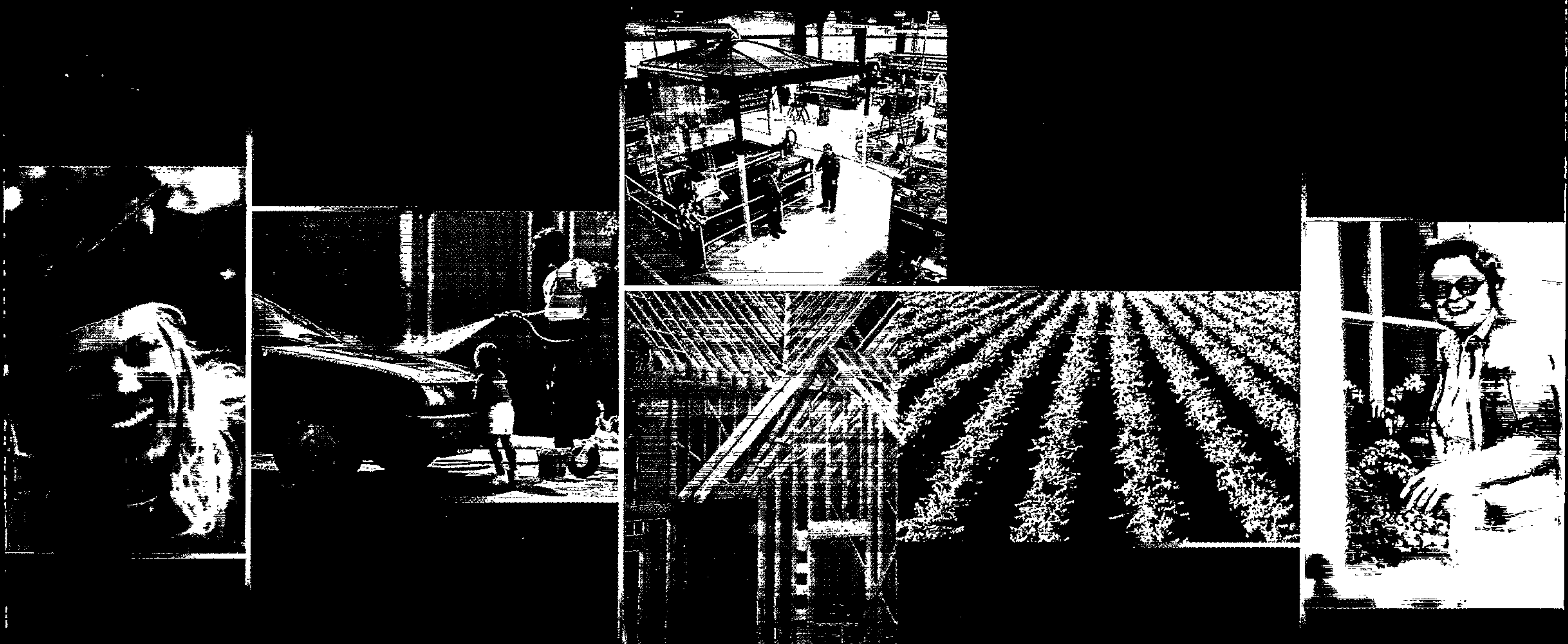
1999 Annual Report



FIRST DEFIANCE
FINANCIAL CORP.

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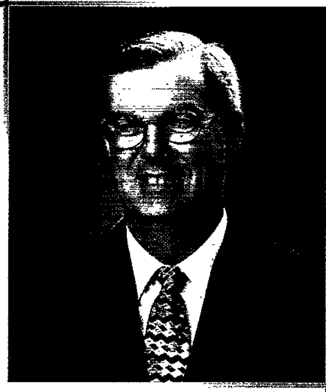
Financial Highlights

