deed-in-lieu thereof.*

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

(3) *Efficiency ratio represents non-interest expense divided by the sum of tax-equivalent net interest income plus non-interest income, excluding securities gain or losses, net.*

** Total loans are net of undisbursed loan funds and deferred fees and costs.*

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

Forward-Looking Statements and Factors that Could Affect Future Results

Certain statements contained in this Annual Report on Form 10-K that are not statements of historical fact constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (“Act”), notwithstanding that such statements are not specifically identified as such. In addition, certain statements may be contained in the Company’s future filings with the SEC, in press releases, and in oral and written statements made by or with the approval of the Corporation that are not statements of historical fact and constitute forward-looking statements within the meaning of the Act. Examples of forward-looking statements include, but are not limited to: (i) projections of revenues, expenses, income or loss, earnings or loss per common share, the payment or nonpayment of dividends, capital structure and other financial items; (ii) statements of plans, objectives and expectations of First Defiance or its management or Board of Directors, including those relating to products or services; (iii) statements of future economic performance; and (iv) statements of assumptions underlying such statements. Words such as “believes”, “anticipates”, “expects”, “intends”, “targeted”, “continue”, “remain”, “will”, “should”, “may” and other similar expressions a to identify forward-looking statements but are not the exclusive means of identifying such statements.

Forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those in such statements. Factors that could cause actual results to differ from those discussed in the forward-looking statements include, but are not limited to:

- Local, regional, national and international economic conditions and the impact they may have on the Company and its customers and the Company’s assessment of that impact.
- Volatility and disruption in national and international financial markets.
- Government intervention in the U.S. financial system.
- Changes in the level of non-performing assets and charge-offs.
- Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements.
- The effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the Federal Reserve Board.
- Inflation, interest rate, securities market and monetary fluctuations.
- Political instability.
- Acts of God or of war or terrorism.
- The timely development and acceptance of new products and services and perceived overall value of these products and services by users.
- Changes in consumer spending, borrowing and saving habits.
- Changes in the financial performance and/or condition of the Company’s borrowers.
- Technological changes including core system conversions.

- Acquisitions and integration of acquired businesses.
- The ability to increase market share and control expenses.
- Changes in the competitive environment among financial holding companies and other financial service providers.
- The effect of changes in laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) with which the Company and the subsidiaries must comply.

- The effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board and other accounting standard setters.

- The costs and effects of legal and regulatory developments including the resolution of legal proceedings or regulatory or other governmental inquiries and the results of regulatory examinations or reviews.

- Greater than expected costs or difficulties related to the integration of new products and lines of business.

- The Company’s success at managing the risks involved in the foregoing items.

Forward-looking statements speak only as of the date on which such statements are made. The Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events.

The following section presents information to assess the financial condition and results of operations of First Defiance. This section should be read in conjunction with the consolidated financial statements and the supplemental financial data contained elsewhere in this Annual Report on Form 10-K.

Overview

First Defiance is a unitary thrift holding company that conducts business through its subsidiaries, First Federal, First Insurance and First Defiance Risk Management.

First Federal is a federally chartered stock savings bank that provides financial services to communities based in northwest Ohio, northeast Indiana, and southeastern Michigan where it operates 32 full service banking centers in 12 northwest Ohio counties, 1 northeast Indiana county, and 1 southeastern Michigan county.

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

First Insurance sells a variety of property and casualty, group health and life and individual health and life insurance products. First Insurance is an insurance agency that does business in the Defiance, Bryan, Bowling Green, Maumee and Oregon, Ohio areas. On July 1, 2011, the Company completed its acquisition of Payak-Dubbs Insurance Agency, Inc. (“PDI”), an independent property and casualty insurance agency with two office locations based in Maumee, Ohio and Oregon, Ohio for a cash price of $4.8 million. PDI was merged into First Insurance. See Note 3 Acquisitions in the Notes to the Financial Statements.

First Defiance Risk Management is a wholly-owned insurance company subsidiary of the Company to insure the Company and its subsidiaries against certain risks unique to the operations of the Company and for which insurance may not be currently available or economically feasible in today’s insurance marketplace. First Defiance Risk Management pools resources with several other similar insurance company subsidiaries of financial institutions to spread a limited amount of risk among themselves. First Defiance Risk Management was incorporated on December 20, 2012.

Financial Condition

Assets at December 31, 2013 totaled $2.14 billion compared to $2.05 billion at December 31, 2012, an increase of $90.2 million or 4.4%. Cash and cash equivalents increased $42.5 million to $179.3 million at December 31, 2013 from $136.8 million at December 31, 2012. The increase in assets was due to an increase in the deposit base as of December 31, 2013. The Company continues to deploy lower yielding overnight deposits into securities on the short to intermediate end of the yield curve until loan demand becomes more consistent.

Securities

The securities portfolio increased $3.9 million to $198.6 million at December 31, 2013. The 2013 activity in the portfolio included $49.2 million of purchases, $19.4 million of amortization and maturities, $16.2 million of principal pay-downs and $4.0 million of securities being sold. There was a net decrease of $6.1 million in market value on available-for-sale securities. The Company also recorded $337,000 of other-than-temporary impairment on two collateralized debt obligations in 2013. See Note 5 Investment Securities in the Notes to the financial statements for additional information.

Loans

Loans receivable, net of undisbursed loan funds and deferred fees and costs, increased $55.2 million to $1.58 billion at December 31, 2013. For more details on the loan balances, see Note 7 Loans Receivable in the Notes to the Financial Statements.

The majority of First Defiance's non-residential real estate and commercial loans are to small and mid-sized businesses. The combined commercial, non-residential real estate and multi-family real estate loan portfolios totaled $1.21 billion and $1.18 billion at December 31, 2013 and 2012, respectively, and accounted for approximately 74.9% and 76.5% of First Defiance's loan portfolio at the end of those respective periods. First Defiance believes it has been able to establish itself as a leader in its market area in the commercial and commercial real estate lending area by hiring experienced lenders and providing a high level of customer service to its commercial lending clients.

The one-to-four family residential portfolio totaled $195.8 million at December 31, 2013, compared with $200.8 million at the end of 2012. At the end of 2013, those loans comprised 12.1% of the total loan portfolio, down from 13.0% at December 31, 2012.

Construction loans, which include one to four family and commercial real estate properties, increased to $86.1 million at December 31, 2013 compared to $37.8 million at December 31, 2012. These loans accounted for approximately 5.3% and 2.5% of the total loan portfolio at December 31, 2013 and 2012, respectively.

Home equity and home improvement loans declined to $106.9 million at December 31, 2013, from $108.7 million at the end of 2012. At the end of 2013, those loans comprised 6.6% of the total loan portfolio, down from 7.0% at December 31, 2012.

Consumer finance and mobile home loans were $16.9 million at December 31, 2013, up from $15.9 million at the end of 2012. These loans comprised just 1.1% and 1.0% of the total portfolio at December 31, 2013 and 2012, respectively.

In order to properly assess the collateral dependent loans included in its loan portfolio, the Company has established policies regarding the monitoring of the collateral underlying such loans. The Company requires an appraisal that is less than one year old for all new collateral dependent real estate loans, and all renewed collateral dependent real estate loans where significant new money is extended. The appraisal process is handled by the Credit Department, which selects the appraiser and orders the appraisal. First Defiance's loan policy prohibits the account officer from talking or communicating with the appraiser to insure that the appraiser is not influenced by the account officer in any

way in making their determination of value.

First Federal generally does not require updated appraisals for performing loans unless significant new money is requested by the borrower.

When a collateral dependent loan is downgraded to classified status, First Federal reviews the most current appraisal on file and if necessary, based on First Federal's assessment of the appraisal, such as age, market, etc, First Federal will discount this amount to a more appropriate current value based on inputs from lenders and realtors. This amount may then be discounted further by First Federal's estimation of the selling costs. In most instances, if the appraisal is more than twelve to fifteen months old, a new appraisal may be required. Finally, First Federal assesses whether there is any collateral short fall, taking into consideration guarantor support and liquidity, and determines if a charge off is necessary.

When a collateral dependent loan moves to non-performing status, First Federal generally gets a new third party appraisal and charges the loan down appropriately based upon the new appraisal and an estimate of costs to liquidate the collateral. All properties that are moved into the Other Real Estate Owned ("OREO") category are supported by current appraisals, and the OREO is carried at the lower of cost or fair value, which is determined based on appraised value less First Federal's estimate of the liquidation costs.

First Federal does not adjust any appraisals upward without written documentation of this valuation change from the appraiser. When setting reserves and charge offs on classified loans, appraisal values may be discounted downward based upon First Federal's experience with liquidating similar properties.

All loans over 90 days past due and/or on non-accrual are classified as non-performing loans. Non-performing status automatically occurs in the month in which the 90 day delinquency occurs.

As stated above, once a collateral dependent loan is identified as non-performing, First Federal generally gets an appraisal.

Appraisals are received within approximately 60 days after they are requested. The First Federal Loan Loss Reserve Committee reviews the amount of each new appraisal and makes any necessary charge off decisions at its meeting prior to the end of each quarter.

Any partially charged-off collateral dependent loans are considered non-performing, and as such, would need to show an extended period of time with satisfactory payment performance as well as cash flow coverage capability supported by current financial statements before First Federal will consider an upgrade to performing status. First Federal may consider moving the loan to accruing status after approximately six months of satisfactory payment performance.

For loans where First Federal determines that an updated appraisal is not necessary, other means are used to verify the value of the real estate, such as recent sales of similar properties on which First Federal had loans as well as calls to appraisers, brokers, realtors and investors. First Federal monitors and tracks its loan to value quarterly to determine accuracy and any necessary charge offs. Based on these results, changes may occur in the processes used.

Loan modifications constitute a Troubled Debt Restructuring if First Federal for economic or legal reasons related to the borrower's financial difficulties grants a concession to the borrower that it would not otherwise consider. For loans that are considered Troubled Debt Restructurings, First Federal either computes the present value of expected future cash flows discounted at the original loan's effective interest rate or it may measure impairment based on the fair value of the collateral. For those loans measured for impairment utilizing the present value of future cash flows method, any discount is carried as a reserve in the allowance for loan and lease losses. For those loans measured for impairment utilizing the fair value of the collateral, any shortfall is charged off. As of December 31, 2013 and December 31, 2012, First Federal Bank had $27.6 million and $28.2 million, respectively, of loans that were still performing and which were classified as Troubled Debt Restructurings.

- 40 -

Allowance for Loan Losses

The allowance for loan losses represents management's assessment of the estimated probable incurred credit losses in the loan portfolio at each balance sheet date. Management analyzes the adequacy of the allowance for loan losses regularly through reviews of the loan portfolio. Consideration is given to economic conditions, changes in interest rates and the effect of such changes on collateral values and borrower's ability to pay, changes in the composition of the loan portfolio and trends in past due and non-performing loan balances. The allowance for loan losses is a material estimate that is susceptible to significant fluctuation and is established through a provision for loan losses based on management's evaluation of the inherent risk in the loan portfolio. In addition to extensive in-house loan monitoring procedures, the Company utilizes an outside party to conduct an independent loan review of all commercial loan and commercial real estate loan relationships that exceed $1 million of aggregate exposure over a twelve month period. Management utilizes the results of this outside loan review to assess the effectiveness of its internal loan grading system as well as to assist in the assessment of the overall adequacy of the allowance for loan losses associated with these types of loans.

The provision for loan losses is determined by management as the amount to be added to the allowance for loan losses after net charge-offs have been deducted to bring the allowance to a level which, in management's best estimate, is necessary to absorb incurred credit losses within the existing loan portfolio in the normal course of business. The allowance for loan loss is made up of two basic components. The first component is the specific allowance in which the company sets aside reserves based on the analysis of individual credits that are cash flow dependent, yet there is a discount between the present value of the future cash flows and the carrying value. This was $1.4 million at December 31, 2013. The second component is the general reserve. The general reserve is used to record loan loss reserves for groups of homogenous loans in which the Company estimates the losses incurred in the portfolios based on quantitative and qualitative factors. Due to the uncertainty of risks in the loan portfolio, the Company's judgment on the amount of the allowance necessary to absorb loans losses is approximate.

Due to regulatory guidance, the Company no longer carries specific reserves on collateral dependent loans, and instead usually charges off any shortfall. First Federal analyzes all loans on its classified and special mention lists at least quarterly and makes judgments about the risk of loss based on the cash flow of the borrower, the value of any collateral and the financial strength of any guarantor in determining the amount of impairment of individual loans and the charge off to be taken.

For purpose of the general reserve analysis, the loan portfolio is stratified into nine different loan pools based on loan type and by market area to allocate historic loss experience. The loss experience factor applied to the non-impaired loan portfolio was based upon historical losses of the most recent weighted rolling twelve quarters ending December 31, 2013.

The stratification of the loan portfolio resulted in a quantitative general allowance of $11.2 million at December 31, 2013 compared to $14.4 million at December 31, 2012. The decrease in the quantitative allowance was due to a decrease in the historical loss factors relating to commercial, commercial real estate, residential and consumer loans.

In addition to the quantitative analysis, a qualitative analysis is performed each quarter to provide additional general reserves on the non-impaired loan portfolio for various factors. The overall qualitative factors are based on nine sub-factors. The nine sub-factors have been aggregated into three qualitative factors: economic, environment and risk.

ECONOMIC

1) Changes in international, national and local economic business conditions and developments, including the condition of various market segments.
2) Changes in the value of underlying collateral for collateral dependent loans.

ENVIRONMENT

3) Changes in the nature and volume in the loan portfolio.
4) The existence and effect of any concentrations of credit and changes in the level of such concentrations.
5) Changes in lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices.
6) Changes in the quality and breadth of the loan review process.
7) Changes in the experience, ability and depth of lending management and staff.

RISK

8) Changes in the trends of the volume and severity of delinquent and classified loans, and changes in the volume of non-accrual loans, trouble debt restructuring, and other loan modifications.
9) Changes in the political and regulatory environment.

The qualitative analysis at December 31, 2013 indicated a general reserve of $12.3 million compared with $10.8 million at December 31, 2012. Management reviewed the overall economic, environmental and risk factors and determined that it was appropriate to increase several of the factors as a result of recent experience indicating continued declines in commercial real estate appraised values, rising interest rates in 2013 coupled with the forecast for continued higher rates in 2014, and slightly rising unemployment rates in several Northwest Ohio counties. While management believes that the overall economy and operating environment has generally stabilized in 2013 and the risk of a further significant contraction in the near term is low in our markets, management still anticipates that economic growth will be slow to moderate over the next twelve months. Management also anticipates that past due levels and classified loan levels will possibly fluctuate over the next several quarters but directionally trend toward improvement until a sustainable improvement in the economy and asset quality metrics can be realized. First Defiance's general reserve percentages for main loan segments not otherwise classified ranged from 0.25% for construction loans to 1.68% for nonresidential real estate loans.

As a result of the quantitative and qualitative analysis, along with the change in specific reserves, the Company's provision for loan losses for 2013 was $1.8 million compared to $10.9 million for 2012. The allowance for loan losses was $25.0 million at December 31, 2013 and $26.7 million at December 31, 2012 and represented 1.58% and 1.75% of loans, net of undisbursed loan funds and deferred fees and costs, respectively. That decrease was mainly the result of the lower quantitative factors driven by lower charge offs and improvement in overall credit risk profile as well as the overall higher balance of loans. The pace of the decline in real estate values has slowed and in some markets has stabilized. While some collateral dependent loans no longer have enough collateral value to support the outstanding balance Management believes it has processes in place to identify and assess market values. Management has expanded its credit monitoring functions even further beyond its traditionally strong focus. Additional asset review functions and more delinquent loan reporting requirements have been added to assist in this monitoring. Management will continually review credit concentrations by industry and has placed lower limits on lending within certain types of loan categories. Management has also segmented the commercial real estate portfolio to track the general performance of these segments to further refine the predictive process of identifying potential problem loans. The provision was offset by charge offs of $5.2 and recoveries of $1.6 million resulting in a decrease to the overall allowance for loan loss of $1.7 million. In management's opinion, the overall allowance for loan losses of $25.0 million as of December 31, 2013 is adequate.

Management also assesses the value of real estate owned as of the end of each accounting period and recognizes write-downs to the value of that real estate in the income statement if conditions dictate. In 2013, First Defiance recorded real estate owned write-downs that totaled $740,000. These amounts were included in other non-interest expense. Management believes that the values recorded at December 31, 2013 for real estate owned and repossessed assets represent the realizable value of such assets.

Total classified loans decreased to $55.6 million at December 31, 2013, compared to $78.1 million at December 31, 2012.

First Defiance's ratio of allowance for loan losses to non-performing loans was 89.6% at December 31, 2013 compared with 82.0% at December 31, 2012. Management monitors collateral values of all loans included on the watch list that are collateral dependent and believes that allowances for those loans at December 31, 2013 are appropriate.

At December 31, 2013, First Defiance had total non-performing assets of $33.7 million, compared to $36.4 million at December 31, 2012. Non-performing assets include loans that are 90 days past due, real estate owned and other assets held for sale.