Years ended December 31 ($ in thousands, except per share data)	**1999**	1998	1997
At Period End:			
Assets	$987,994	$785,399	$579,698
Loans, net	702,943	568,484	441,912
Deposits and Borrowers Escrow Balances	564,511	511,313	395,983
Stockholders' equity	89,416	93,710	106,884
Book value per share	13.12	12.37	12.53
Tangible book value per share	10.97	10.61	12.53
Stockholders' equity to total assets	9.05%	11.93%	18.44%
Average Balances:			
Assets	$871,501	$698,922	$560,709
Loans	657,009	521,968	428,550
Deposits	472,904	409,254	382,574
Stockholders' equity	90,619	103,892	115,231
Summary of Operating Results:			
Net interest income	$ 21,797	$ 22,110	$ 22,471
Provision for loan losses	1,925	7,769	1,613
Non-interest income	40,794	17,528	1,627
Non-interest expense	47,414	26,940	14,093
Net income	8,623	3,111	5,407
Basic earnings per share	1.33	0.42	0.65
Diluted earnings per share	1.29	0.40	0.62
Basic cash earnings per share	1.44	0.45	0.65
Diluted cash earnings per share	1.40	0.43	0.62
Return on average equity	9.52%	2.99%	4.69%
Return on average assets	0.99%	0.45%	0.96%



William J. Small
Chairman, President and
Chief Executive Officer of
First Defiance Financial Corp.

Dear Shareholder:

1999 was a benchmark year for First Defiance Financial Corp.

It marked the first full year of operation for the new business units that we acquired during 1998. Integrated into First Defiance were The Leader Mortgage Company, acquired in July 1998, and First Insurance & Investments, comprising the former Stauffer-Mendenhall Agency, purchased in December 1998, along with the Defiance office of Insurance and Risk Management, added in September 1999. This integration was part of our business plan of diversifying financial services with businesses that will grow with each other.

We continued the initiatives of our business plan in our core banking operation, diversifying our lending portfolio, expanding our branch network and creating new, value-added products and services for our customers.

Stock repurchase programs and increased dividends also enhanced our investors' returns in 1999.

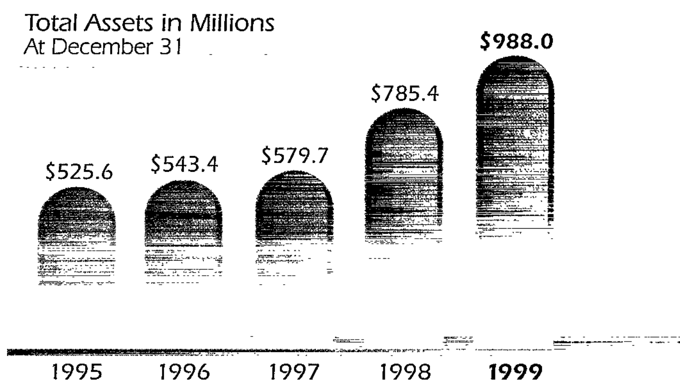
First Federal

At First Federal, the core banking operation business plan put into place the past few years took on more definition in 1999. Commercial lending growth continued strong during the year as the portfolio grew to $138.1 million. Asset quality in this area of lending is very solid; and, to help ensure that level of credit quality continues, we have a semiannual review performed on these loans by an outside party.

The Trust Department completed its first year of operation with more than $19 million of assets under management. Our trust officers are working closely with our commercial department and insurance agency to develop retirement plan and personal trust business with our commercial and insurance clients.

The additional reserves that were established in 1998 have proven to be appropriate to resolve indirect consumer lending deficiencies and safeguard against future losses. With stronger, centralized underwriting and special monitoring of at-risk loans, we have been able to mitigate some of the potential loss exposure on this segment of our loan portfolio. We continue to have an outside third party review our consumer lending originations on a quarterly basis as an additional form of monitoring activity.

Also in 1999, the remaining balance of our mobile home portfolio, which consisted primarily of distressed loans, was sold off at a price that exceeded expectations.



First Federal continued to expand its branch network in 1999 with the establishment of offices in more communities. In February, we opened a full-service office in Findlay after operating a very successful loan-origination office there for six months. At year-end, the new Findlay office had $41.5 million in loans and $15.4 million in deposits.

In November 1999, we opened a full-service branch in Fostoria, increasing our total branch network to 13. As with other start-up offices in recent years, we are operating out of a temporary facility until our permanent building is completed.

Both the Findlay and Fostoria communities were identified as being in transition as far as the banking market was concerned and created excellent opportunities for a community banking operation, such as First Federal. We will continue to evaluate other branch opportunities, both de novo and acquisitions of existing branches as part of our growth strategy.

New and expanded banking products and services were also introduced during the past year. To support our initiative to attract more low-cost deposits, we launched a major free checking account campaign. This, coupled with our emphasis on growing commercial deposits, will be a strategic focus this year.

Our ATM network was also expanded in 1999 with new locations at some of our branches as well as off-site locations at The Defiance College and Defiance Hospital.