The decrease in non-performing loans between December 31, 2012 and December 31, 2013 is in non-residential and multi-family residential real estate. The balance of non-residential and multi-family residential real estate non-performing loans was $7.3 million higher at December 31, 2012 compared to December 31, 2013. This was partially offset by an increase in commercial loans of $2.7 million from December 31, 2012 to December 31, 2013.

Non-performing loans in the single-family residential, non-residential and multi-family residential real estate and commercial loan categories represent 1.67%, 1.93% and 2.14% of the total loans in those categories respectively at December 31, 2013 compared to 1.79%, 2.90% and 1.47% respectively for the same categories at December 31, 2012. Management believes that the current allowance for loan losses is appropriate and that the provision for loan losses recorded in 2013 is consistent with both charge-off experience and the risk inherent in the overall credits in the portfolio.

First Federal's Asset Review Committee meets monthly to review the status of work-out strategies for all criticized relationships, which include all non-accrual loans. Based on such factors as anticipated collateral values in liquidation scenarios, cash flow projections, assessment of net worth of guarantors and all other factors which may mitigate risk of loss, the Asset Review Committee makes recommendations regarding proposed charge-offs which are approved by the Senior Loan Committee or the Loan Loss Reserve Committee.

For the twelve months ended and as of December 31, 2013, commercial real estate, which represented 50.80% of total loans, accounted for 45.69% of net charge-offs and 56.86% of nonaccrual loans, and commercial loans, which represented 24.06% of total loans, accounted for 26.22% of net charge-offs and 29.90% of nonaccrual loans. For the twelve months ended and as of December 31, 2012, commercial real estate, which represented 51.63% of total loans, accounted for 58.98% of net charge-offs and 70.89% of nonaccrual loans, and commercial loans, which represented 24.85% of total loans, accounted for 21.11% of net charge-offs and 17.38% of nonaccrual loans.

Table 1 Net Charge-offs and Non-accruals by Loan Type

	For the Twelve Months Ended December 31, 2013		As of December 31, 2013	
	Net Charge-offs (in thousands)	% of Total Net Charge-offs	Nonaccrual Loans (in thousands)	% of Total Non-Accrual Loans
Residential	$ 361	10.07 %	$ 3,273	11.76 %
Construction	-	0.00 %	-	0.00 %
Commercial real estate	1,638	45.69 %	15,834	56.86 %
Commercial	940	26.22 %	8,327	29.90 %
Consumer finance	14	0.39 %	-	0.00 %
Home equity and improvement	632	17.63 %	413	1.48 %
Total	$ 3,585	100.00 %	$ 27,847	100.00 %

	For the Twelve Months Ended December 31, 2012		As of December 31, 2012	
	Net Charge-offs (in thousands)	% of Total Net Charge-offs	Nonaccrual Loans (in thousands)	% of Total Non-Accrual Loans
Residential	$ 2,338	13.38 %	$ 3,602	11.06 %
Construction	-	0.00 %	-	0.00 %
Commercial real estate	10,302	58.98 %	23,090	70.89 %
Commercial	3,688	21.11 %	5,661	17.38 %
Consumer finance	69	0.40 %	-	0.00 %
Home equity and improvement	1,070	6.13 %	217	0.67 %
Total	$ 17,467	100.00 %	$ 32,570	100.00 %

The following table sets forth information concerning the allocation of First Defiance's allowance for loan losses by loan categories at December 31, 2013 and December 31, 2012.

Table 2 Allowance for Loan Loss Allocation by Loan Category

	December 31, 2013		December 31, 2012	
	Amount (dollars in thousands)	Percent of total loans by category	Amount	Percent of total loans by category
Residential	$ 2,847	12.13 %	$ 3,506	13.00 %
Construction	134	5.33 %	75	2.45 %
Commercial real estate	14,508	50.80 %	14,899	51.63 %
Commercial	5,678	24.06 %	6,325	24.85 %
Consumer	148	1.05 %	147	1.03 %
Home equity and improvement	1,635	6.63 %	1,759	7.04 %
	$ 24,950	100.00 %	$ 26,711	100.00 %

Loans Acquired with Impairment

Certain loans acquired had evidence that the credit quality of the loan had deteriorated since its origination and, in management's assessment at the acquisition date, it was probable that First Defiance would be unable to collect all contractually required payments due. In accordance with FASB ASC Topic 310 Subtopic 30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality*, these loans were recorded based on management's estimate of the fair value of the loans.

As of December 31, 2013, the total contractual receivable for those loans was $503,000 and the recorded value was $230,000.

High Loan-to-Value Mortgage Loans

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

First Federal originates and retains a limited number of residential mortgage loans with loan-to-value ratios that exceed 80% where PMI is not required if the borrower possesses other demonstrable strengths. The loan-to-value ratios on these loans are generally limited to 85% and exceptions must be approved by First Federal's senior loan committee. Management monitors the balance of one-to-four family residential loans, including home equity loans and committed lines of credit that exceed certain loan to value standards (90% for owner occupied residences, 85% for non-owner occupied residences and one-to-four family construction loans, 75% for developed land and 65% for raw land). Total loans that exceed those standards described above at December 31, 2013 totaled $43.7 million, compared to $45.2 million at December 31, 2012. These loans are generally paying as agreed.

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

Goodwill and Intangible Assets

Goodwill was $61.5 million at December 31, 2013 and 2012. No impairment of goodwill was recorded in 2013 or 2012. Core deposit intangibles and other intangible assets decreased to $3.5 million at December 31, 2013 compared to $4.7 million at December 31, 2012. During 2013, changes to the core deposit intangibles and other intangibles were due to the recognition of $1.2 million of amortization expense.

Deposits

Total deposits at December 31, 2013 were $1.74 billion compared to $1.67 billion at December 31, 2012, an increase of $68.3 million or 4.1%. Non-interest bearing deposits increased $33.8 million or 10.7% while interest bearing deposits increased $34.5 million or 2.6%. Non-interest bearing checking accounts grew by $33.8 million, money market and interest bearing checking accounts grew by $51.1 million, and savings grew by $18.1 million while retail certificates of deposit declined by $32.7 million. Management periodically utilizes the national market for certificates of deposit to supplement its funding needs. The balance of national CD's decreased to $0 at December 31, 2013, from $2.0 million at December 31, 2012. For more details on the deposit balances in general see Note 11 Deposits.

Borrowings

FHLB advances totaled $22.5 million at December 31, 2013 compared to $12.8 million at December 31, 2012. The balance at the end of 2013 includes $12.0 million of convertible advances with rates ranging from 2.35% to 3.04%. These advances are all callable by the FHLB, at which point they would convert to a three-month LIBOR advance if not paid off. Those advances have final maturity dates ranging from 2015 to 2018. In addition, First Defiance has two fixed-rate advances totaling $10.5 million with rates ranging from 1.78% to 4.10%. The change in FHLB advances is the result of securing an advance in the third quarter of 2013 in order to match fund certain fixed rate loan requests.

At December 31, 2013, First Defiance also had $51.9 million of securities that were sold with agreements to repurchase, compared to $51.7 million at December 31, 2012.

Capital Resources

Total stockholders’ equity increased $14.0 million to $272.1 million at December 31, 2013. This increase is a result of net income of $22.2 million, partially offset by a decrease in the market value of the available-for-sale security portfolio in the amount of $3.7 million and $3.9 million in common stock dividends. On September 30, 2013, the Board of Directors authorized a new share repurchase program of up to 5%, or approximately 489,000 shares, of the common stock outstanding. During the fourth quarter 2013, 70,966 shares were repurchased, resulting in a $1.8 million decrease in stockholders’ equity, and a total of 39,330 stock options were exercised resulting in a $350,000 increase in stockholders’ equity. During 2012, no shares were repurchased, but a total of 500 stock options were exercised resulting in a $4,000 increase in stockholders’ equity.

Results of Operations

Summary

First Defiance reported net income of $22.2 million for the year ended December 31, 2013 compared to $18.7 million and $15.5 million for the years ended December 31, 2012 and 2011, respectively. Net income applicable to common shares was $22.2 million in 2013 compared with $18.0 million in 2012 and $13.5 million in 2011. On a diluted per common share basis, First Defiance earned $2.19 in 2013, $1.81 in 2012 and $1.42 in 2011.

First Defiance's 2013 and 2012 net income of $22.2 million and $18.7 million respectively, did not include any acquisition related costs. The 2011 net income included $234,000 of acquisition related costs resulting from the PDI acquisition. Excluding this item, core earnings were $22.2 million, $18.7 million and $15.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. On a diluted per share basis, core earnings amounted to $2.19, $1.81 and $1.43 for those same three periods.

Net Interest Income

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

As demand for new lending opportunities increased modestly in 2013 coupled with a surge in deposits, the Company continued to invest some of its liquidity into investment securities. This may continue into 2014 as management deems it appropriate within its liquidity strategy and consideration of overall loan demand and deposit growth.

Net interest income was $67.6 million for the year ended December 31, 2013 compared to $69.0 million and $69.9 million for the years ended December 31, 2012 and 2011, respectively. The tax-equivalent net interest margin was 3.76%, 3.81% and 3.88% for the years ended December 31, 2013, 2012 and 2011, respectively. The margin was down slightly between 2012 and 2013. Interest-earning asset yields decreased 30 basis points (to 4.14% in 2013 from 4.44% in 2012) and the cost of interest bearing liabilities between the two periods decreased 30 basis points (to 0.49% in 2013 from 0.79% in 2012).

Total interest income decreased by $6.1 million or 7.6% to $74.8 million for the year ended December 31, 2013 from $80.9 million for the year ended December 31, 2012. The decrease in interest income was due to a decline in asset yields, mainly as a result of a drop in yields on loans receivable which declined 46 basis points to 4.46% at December 31, 2013. Interest income from loans decreased to $68.1 million for 2013 compared to $72.6 million in 2012 which represents a decline of 6.3%.

During the same period, the average balance of investment securities decreased to $191.0 million for 2013 from $247.4 million for the year ended December 31, 2012. Interest income from the investment portfolio decreased to $5.6 million for 2013 from $7.1 million for 2012. The decline in average balance and interest income was a result of a balance sheet restructure that took place late in 2012. The tax-equivalent yield on the investment portfolio was 3.78% in 2013 compared to 3.63% in 2012. The overall duration of investments increased to 4.5 years at December 31, 2013 from 3.5 years at December 31, 2012.

Interest expense decreased by $4.8 million in 2013 compared to 2012, to $7.2 million from $11.9 million. This decrease was due to a 30 basis point decline in the average cost of interest-bearing liabilities in 2013. Interest expense related to interest-bearing deposits was $5.9 million in 2013 and $8.2 million in 2012. Expenses on FHLB advances and other interest bearing funding sources were $434,000 and $222,000 respectively in 2013 and $2.4 million and $373,000 respectively in 2012. Interest expense recognized by the Company related to subordinated debentures was $601,000 in 2013 and $971,000 in 2012.

Total interest income decreased by $6.1 million or 7.0% to $80.9 million for the year ended December 31, 2012 from $87.1 million for the year ended December 31, 2011. The decrease in interest income was due to a decline in asset yields, mainly as a result of a drop in yields on loans receivable which declined 57 basis points to 4.92% at December 31, 2012. Interest income from loans decreased to $72.6 million for 2012 compared to $78.6 million in 2011 which represents a decline of 7.7%.

During the same period, the average balance of investment securities increased to $247.4 million for 2012 from $205.6 million for the year ended December 31, 2011. Interest income from the investment portfolio remained flat at $7.1 million from 2011 to 2012. The tax-equivalent yield on the investment portfolio was 3.63% in 2012 compared to 4.19% in 2011. The overall duration of investments decreased to 3.5 years at December 31, 2012 from 3.7 years at December 31, 2011.

Interest expense decreased by $5.3 million in 2012 compared to 2011, to $11.9 million from $17.2 million. This decrease was due to a 33 basis point decline in the average cost of interest-bearing liabilities in 2012. Interest expense related to interest-bearing deposits was $8.2 million in 2012 and $12.2 million in 2011. Expenses on FHLB advances and other interest bearing funding sources were $2.4 million and $373,000 respectively in 2012 and $3.2 million and $530,000 respectively in 2011. Interest expense recognized by the Company related to subordinated debentures was $1.0 million in 2012 and $1.3 million in 2011.

The following table shows an analysis of net interest margin on a tax equivalent basis for the years ended December 31, 2013, 2012 and 2011:

The following table shows an analysis of net interest margin on a tax equivalent basis for the years ended December

Table 3 Net Interest Margin

	Year Ended December 31 (In Thousands)								
	2013			2012			2011		
	Average Balance	Interest (1)	Yield/ Rate (2)	Average Balance	Interest (1)	Yield/ Rate	Average Balance	Interest (1)	Yiel Rate
Interest-Earning Assets:									
Loans receivable	$ 1,528,176	$ 68,147	4.46 %	$ 1,477,681	$ 72,724	4.92 %	$ 1,437,588	$ 78,773	5.49
Securities	191,039	7,158	3.78 %	247,442	8,675	3.63 %	205,609	8,440	4.19
Interest-earning deposits	106,742	282	0.26 %	116,562	300	0.26 %	184,126	466	0.25
FHLB stock	19,505	826	4.23 %	20,655	899	4.35 %	20,831	867	4.17
Total interest-earning assets	1,845,462	76,413	4.14 %	1,862,340	82,598	4.44 %	1,848,154	88,546	4.80
Non-interest-earning assets	206,788			201,212			210,216		
Total Assets	$ 2,052,250			$ 2,063,552			$ 2,058,370		
Interest-Bearing Liabilities:									
Interest-bearing deposits	$ 1,353,304	$ 5,913	0.44 %	$ 1,352,724	$ 8,169	0.60 %	$ 1,358,785	$ 12,175	0.90
FHLB advances	17,733	434	2.45 %	66,121	2,424	3.67 %	93,669	3,203	3.43
Subordinated debentures	36,133	601	1.66 %	36,169	971	2.68 %	36,213	1,278	3.54
Other borrowings	50,877	222	0.44 %	53,155	373	0.70 %	56,464	530	0.94
Total interest-bearing liabilities	1,458,047	7,170	0.49 %	1,508,169	11,937	0.79 %	1,545,131	17,186	1.12
Non-interest bearing demand deposits	308,591	-		266,913	-		231,343	-	
Total including non-interest- bearing demand deposits	1,766,638	7,170	0.41 %	1,775,082	11,937	0.67 %	1,776,474	17,186	0.97
Other non-interest liabilities	20,547			21,276			17,983		
Total Liabilities	1,787,185			1,796,358			1,794,457		
Stockholders' equity	265,065			267,194			263,913		
Total liabilities and stockholders' equity	$ 2,052,250			$ 2,063,552			$ 2,058,370		
Net interest income; interest rate spread (3)		$ 69,243	3.65 %		$ 70,661	3.64 %		$ 71,360	3.69
Net interest margin (4)			3.76 %			3.81 %			3.88
Average interest-earning assets to average			126.6 %			123.5 %			119.

interest-
bearing liabilities

(1) Interest on certain tax exempt loans (amounting to $129,000, $192,000 and $231,000 in 2013, 2012 and 2011 respectively) and tax-exempt securities ($2.9 million, $2.9 million and $2.5 million in 2013, 2012, and 2011) is not taxable for Federal income tax purposes. The average balance of such loans was $4.2 million, $4.9 million and $5.5 million in 2013, 2012, and 2011 while the average balance of such securities was $76.0 million, $73.7 million and $60.5 million in 2013, 2012, and 2011, respectively. In order to compare the tax-exempt yields on these assets to taxable yields, the interest earned on these assets is adjusted to a pre-tax equivalent amount based on the marginal corporate federal income tax rate of 35%.

(1) Interest on certain tax exempt loans (amounting to $129,000, $192,000 and $231,000 in 2013, 2012 and 2011 r

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.14%; FHLB stock,4.00%; total interest-earning assets, 4.17%; deposits, 0.24%; FHLB advances, 2.36%; other borrowings, 0.29%, subordinated debentures,1.67%; total including non-interest-bearing liabilities, 0.29%; and interest rate spread, 3.88%.

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

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

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

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

Table 4 Changes in Interest Rates and Volumes

	Year Ended December 31					
	2013 vs. 2012			2012 vs. 2011		
	Increase (decrease) due to rate	Increase (decrease) due to volume	Total increase (decrease)	Increase (decrease) due to rate	Increase (decrease) due to volume	Total increase (decrease)
Interest-Earning Assets						
Loans	$ (7,000)	$ 2,423	$ (4,577)	$ (8,198)	$ 2,149	$ (6,049)
Securities	565	(2,082)	(1,517)	(1,336)	1,571	235
Interest-earning deposits	8	(26)	(18)	8	(174)	(166)
FHLB stock	(24)	(49)	(73)	39	(7)	32
Total interest-earning assets	$ (6,451)	$ 266	$ (6,185)	$ (9,487)	$ 3,539	$ (5,948)
Interest-Bearing Liabilities						
Deposits	$ (2,260)	$ 4	$ (2,256)	$ (3,952)	$ (54)	$ (4,006)
FHLB advances	(620)	(1,370)	(1,990)	218	(997)	(779)
Subordinated Debentures	(369)	(1)	(370)	(305)	(2)	(307)
Notes Payable	(135)	(16)	(151)	(127)	(30)	(157)
Total interest-bearing liabilities	$ (3,384)	$ (1,383)	$ (4,767)	$ (4,166)	$ (1,083)	$ (5,249)
Increase (decrease) in net interest income			$ (1,418)			$ (699)

Provision for Loan Losses First Defiance's provision for loan losses was $1.8 million for the year ended December 31, 2013 compared to $10.9 million for December 31, 2012 and $12.4 million for December 31, 2011.