In July, First Federal became the first community bank in our market area to offer Internet banking. This product provides real-time access to account information 24 hours a day. It also includes full bill-paying capabilities for a reasonable monthly fee. While we do not expect this style of banking to replace the personal aspect of our community bank operation, it is one more way for First Federal to respond to the needs of its busy banking customers.

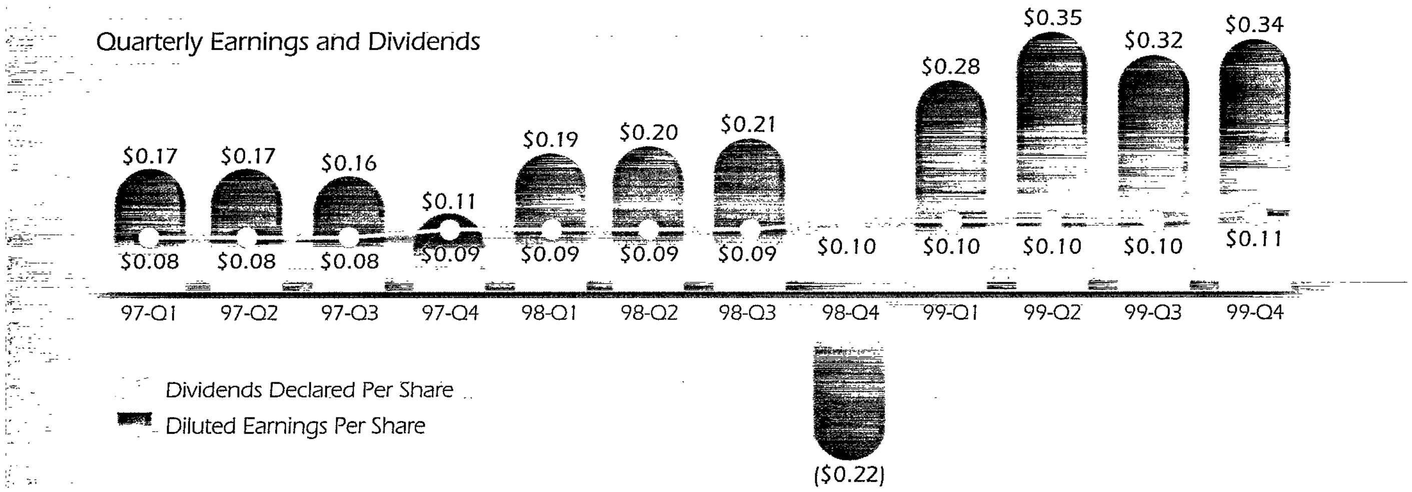
We recently implemented a new program at First Federal called "Customer First." This program is designed to empower our employees to give superior customer service, which we believe will lead to superior financial results. We are excited about this initiative. We view it not as a change in strategy but rather as a refocusing of efforts toward behavior, which will reward customers, employees and shareholders alike.

As we move into 2000, we have adopted a new form of charter for our banking operation. As of January 1, we began operating under a Federal Savings Bank Charter, which is just a modernized version of the Thrift Charter we previously operated under. We will continue to maintain the advantages of the Unitary Thrift Charter but will now be able to refer to ourselves as First Federal Bank.

We certainly view this as a logical step as we become more "bank-like" in our operation and continue our focus on being a full-service community bank.

The Leader Mortgage Company

The Leader Mortgage Company made a significant contribution to First Defiance for the six months that we owned it in 1998. As we entered 1999, we were challenged with growing the mortgage banking operation during a period when it was obvious that rising interest rates were going to put pressure on mortgage originators.



Our strategy at First Federal is dictated not by the size we want our bank to become, but by the size of the communities we serve. We recognize that to be successful, we need to focus on effective ways to attract and retain profitable customers. In the smaller cities and villages of Northwest Ohio, this means providing high-quality, value-added service.

Our focus continued to be on first-time homebuyer programs in which The Leader has developed a servicing niche. We also wanted to explore the possibility of expanding the non-first-time homebuyer areas with new initiatives in wholesale and retail lending and by identifying synergies between The Leader and our other business units.

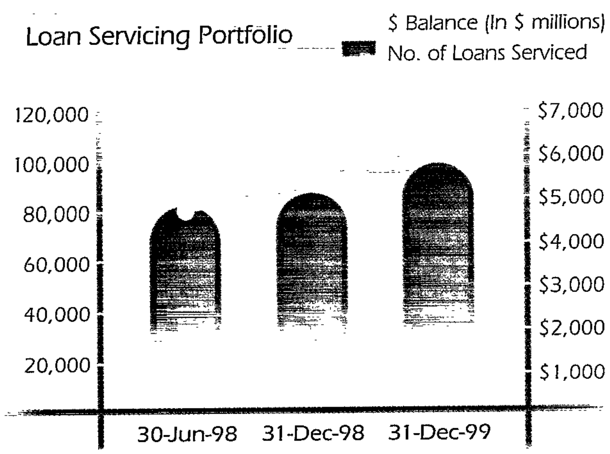
The rising interest rates, which resulted in downsizing at many mortgage-banking companies, actually benefited The Leader as more consumers took advantage of already popular first-time homebuyer programs. This increased pool of borrowers and an aggressive marketing plan, which put The Leader into new states and expanded programs, resulted in a very strong year for first-time homebuyer production, which reached $1.8 billion for the year.

The Leader's servicing portfolio at year-end included 98,911 loans with an outstanding balance of $6.3 billion.

The growth and success of The Leader's mortgage banking operation has presented some major challenges for First Federal. The impact of the treatment required for mortgage-servicing rights, in the calculation of regulatory capital, requires close monitoring to assure that appropriate regulatory capital levels are maintained.

The funding demands for The Leader's growing loan-warehouse operation create the need for expanded funding sources at potentially diminishing spreads. These challenges are the result of the growth of this business unit and, with proper planning and monitoring, will be met.

Overall, The Leader was a major contributor to First Defiance's solid year. The first-time homebuyer bond programs will continue to be the niche that we focus on in this operation. The forecast for these programs is that they will remain strong, based on commitments already on the books for the year 2000.



First Insurance & Investments

First Insurance & Investments is the newest business unit at First Defiance. In December 1998, we acquired the Insurance Center of Defiance, which conducted business in the Defiance area as the Stauffer-Mendenhall Agency, a property and casualty agency. Next, we acquired the Defiance office of Insurance and Risk Management, a Fort Wayne, Indiana, agency with a strong employee benefits book of business that we felt was a great complement to our first acquisition.

The two entities' operating systems were combined, and the offices will be merged by early second quarter. The name of the combined entity, First Insurance & Investments was selected to create more identity for this unit with First Defiance Financial Corp. and First Federal Bank as well as to communicate that investment and financial planning services are available through this unit.

Our business plan for First Insurance & Investments is to continue to develop existing lines of business with the added strength of offering a wider list of available insurers. We also look to create new opportunities working through the First Federal branch network and cross-relationship sales with First Federal commercial and trust customers for insurance and investment products. The insurance unit will also be involved with telemarketing a variety of insurance programs to The Leader's customers.

This was a year of transition for our insurance business, and it was slightly dilutive to earnings in 1999. Now that both acquisitions are fully integrated operationally and a solid business plan is in place, we anticipate a more favorable impact in the future.

The Year Ahead

The record earnings that were posted at First Defiance Financial Corp. in 1999 have set a new standard for us to measure future performance against. As I have mentioned throughout this letter, we feel that our success this year is a result of adhering to a well-defined business plan, under which we have developed into a diversified financial service organization. We will continue our focus on enhancing shareholder value and on creating consistent earnings for this Company through revenue growth and expense control.

As we move forward through the year 2000 and beyond, we feel that First Defiance Financial Corp. is well positioned to continue building on the solid foundation established in 1999.

Thank you for your continued interest in our company.

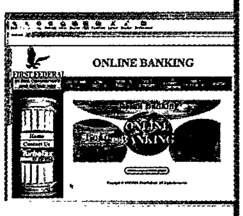
William J. Small
Chairman, President, C.E.O.

First Defiance Financial Corp.

First Defiance Financial Corp. (NASDAQ: FDEF) provides its customers and the communities it serves with technologically advanced, convenient, user friendly and Internet-accessible (www.fdef.com) financial services.

Its operating units include First Federal, The Leader Mortgage Company and First Insurance & Investments.