Provisions for loan losses are charged to earnings to bring the total allowance for loan losses to a level deemed appropriate by management to absorb probable losses incurred in the loan portfolio. Factors considered by management include identifiable risk in the portfolios, historical experience, the volume and type of lending conducted by First Defiance, the amount of non-performing loans (including loans which meet the FASB ASC Topic

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

310 definition of impaired), the amount of loans graded by management as substandard, doubtful, or loss, general economic conditions (particularly as they relate to First Defiance's market areas); and other factors related to the collectability of First Defiance's loan portfolio. See also Allowance for Loan Losses in Management's Discussion and Analysis and Note 7 to the audited financial statements.

Noninterest Income Noninterest income decreased by $3.8 million or 11.1% in 2013 to $30.6 million from $34.4 million for the year ended December 31, 2012. That followed an increase of $6.9 million or 24.9% in 2012 from $27.5 million in 2011.

Service fees and other charges decreased to $10.0 million for the year ended December 31, 2013 from $10.8 million for 2012 and $11.4 million for 2011. The decline in income in 2013 and 2012 from 2011 mainly related to a new rule issued by the Federal Reserve Board that became effective in the third quarter of 2010 as well as changes in customer behavior patterns. This rule prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machines and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. Consumers must be provided a notice that explains the financial institution's overdraft services, including the fees associated with the service, and the consumer's choices.

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

First Federal's overdraft privilege program generally provides for the automatic payment of modest overdraft limits on all accounts deemed to be in good standing when the account is accessed using paper-based check processing, a teller withdrawal, a point-of-sale terminal, an ACH transaction, an online banking or voice-response transfer, or an ATM. To be in good standing, an account must be brought to a positive balance within a 30-day period and have not excessively used the overdraft privilege program. Overdraft limits are established for all customers without discrimination using a risk assessment approach for each account classification. The approach includes a systematic review and evaluation of the normal deposit flows made to each account classification to establish reasonable and prudent negative balance limits that would be routinely repaid by normal, expected and reoccurring deposits. The risk assessment by portfolio approach assumes a minimal degree of undetermined credit risk associated with unidentified individual accounts that are overdrawn for 30 or more days. Consumer accounts overdrawn for more than 60 days are automatically charged off. Fees are charged as a one-time fee per occurrence, up to five charges per day, and the fee charged for an item that is paid is equal to the fee charged for a non-sufficient fund item that is returned.

Overdrawn balances, net of allowance for losses, are reflected as loans on First Defiance's balance sheet. The fees charged for this service are established based both on the return of processing costs plus a profit, and on the level of fees charged by competitors in the Company's market area for similar services. These fees are considered to be compensation for providing a service to the customer and therefore deemed to be noninterest income rather than interest income. Fee income recorded for the years ending December 31, 2013 and 2012 related to the overdraft privilege product, net of adjustments to the allowance for uncollectible overdrafts, were $3.5 million and $4.4 million, respectively. Accounts charged off are included in noninterest expense. The allowance for uncollectible overdrafts was $22,000 at December 31, 2013 and $4,000 at December 31, 2012.

Noninterest income also includes gains, losses and impairment on investment securities. In 2013, First Defiance realized a $240,000 net loss on securities compared to a $2.1 million net gain in 2012 and a $216,000 net gain in 2011. In 2013, 2012 and 2011, First Defiance recognized other-than-temporary impairment ("OTTI") charges for certain impaired investment securities, where, in management's opinion, the value of the investment will not be recovered. The total OTTI charges in 2013 were $337,000 and gains on sale or call of securities were $97,000. Management recorded $337,000 of OTTI on its investment of two trust preferred collateralized debt obligation ("CDOs") that were considered disallowed under the Interim Final Volcker Rule announced on January 14, 2014 and which required the Company to liquidate these securities. The Company held eight CDOs at December 31, 2013. Four of those CDOs were written down in full prior to January 1, 2010. The remaining four CDOs have a total amortized cost of $3.4 million at December 31, 2013. Of these four, all were identified as having OTTI. In 2012, the total OTTI charges were $5,000 and gains on sale or call of securities were $2.1 million. The total OTTI charges in 2011 were $2,000 and gains on sale or call of securities were $218,000.

In October 2012, the Company executed a balance sheet restructuring strategy to enhance the Company's current and future profitability while increasing its capital ratios and protecting the balance sheet against rising rates. The strategy required taking an after tax loss of approximately $260,000 through selling $60.0 million in securities for a gain of $1.6 million and paying off $62.0 million in FHLB advances with a prepayment penalty of $2.0 million.

Mortgage banking income includes gains from the sale of mortgage loans, fees for servicing mortgage loans for others an offset for amortization of mortgage servicing rights, and adjustments for impairment in the value of mortgage servicing rights. Mortgage banking income totaled $8.4 million, $9.7 million and $6.4 million in 2013, 2012 and 2011, respectively. The $1.2 million decrease in 2013 from 2012 is attributable to a $4.9 million decrease in the gain on sale of loans, partially offset by a $2.0 million positive change in the valuation adjustments on mortgage servicing rights and a decrease of $1.5 million in mortgage servicing rights amortization expense. The positive valuation adjustment is a reflection of the increase in the fair value of certain sectors of the Company's portfolio of mortgage servicing rights. First Defiance originated $291.7 million of residential mortgages for sale into the secondary market in 2013 compared with $521.5 million in 2012. The $3.3 million increase in mortgage banking income in 2012 from 2011 is attributable to a $5.0 million increase in the gain on sale of loans, offset by a $355,000

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

negative change in the valuation adjustments on mortgage servicing rights and an increase of $1.4 million in mortgage servicing rights amortization expense. The negative change of $355,000 in servicing rights valuation adjustments was due to an impairment charge of $759,000 in 2012 compared with an impairment charge of $404,000 in 2011. The impairment charge is a reflection of the decline in the fair value of certain sectors of the Company's portfolio of mortgage servicing rights. First Defiance originated $521.5 million of residential mortgages for sale into the secondary market in 2012 compared with $262.8 million in 2011. The balance of the mortgage servicing right valuation allowance stands at $1.0 million at the end of 2013. See Note 8 to the financial statements.

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

Insurance and investment commission income increased $951,000 or 11.0% to $9.6 million in 2013 from $8.7 million in 2012 in large part due to an increase in contingent income of $436,000. Contingent commissions are bonus payments received by First Defiance's insurance subsidiary for effective underwriting. Insurance and investment commission income increased $1.6 million or 22.0% to $8.7 million in 2012 from $7.1 million in 2011 primarily due to the acquisition of PDI on July 1, 2011, allowing 2012 to be the first year to realize a full year's income from the acquisition, coupled with an increase in contingent income of $179,000.

Noninterest Expense Total noninterest expense for 2013 was $64.8 million compared to $65.8 million for the year ended December 31, 2012 and $62.8 million for the year ended December 31, 2011. The 2011 total includes $234,000 of acquisition related charges. Noninterest expense, excluding the acquisition related charges in 2011 was $62.5 million.

Compensation and benefits increased $1.7 million or 5.3% in 2013 to $34.3 million from $32.6 million in 2012. The increase in compensation and benefits is due to merit increases and an increase in incentive expense of $481,000 as a direct reflection of the improved financial performance of the Company as well as increased medical insurance costs. FDIC insurance costs decreased $1.1 million or 40.0% to $1.6 million from $2.7 million in 2012. The FDIC decrease is due to the improvement in the Company's risk category in 2013. State franchise tax decreased $172,000 or 6.9% in 2013 to $2.3 million from $2.5 million in 2012. Occupancy costs decreased $816,000 or 10.8% in 2013 to $6.8 million from $7.6 million in 2012 due to an increase in deferred rent liabilities in 2012. Data processing increased $465,000 or 10.0% in 2013 to $5.1 million from $4.7 million in 2012 from the Company's ongoing projects to enhance product offerings and gain efficiencies through the utilization of technology. The other noninterest expense category decreased $1.2 million primarily due to a one-time penalty of $2.0 million for the prepayment of $62 million in FHLB advances as part of the Company's balance sheet restructure in 2012. This was partially offset by higher real estate owned expenses and an increase in management consulting.

Compensation and benefits increased $1.0 million or 3.2% in 2012 to $32.6 million from $31.6 million in 2011. The increase in compensation and benefits was due to the full impact of the acquisition of PDI, and an increase in incentive expense of $490,000 as a direct reflection of the improved financial performance of the Company. FDIC insurance costs decreased $231,000 or 7.9% to $2.7 million from $2.9 million in 2011. The decrease reflects the change in the assessment rate calculation per the Dodd-Frank regulations. State franchise tax increased $485,000 or 24.1% in 2012 to $2.5 million from $2.0 million in 2011. This increase is due to new rates being issued by the state of Ohio. Occupancy costs increased $412,000 or 5.8% in 2012 to $7.6 million from $7.2 million in 2011 due to an increase in deferred rent liabilities. Data processing increased $403,000 or 9.5% in 2012 to $4.7 million from $4.3 million in 2011 as the Company initiated projects to help gain efficiencies and utilize technology. The other noninterest expense category (including acquisition related charges in 2011) increased $1.4 million primarily due to a one-time prepayment penalty of $2.0 million in relation to the prepayment of $62 million in FHLB advances as part of the Company's balance sheet restructure in 2012.

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

Income Taxes Income taxes amounted to $9.3 million in 2013 compared to $8.0 million in 2012 and $6.7 million in 2011. The effective tax rates for those years were 29.4%, 30.0%, and 30.0%, respectively. The tax rate is lower than the statutory 35% tax rate for the Company mainly because of investments in tax-exempt securities. The earnings on tax-exempt securities are not subject to federal income tax. See Note 18 Income Taxes in the Notes to the financial statements for further details.

Concentrations of Credit Risk

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

Lending or investing activities that concentrate assets in a way that exposes the Company to a material loss from any single occurrence or group of occurrences increases credit risk. Diversifying loans and investments to prevent concentrations of risks is one way a financial institution can reduce potential losses due to credit risk. Examples of asset concentrations would include multiple loans made to a single borrower and loans of inappropriate size relative to the total capitalization of the institution. Management believes adherence to its loan and investment policies allows it to control its exposure to concentrations of credit risk at acceptable levels. First Defiance's loan portfolio is concentrated geographically in its northwest Ohio, northeast Indiana and southeast Michigan market areas. Management has also identified lending for income-generating rental properties as an industry concentration. Total loans for income generating property totaled $408.4 million at December 31, 2013, which represents 25.3% of the Company's loan portfolio. Management believes it has the skill and experience to manage any risks associated with this type of lending. Loans in this category are generally paying as agreed without any unusual or unexpected levels of delinquency. The delinquency rate in this category, which is any loan 30 days or more past due, was 0.82% at December 31, 2013. There are no other industry concentrations that exceed 10% of the Company's loan portfolio.

Liquidity and Capital Resources

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

Cash generated from operating activities was $42.6 million, $31.9 million and $38.5 million in 2013, 2012 and 2011, respectively. The adjustments to reconcile net income to cash provided by or used in operations during the periods presented consist primarily of proceeds from the sale of loans (less the origination of loans held for sale), the provision for loan losses, depreciation expense, the origination, amortization and impairment of mortgage servicing rights and increases and decreases in other assets and liabilities.

The primary investing activity of First Defiance is lending, which is funded with cash provided from operating and financing activities, as well as proceeds from payment on existing loans and proceeds from maturities of investment securities. On July 1, 2011, First Defiance completed the acquisition of Payak-Dubbs Insurance Agency, Inc. ("PDI"), a full insurance agency, for $4.0 million in cash. Also in 2011, the Company purchased $25.8 million in portfolio residential home loans.

In considering the more typical investing activities, during 2013, $35.1 million and $4.0 million was generated from the combination of maturity or pay-downs and the sale or call of available-for-sale investment securities, respectively and $78.6 million was used by an increase in loans while $49.2 million was used to purchase available-for-sale investment securities. During 2012, $60.1 million and $72.3 million was generated from the combination of maturity or pay-downs and the sale or call of available-for-sale investment securities, respectively, and $65.0 million was used

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

by an increase in loans while $91.5 million was used to purchase available-for-sale investment securities. During 2011, $52.1 million and $8.7 million was generated from the combination of maturity or pay-downs and the sale or call of available-for-sale investment securities, respectively and $31.1 million was provided by a decline in loan growth while $120.5 million was used to purchase available-for-sale investment securities.

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

Principal financing activities include the gathering of deposits, the utilization of FHLB advances, and the sale of securities under agreements to repurchase such securities and borrowings from other banks. For 2013, total deposits increased by $68.4 million. The amount of deposits acquired from out of market sources decreased in 2013 by $2.0 million. For 2012, total deposits increased by $71.3 million. The amount of deposits acquired from out of market sources decreased in 2012 by $8.6 million. For 2011, total deposits increased by $21.3 million. The amount of deposits acquired from out of market sources decreased in 2011 by $31.1 million. In 2013, securities sold under repurchase arrangements increased by $217,000 and the Company acquired $10.0 million in FHLB advances and paid $3.9 million in common stock dividends. In 2012, securities sold under repurchase arrangements decreased by $8.7 million and the Company paid off $69.0 million in FHLB advances primarily as a result of the balance sheet restructure and paid $36.4 million as a result of redeeming its preferred stock both decreasing the financing activity. In 2011, securities sold under repurchase arrangements increased by $4.1 million and the Company completed its common stock offering that increased the financing activities by $19.9 million. For additional information about cash flows from First Defiance's operating, investing and financing activities, see the Consolidated Statements of Cash Flows included in the Consolidated Financial Statements.

At December 31, 2013, First Defiance had the following commitments to fund deposit, advance, borrowing obligations and post-retirement benefits:

Table 5 Contractual Obligations

	Maturity Dates by Period at December 31, 2013				
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(In Thousands)				
Certificates of deposit	$ 485,789	$ 296,186	$ 138,843	$ 50,611	$ 149
FHLB fixed advances including interest (1)	23,935	1,502	10,156	12,277	-
Subordinated debentures	36,083	-	-	-	36,083
Securities sold under repurchase agreements	51,919	51,919	-	-	-
Lease obligations	7,648	706	1,214	983	4,745
Post-retirement benefits	1,605	140	260	313	892
Total contractual obligations	$ 606,979	$ 350,453	$ 150,473	$ 64,184	$ 41,869

(1) Includes principal payments of $22,520 and interest payments of $1,415

At December 31, 2013, First Defiance had the following commitments to fund loan or line of credit obligations:

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

Table 6 - Commitments

Commitments	Total Amounts Committed (In Thousands)	Amount of Commitment Expiration by Period Less than 1 year	1-3 years	4-5 years	After 5 years
Fixed commitments to make loans	$ 57,914	$ 48,866	$ 1,630	$ 2,537	$ 4,881
Variable commitments to make loans	59,632	39,120	3,095	438	16,979
Fixed unused lines of credit	18,047	6,746	5,648	5,651	2
Variable unused lines of credit	257,939	161,093	33,357	13,362	50,127
Total loan commitments	393,532	255,825	43,730	21,988	71,989
Standby letters of credit	17,680	3,490	13,750	440	-
Total Commitments	$ 411,212	$ 259,315	$ 57,480	$ 22,428	$ 71,989

In addition to the above commitments, at December 31, 2013 First Defiance had commitments to sell $12.1 million of loans to Freddie Mac, Fannie Mae, FHLB of Cincinnati or BB&T Mortgage.

To meet its obligations management can adjust the rate of savings certificates to retain deposits in changing interest rate environments; it can sell or securitize mortgage and non-mortgage loans; and it can turn to other sources of financing including FHLB advances, the Federal Reserve Bank, and brokered certificates of deposit. At December 31, 2013, First Defiance had $428.7 million capacity under its agreements with the FHLB.

First Federal is subject to various capital requirements of the OCC. At December 31, 2013, First Federal had capital ratios that exceeded the standard to be considered “well capitalized.” For additional information about First Defiance and First Federal’s capital requirements, see Note 17 Regulatory Matters to the Consolidated December 31, 2013 Financial Statements.

Critical Accounting Policies

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

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

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

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

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

In addition to the identification of specific customers who may be potential credit problems, management considers its historical losses, the results of independent loan reviews, an assessment of the adherence to underwriting standards, and other factors in providing for loan losses that have not been specifically classified. Management believes that the level of its allowance for loan loss is sufficient to cover the estimates loss incurred but not yet recognized on the loan portfolio. Refer to the section titled "Allowance for Loan Losses" and Note 2, Statement of Accounting Policies for a further description of the Company's estimation process and methodology related to the allowance for loan losses.