First Federal

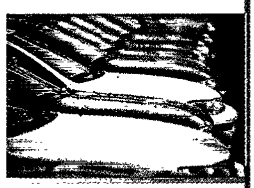


Services Available Through

- Branches - 13 convenient locations
- OnLine Banking℠ - Full-service Internet banking at www.first-fed.com
- Banking Service by Phone - 24 hours, 7 days a week, toll free at 888-511-1077
- ATM's - 13 Locations

Consumer Banking

- FREE CHECKING - No maintenance charge
- PRIME CHECKING℠ - Earns interest
- Debit Check Card
- Savings
  - Savings 24℠
  - Christmas Club
  - Money Market Deposit Account
  - Certificates of Deposit
  - Individual Retirement Accounts
- Loans
  - Fixed Rate and Adjustable Rate Mortgages
  - Low Down Payment Mortgages
  - FHA, VA Loans
  - Construction Loans
  - First-time Homebuyer Loans
  - Home Equity Loans
  - Auto Loans
  - Credit Cards



Commercial Banking

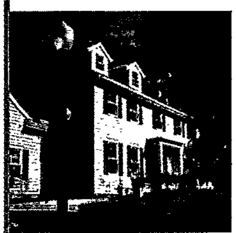
- Loans
  - Commercial Real Estate
  - Business Operating Loans
  - Lines and Letters of Credit
  - Agricultural Loans
- Deposit Accounts
  - Checking
  - Sweep Cash Management Products

Trust Services

- Employee Benefit Programs
  - 401k Profit Sharing
  - Retirement Planning
- Estate Planning
- Investments and Mutual Funds

The Leader Mortgage Company

- Master servicer for 41 state, county or municipal units in 14 states from Washington to Florida. These programs are primarily for first-time homebuyers funded by tax-favored bond issues.
- Services 98,911 loans with outstanding balance of $6.3 billion.
- Specializes in the selling and servicing of FHA/VA loans.
- The U.S.'s 29th largest issuer of GNMA securities. Also an authorized issuer of FNMA securities as well as a FHLMC seller/servicer.



- Services certain loan originations and manages secondary marketing pipeline for First Federal.
- Originates and sells with servicing released a variety of non-conforming first and second mortgage products.

First Insurance & Investments

Property and Casualty

- Commercial Insurance and Risk Management
- Personal, Auto, Home-owners and Liability Insurance Products

Employee Benefits

- Group Health and Group Life Insurance
- Fully-insured or Self-insured Products
- Plan Administration
- Personal Health and Disability Insurance

Financial Planning & Investments

- Personal Financial Plans
- Discount Brokerage Services
- Stocks, Bonds, Mutual Funds
- Life Insurance and Annuities

Professional Employer Organizations

- Human Resources Administration and Consulting

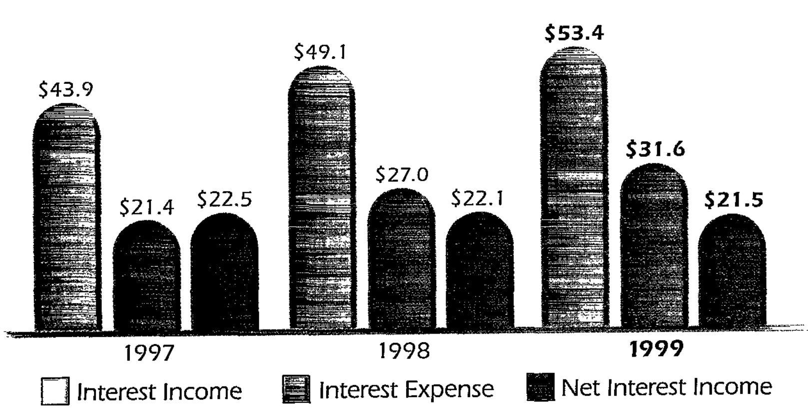
First Defiance Financial Corp. and Subsidiaries
Selected Consolidated Financial Information

($ in thousands, except per share data)