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

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

Valuation of Securities - First Defiance believes the valuation of certain securities is a critical accounting policy that requires significant estimates in preparation of its consolidated financial statements. This is pertaining to the Company's investment in certain trust preferred debt obligations securities ("CDOs"). As required by FASB ASC Topic 320, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other-than-temporary, are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of other-than-temporary impairment that does not relate to the credit losses is recognized in other comprehensive income. The fair values of these CDOs, which are backed by trust preferred securities issued by banks, thrifts and insurance companies, have a fair value of $2.2 million as of December 31, 2013. Two of the collateralized debt obligations backed by insurance companies were disallowed under the Final Interim Volcker Rule that was announced January 14, 2014 and were classified as Level 1 in the fair value hierarchy at December 31, 2013 due to receiving a final selling price and subsequently being sold on January 15, 2014. The remaining two collateralized debt obligations are backed by financial institutions are allowed under the Final Interim Volcker Rule and classified as Level 3 in the fair value hierarchy based on the lack of observable market.

The market values for these securities (and any securities other than those issued or guaranteed by the U.S. Treasury) are very depressed relative to historical levels. Thus in today's market, a low market price for a particular bond may only provide evidence of stress in the credit markets in general versus being an indicator of credit problems with a particular issue.

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

Given the conditions in the debt markets today and the absence of observable transactions in the secondary and new issue markets, management has determined: 1) The few observable transactions and market quotations that are available are not reliable for the purpose of determining fair value at December 31, 2013; 2) An income valuation approach technique (present value technique) that maximizes the use of relevant observable inputs and minimizes the use of observable inputs will be equally or more representative of fair value than the market approach valuation used at the prior measurement dates and 3) The Company's CDOs will be classified within Level 3 of the fair value hierarchy because management determined that significant adjustments were required to determine fair value at the measurement date.

The Company's Level 3 CDO valuations were supported by an analysis prepared by an independent third party. Their approach to determining fair value involved several steps: 1) Detailed credit and structural evaluation of each piece of collateral in the CDO; 2) Collateral performance projections for each piece of collateral in the CDO (default, recovery and prepayment/amortization probabilities) and 3) Discounted cash flow modeling.

Goodwill - First Defiance has two reporting units: First Federal and First Insurance. At December 31, 2013, First Defiance had goodwill of $61.5 million, including $51.0 million in First Federal, representing 83% of total goodwill and $10.5 million in First Insurance, representing 17% of total goodwill. The carrying value of goodwill is tested annually for impairment or more frequently if it is determined appropriate. The evaluation for impairment involves comparing the current estimated fair value of each reporting unit to its carrying value, including goodwill. If the current estimated fair value of a reporting unit exceeds its carrying value, no additional testing is required and impairment loss is not recorded. If the estimated fair value of a reporting unit is less than the carrying value, further valuation procedures are performed and could result in impairment of goodwill being recorded. Further valuation procedures would include allocating the estimated fair value to all assets and liabilities of the reporting unit to determine an implied goodwill value. If the implied value of goodwill of a reporting unit is less than the carrying amount of that goodwill, an impairment loss is recognized in an amount equal to that excess.

If for any future period First Defiance determines that there has been impairment in the carrying value of goodwill balances, First Defiance will record a charge to earnings, which could have a material adverse effect on net income, but not risk-based capital ratios.

First Defiance has core deposit and other intangible assets resulting from acquisitions which are subject to amortization. First Defiance determines the amount of identifiable intangible assets based upon independent core deposit and customer relationship analyses at the time of the acquisition. Intangible assets with finite useful lives are evaluated for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. No events or changes in circumstances that would indicate that the carrying amount of any identifiable intangible assets may not be recoverable had occurred during the years ended December 31, 2013 and 2012.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Asset/Liability Management

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

First Defiance monitors interest rate risk on a monthly basis through simulation analysis that measures the impact changes in interest rates can have on net interest income. The simulation technique analyzes the effect of a presumed 100 basis point shift in interest rates (which is consistent with management's estimate of the range of potential interest rate fluctuations) and takes into account prepayment speeds on amortizing financial instruments, loan and deposit volumes and rates, non-maturity deposit assumptions and capital requirements. At December 31, 2013, the results of the simulation indicate that in an environment where interest rates rise 100 basis points over a 24 month period, First Defiance's net interest income would increase by 3.23% over the base case scenario. It should be noted that other areas of First Defiance's income statement, such as gains from sales of mortgage loans and amortization of mortgage servicing rights are also impacted by fluctuations in interest rates but are not considered in the simulation of net interest income.

The majority of First Federal's lending activities are in non-residential real estate and commercial loan areas. While such loans carry higher credit risk than residential mortgage lending, they tend to be more rate sensitive than residential mortgage loans. The balance of First Federal's non-residential and multi-family real estate loan portfolio was $819.6 million, which was split between $154.4 million of fixed-rate loans and $665.2 million of adjustable-rate loans at December 31, 2013. The commercial loan portfolio increased to $388.2 million, which is split between $167.4 million of fixed-rate loans and $220.8 million of adjustable-rate loans at December 31, 2013. Certain loans classified as adjustable have fixed rates for an initial term that may be as long as five years. The maturities on fixed-rate loans are generally less than seven years. First Federal also has significant balances of home equity and improvement loans ($106.9 million at December 31, 2013) of which $75.5 million fluctuate with changes in the prime lending rate and $31.4 million of home equity and improvement loans have fixed rates. First Federal also has consumer loans ($16.9 million at December 31, 2013) which tend to have a shorter duration than residential mortgage loans. Also, to limit its interest rate risk, as well as to provide liquidity, First Federal sells a majority of its fixed-rate mortgage originations into the secondary market.

In addition to the simulation analysis, First Federal also prepares an "economic value of equity" ("EVE") analysis. This analysis generally calculates the net present value of First Federal's assets and liabilities in rate shock environments that range from 400 basis points to +400 basis points. However, the likelihood of a decrease in interest rates beyond 100 basis points as of December 31, 2013 was considered to be remote given the current interest rate levels and therefore was not included in this analysis. The results of this analysis are reflected in the following table.

(2) At December 31, 2013, the yields earned and rates paid were as follows: loans receivable, 4.30%; securities, 3.

Table 7 Economic Value of Equity Analysis

December 31, 2013

	Economic Value of Equity				Economic Value of Equity as % of Present Value of Assets		
Change in Rates	$ Amount	$ Change	% Change		Ratio		Change
	(Dollars in Thousands)						
+ 400 bp	474,469	41,679	9.63	%	23.83	%	350 bp
+ 300 bp	467,691	34,901	8.06	%	23.10	%	277 bp
+ 200 bp	458,844	26,054	6.02	%	22.28	%	195 bp
+ 100 bp	447,701	14,911	3.45	%	21.38	%	105 bp
0 bp	432,790	-	-		20.33	%	
- 100 bp	413,917	(18,873)	(4.36)	%	19.19	%	(114) bp

December 31, 2012

	Economic Value of Equity				Economic Value of Equity as % of Present Value of Assets		
Change in Rates	$ Amount	$ Change	% Change		Ratio		Change
	(Dollars in Thousands)						
+ 400 bp	415,094	46,835	12.72	%	21.49	%	356 bp
+ 300 bp	407,337	39,078	10.61	%	20.76	%	283 bp
+ 200 bp	398,150	29,891	8.12	%	19.97	%	204 bp
+ 100 bp	387,482	19,223	5.22	%	19.12	%	119 bp
0 bp	368,259	-	-		17.93	%	
- 100 bp	343,745	(24,514)	(6.66)	%	16.57	%	(136) bp

Based on the above analysis, in the event of a 200 basis point increase in interest rates as of December 31, 2013, First Federal would experience a 6.02% increase in its economic value of equity. During periods of rising rates, the value of monetary assets declines. Conversely, during periods of falling rates, the value of monetary assets increases. It should be noted that the amount of change in value of specific assets and liabilities due to changes in rates is not the same in a rising rate environment as in a falling rate environment. Based on the EVE analysis, the change in the economic value of equity in both rising and falling rate environments is relatively low because both its assets and liabilities have relatively short durations. The average duration of its assets at December 31, 2013 was 1.59 years while the average duration of its liabilities was 2.91 years.

Based on the above analysis, in the event of a 200 basis point increase in interest rates as of December 31, 2013,

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

Based on the above analysis, in the event of a 200 basis point increase in interest rates as of December 31, 2013,

Item 8. Financial Statements and Supplementary Data

Management's Report on Internal Control Over Financial Reporting

The management of First Defiance Financial Corp. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of management, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the 1992 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

Based on our evaluation under the framework in the 1992 Internal Control Integrated Framework, management concluded that our internal control over financial reporting was effective as of December 31, 2013.