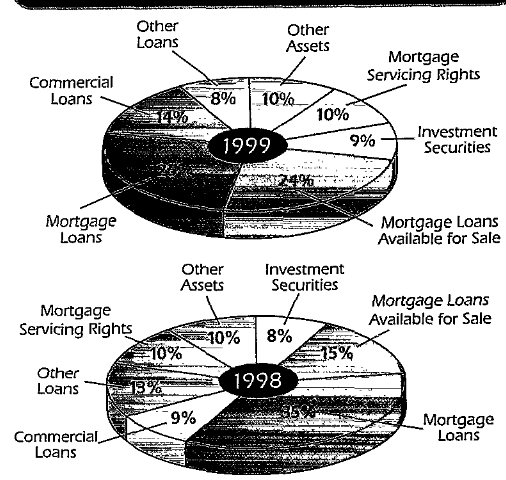
	1999	1998	1997	1996	1995
Selected Consolidated Financial Condition Data:			At December 31		
Total assets	**$987,994**	$785,399	$579,698	$543,411	$525,550
Loans receivable held-to-maturity	**465,321**	448,574	441,824	415,366	381,444
Loans receivable held-for-sale	**237,622**	119,910	88	559	3,759
Allowance for loan losses	**7,758**	9,789	2,686	2,217	1,817
Non-performing assets	**3,587**	3,369	1,906	2,239	945
Securities available-for-sale	**53,946**	47,554	82,436	77,407	93,041
Trading securities	**29,805**	–	–	–	–
Securities held-to-maturity	**9,895**	13,541	20,953	25,937	26,073
Mortgage servicing rights	**97,519**	76,452	188	121	–
Deposits and borrowers' escrow balances	**564,511**	511,313	395,983	383,139	382,414
FHLB advances	**265,410**	168,142	71,665	40,821	6,842
Stockholders' equity	**89,416**	93,710	106,884	116,565	133,506
Selected Consolidated Operating Results:			Years ended December 31		
Total interest income	**$53,379**	$49,056	$43,858	$41,257	$38,565
Total interest expense	**31,582**	26,946	21,387	19,459	20,289
Net interest income	**21,797**	22,110	22,471	21,798	18,276
Provision for loan losses	**1,925**	7,769	1,613	1,020	374
Non-interest income	**40,794**	17,528	1,627	1,328	1,035
Non-interest expense 1	**47,414**	26,940	14,093	15,958	10,560
Income before income taxes	**13,252**	4,929	8,392	6,148	8,377
Income taxes	**4,629**	1,818	2,985	1,997	2,856
Net income 1	**8,623**	3,111	5,407	4,151	5,521
Basic earnings per share 1,2	**1.33**	0.42	0.65	0.43	0.54
Diluted earnings per share 1,2	**1.29**	0.40	0.62	0.42	0.53
Stock Price and Dividend Information:			Years ended December 31		
High	**$14.50**	$15.875	$16.25	$12.50	$10.75
Low	**9.875**	11.00	11.75	9.875	5.75
Close	**10.50**	14.25	16.00	12.375	10.125
Cash dividends declared per share	**0.41**	0.37	0.33	0.29	0.28
Dividend payout ratio 3	**30.83%**	88.10%	50.77%	48.33%	51.85%

Net Interest Income

Years Ended December 31
In $ millions



Assets Breakdown



First Defiance Financial Corp. and Subsidiaries

Selected Consolidated Financial Information continued

($ in thousands, except per share data)

Selected Financial Ratios and Other Data:	**1999**	1998	1997	1996	1995
Performance Ratios:					
Return on average assets 1	**0.99%**	0.45%	0.96%	0.78%	1.13%
Return on average equity 1	**9.52%**	2.99%	4.69%	3.26%	6.14%
Interest rate spread 4	**2.93%**	3.25%	3.39%	3.22%	3.01%
Net interest margin 4	**3.12%**	3.62%	4.24%	4.31%	3.87%
Ratio of operating expense to average total assets 1	**5.44%**	3.85%	2.51%	3.02%	2.16%
Quality Ratios:					
Non-performing assets to total assets at end of period 5	**0.36%**	0.43%	0.33%	0.41%	0.24%
Allowance for loan losses to non-performing assets 5	**216.28%**	290.56%	140.92%	99.02%	192.28%
Allowance for loan losses to total loans receivable	**1.09%**	1.69%	0.60%	0.52%	0.47%
Capital Ratios:					
Equity to total assets at end of period	**9.05%**	11.93%	18.44%	21.45%	25.40%
Tangible equity to tangible assets at end of period	**7.68%**	10.41%	18.44%	21.45%	25.40%
Average equity to average assets	**10.40%**	14.86%	20.55%	24.07%	18.36%
Book value per share	**$13.12**	$12.37	$12.53	$12.31	$12.16
Ratio of average interest-earning assets to average interest-bearing liabilities	**104.52%**	108.43%	121.45%	128.53%	120.41%
Cash Earnings:					
Cash Earnings 1	**$9,382**	$3,393	$5,407	$4,151	$5,521
Basic Cash Earnings per share 1	**1.44**	0.45	0.65	0.43	0.54
Diluted Cash Earnings per share 1	**1.40**	0.43	0.62	0.42	0.53
Cash return on average assets 1	**1.09%**	0.49%	0.96%	0.78%	1.13%
Cash return on average equity 1	**11.99%**	3.44%	4.69%	3.26%	6.14%
Ratio of cash operating expense to average total tangible assets 1	**5.43%**	3.84%	2.51%	3.02%	2.16%

1 Non-interest expense for 1996 includes a one-time charge of $2.461 million to recapitalize the Savings Association Insurance Fund (SAIF). Without the SAIF charge, net income for 1996 would have been $5.775 million, or $.60 basic earnings per share ($.59 on a diluted basis), return on average assets would have been 1.09%, return on equity would have been 4.54% and the ratio of operating expense to average total assets would have been 2.55%.

2 Earnings per share for 1995-1996 have been restated for FASB Statement 128.

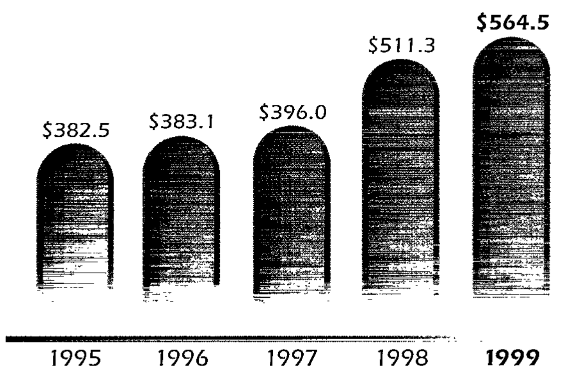
3 Dividend payout ratio was calculated using basic earnings per share.

4 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.

5 Non-performing assets consist of non-accrual loans that are contractually past due 90 days or more; loans that are deemed impaired under the criteria of FASB Statement No. 114; and real estate, mobile homes and other assets acquired by foreclosure or deed-in-lieu thereof.

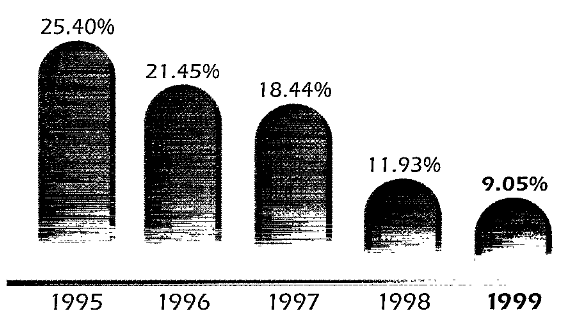
Deposit and Borrower's Escrow Balances

At December 31
In $ millions



Equity to Assets Ratio

At December 31



First Defiance Financial Corp. Locations

FIRST DEFIANCE
FINANCIAL CORP.

First Defiance Financial Corp. Headquarters
601 Clinton St.
Defiance, OH 43512
www.fdef.com
419-782-5015

FIRST INSURANCE & INVESTMENTS

First Insurance & Investments
419 Fifth St., Suite 1200
Defiance, OH 43512
419-784-5431

LMC

The Leader Mortgage Company
1015 Euclid Avenue
Cleveland, Ohio 44115
216-696-8000

FIRST FEDERAL

First Federal Locations

www.first-fed.com

Bryan Downtown
204 East High Street
Bryan, Ohio 43506
419-636-3118

Bryan East
926 East High Street
Bryan, Ohio 43506
419-636-5653

Defiance Downtown
601 Clinton Street
Defiance, OH 43512
419-782-5015

Defiance North
825 North Clinton Street
Defiance, OH 43512
419-782-6626

Defiance Super K-Mart
190 Stadium Drive
Defiance, OH 43512
419-782-5252

Findlay
3900 N. Main Street
Findlay, OH 45840
419-422-4422

Fostoria
1694 N. Countyline Street
Fostoria, OH 44830
419-436-1310

Hicksville
201 East High Street
Hicksville, OH 43526
419-542-5626

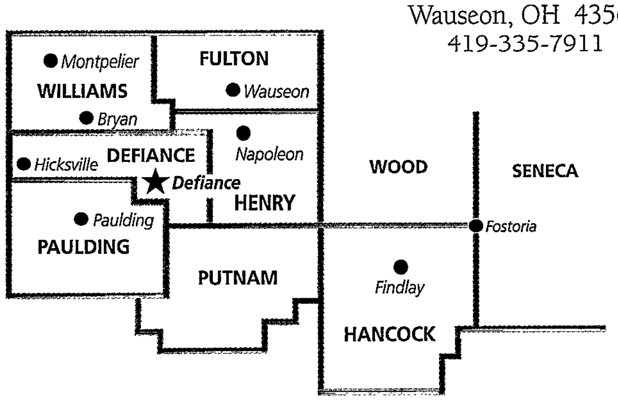
Montpelier
1050 East Main Street
Montpelier, OH 43543
419-485-5591