Crowe Horwath LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in this Annual Report on Form 10-K, has issued a report on the effectiveness of the Company's internal control over financial reporting as of December 31, 2013. The report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2013, is included below.

Donald P. Hileman
Executive Vice President and
Chief Executive Officer

Kevin T. Thompson
Executive Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated statements of financial condition of First Defiance Financial Corp. (the Company) as of December 31, 2013 and 2012 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2013. We also have audited First Defiance Financial Corp.'s internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Defiance Financial Corp. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, First Defiance Financial Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in the 1992 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Crowe Horwath LLP
South Bend, Indiana
February 28, 2014

Based on the above analysis, in the event of a 200 basis point increase in interest rates as of December 31, 2013, I

First Defiance Financial Corp.

Consolidated Statements of Financial Condition

	December 31			
	2013		2012	
	(Dollars In Thousands, except share and per share data)			
Assets				
Cash and cash equivalents:				
Cash and amounts due from depository institutions	$	36,318	$	45,832
Federal funds sold		143,000		91,000
		179,318		136,832
Securities available-for-sale, carried at fair value		198,170		194,101
Securities held-to-maturity, carried at amortized cost (fair value $393 and $516 at December 31, 2013 and 2012 respectively)		387		508
		198,557		194,609
Loans held for sale		9,120		22,064
Loans receivable, net of allowance of $24,950 and $26,711 at December 31, 2013 and 2012, respectively		1,555,498		1,498,546
Mortgage servicing rights		9,106		7,833
Accrued interest receivable		5,778		5,594
Federal Home Loan Bank (FHLB) stock		19,350		20,655
Bank owned life insurance		42,715		41,832
Premises and equipment		38,597		39,663
Real estate and other assets held for sale (REO)		5,859		3,805
Goodwill		61,525		61,525
Core deposit and other intangibles		3,497		4,738
Deferred taxes		565		78
Other assets		7,663		9,174
Total assets	$	2,137,148	$	2,046,948

First Defiance Financial Corp

Consolidated Statements of Financial Condition (continued)

	December 31 2013		2012	
	(Dollars In Thousands, except share and per share data)			
Liabilities and stockholders' equity				
Liabilities:				
Deposits:				
Noninterest-bearing	$	348,943	$	315,132
Interest-bearing		1,386,849		1,352,340
Total		1,735,792		1,667,472
Advances from the Federal Home Loan Bank		22,520		12,796
Securities sold under agreements to repurchase and other		51,919		51,702
Subordinated debentures		36,083		36,083
Advance payments by borrowers		1,519		1,473
Other liabilities		17,168		19,294
Total liabilities		1,865,001		1,788,820
Commitments and Contingent (Note 6)				
Stockholders' equity:				
Preferred stock, $.01 par value per share: 37,000 shares authorized; no shares issued				
Preferred stock, $.01 par value per share: 4,963,000 shares authorized; no shares issued				
Common stock, $.01 par value per share: 25,000,000 shares authorized; 12,735,313 and 12,739,496 shares issued and 9,719,521 and 9,729,466 shares outstanding, respectively		127		127
Common stock warrant		878		878
Additional paid-in capital		136,403		136,046
Accumulated other comprehensive income, net of tax of $294 and $2,301, respectively		545		4,274
Retained earnings		182,290		164,103
Treasury stock, at cost, 3,015,792 and 3,010,030 shares respectively		(48,096)		(47,300)
Total stockholders' equity		272,147		258,128
Total liabilities and stockholders' equity	$	2,137,148	$	2,046,948

See accompanying notes.

- 62 -

Based on the above analysis, in the event of a 200 basis point increase in interest rates as of December 31, 2013,

FIRST DEFIANCE FINANCIAL CORP.
Consolidated Statements of Income
(Amounts in Thousands, except per share data)

	Years Ended December 31		
	2013	2012	2011
Interest Income			
Loans	$ 68,077	$ 72,621	$ 78,648
Investment securities:			
Taxable	2,695	4,241	4,571
Tax-exempt	2,901	2,882	2,515
Interest-bearing deposits	282	300	466
FHLB stock dividends	826	899	867
Total interest income	74,781	80,943	87,067
Interest Expense			
Deposits	5,913	8,169	12,175
Federal Home Loan Bank advances and other	434	2,424	3,203
Subordinated debentures	601	971	1,278
Securities sold under agreement to repurchase	222	373	530
Total interest expense	7,170	11,937	17,186
Net interest income	67,611	69,006	69,881
Provision for loan losses	1,824	10,924	12,434
Net interest income after provision for loan losses	65,787	58,082	57,447
Noninterest Income			
Service fees and other charges	10,045	10,779	11,387
Mortgage banking income	8,443	9,665	6,437
Insurance commissions	9,627	8,676	7,109
Gain on sale of non-mortgage loans	101	70	361
Gain (loss) on sale or call of securities	97	2,139	218
Other-than-temporary impairment (OTTI) losses on investment securities			
Total gains (impairment losses) on investment securities	(337)	(31)	(44)
Losses recognized in other comprehensive income	-	26	42
Net impairment loss recognized in earnings	(337)	(5)	(2)
Trust income	761	616	599
Income from bank owned life insurance	883	924	929
Other noninterest income	950	1,510	478
Total noninterest income	30,570	34,374	27,516
Noninterest Expense			
Compensation and benefits	34,301	32,566	31,554
Occupancy	6,762	7,578	7,166
FDIC insurance	1,616	2,691	2,922
Data processing	5,125	4,660	4,257
Acquisition related charges	-	-	234
Other noninterest expense	17,040	18,285	16,631

Total noninterest expense		64,844		65,780		62,764
Income before income taxes		31,513		26,676		22,199
Federal income taxes		9,278		8,012		6,665
Net Income	$	22,235	$	18,664	$	15,534
Dividends Accrued on Preferred Shares	$	-	$	(900)	$	(1,850)
Accretion on Preferred Shares	$	-	$	(359)	$	(178)
Redemption of Preferred Shares	$	-	$	642	$	-
Net Income Applicable to Common Shares	$	22,235	$	18,047	$	13,506
Earnings per common share:						
Basic	$	2.28	$	1.86	$	1.44
Diluted	$	2.19	$	1.81	$	1.42
Dividends declared per common share	$	0.40	$	0.20	$	0.05

See accompanying notes

FIRST DEFIANCE FINANCIAL CORP.
Consolidated Statements of Comprehensive Income
(Amounts in Thousands)

	For the Years Ended December 31		
	2013	2012	2011
	(In Thousands)		
Net income	$ 22,235	$ 18,664	$ 15,534
Change in securities available-for-sale (AFS):			
Unrealized holding gains (losses) on available-for-sale securities arising during the period	(6,309)	2,360	7,404
Reclassification adjustment for (gains) losses realized in income	(97)	(2,139)	(218)
Other-than-temporary impairment losses on AFS securities realized in income	337	5	2
Net unrealized gains (losses)	(6,069)	226	7,188
Income tax effect	2,124	(79)	(2,516)
Net of tax amount	(3,945)	147	4,672
Change in unrealized gain on postretirement benefit:			
Net gain (loss) on defined benefit postretirement medical plan realized during the period	287	148	(537)
Net amortization and deferral	46	51	25
Net gain (loss) activity during the period	333	199	(512)
Income tax effect	(117)	(69)	179
Net of tax amount	216	130	(333)
Total other comprehensive income (loss)	(3,729)	277	4,339
Comprehensive income	$ 18,506	$ 18,941	$ 19,873

FIRST DEFIANCE FINANCIAL CORP.
Consolidated Statements of Changes in Stockholders' Equity
(In Thousands, except number of shares)

	Preferred Stock	Common Stock	Common Stock Warrant	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholder's Equity
Balance at December 31, 2010	$ 36,463	$ 127	$ 878	$ 140,845	$ (342)	$ 134,988	$ (72,628)	$ 240,331
Net income						15,534		15,534
Other comprehensive income					4,339			4,339
Stock option expense				144				144
850 stock options exercised, with no income tax benefit						(3)	14	11
1,600,800 shares issued capital stock				(5,297)			25,156	19,859
Restricted share activity under stock incentive plans				136			75	211
2,085 shares issued direct purchases				(3)			32	29
Preferred stock dividends accrued						(1,850)		(1,850)
Accretion on preferred shares	178					(178)		-
Common stock dividends declared						(481)		(481)
Balance at December 31, 2011	$ 36,641	$ 127	$ 878	$ 135,825	$ 3,997	$ 148,010	$ (47,351)	$ 278,127
Net income						18,664		18,664
Other comprehensive income								