Napoleon Downtown
625 Scott Street
Napoleon, OH 43545
419-592-3060

Napoleon Woodlawn
1333 Woodlawn Avenue
Napoleon, OH 43545
419-599-2727

Paulding
905 North Williams Street
Paulding, OH 45879
419-399-9748

Wauseon
211 South Fulton Street
Wauseon, OH 43567
419-335-7911



★ *First Defiance Financial Corp., First Federal and First Insurance & Investments*
The Leader Mortgage Company

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 [FEE REQUIRED]

For the fiscal year ended December 31, 1999

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

Commission File Number ______________________

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:
(None)

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

Common Stock, Par Value $0.01 Per Share
(Title of class)

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 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. [ ]

As of March 6, 2000, there were issued and outstanding 6,836,685 shares of the Registrant's common stock.

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 March 6, 2000 was approximately $63.2 million.

Documents Incorporated by References

Part III - Portions of the Proxy Statement for the Annual meeting of Shareholders to be held on April 18, 2000 are incorporated by reference into Part III thereof.

PART I

Item 1. Business

First Defiance Financial Corp. ("First Defiance" or the "Company") is a unitary thrift holding company that, through is subsidiaries (the "Subsidiaries") focuses on traditional banking, mortgage banking, and property and casualty, group health and life insurance products. The Company's traditional banking activities include originating and servicing residential, commercial, and consumer loans and providing a broad range of depository services. The Company's mortgage banking activities consist primarily of purchasing and selling residential mortgage loans, originating residential mortgages, and servicing residential mortgage portfolios for investors. The Company's insurance activities consist primarily of commissions relating to the sale of property and casualty, life insurance, group health and investment products.

At December 31, 1999, the Company had consolidated assets of $988.0 million, consolidated deposits of $503.0 million, and consolidated stockholders' equity of $89.4 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.

The Subsidiaries

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

First Federal Bank of the Midwest: First Federal Bank of the Midwest ("First Federal") is a federally chartered stock savings bank headquartered in Defiance, Ohio. First Federal formerly did business as First Federal Savings and Loan. On January 1, 1999 it adopted a federal savings bank charter and changed its name to First Federal Bank of the Midwest. It conducts operations through its main office and thirteen full service branch offices in Defiance, Fulton, Hancock, Henry, Paulding, Putnam, and Williams Counties in northwest Ohio. First Federal's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC") under the Savings Association Insurance Fund ("SAIF"). First Federal is a member of the Federal Home Loan Bank System.

First Federal is primarily engaged in attracting deposits from the general public through its offices and using those and other available sources of funds to originate loans secured by single-family residences (one-to-four-family units) primarily located in the seven counties in which its offices are located. First Federal also originates other real estate loans secured by nonresidential and multi-family residential real estate and construction loans. First Federal also holds a significant number of non real estate loans including commercial, home improvement and equity, consumer finance loans, primarily automobile loans, and mobile home 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 which are issued by federal agencies, commercial paper, and corporate bonds.

The Leader Mortgage Company: The Leader Mortgage Company ("The Leader") is a single member limited liability company which is operated as a division of First Federal. The Leader is a mortgage banking company which specializes in servicing mortgage loans under various first-time homebuyer programs sponsored by various state, county and municipal governmental entities. The Leader's mortgage banking activities consist primarily of originating or purchasing residential mortgage loans for either direct resale into secondary markets or to be securitized under various Government National Mortgage Association ("GNMA") bonds.

First Insurance & Investments: First Insurance & Investments ("First Insurance") is a wholly owned subsidiary of First Defiance. First Insurance is an insurance agency that does business in the Defiance, Ohio area. First Insurance offers property and casualty, life insurance, group health, and investment products.

Securities

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. Loans held-for-sale securitized in the normal course of The Leader's operations have been classified as trading securities, reported at fair market value. The Leader has committed to sell the securities at their carrying value.

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, the Chief Operating Officer, and the Chief Executive Officer of First Federal can each approve transactions up to $1 million. Two of the three are required to approve transactions greater than $1 million up to $5 million. All transactions in excess of $5 million must be approved by the Board of Directors.

First Defiance's investment portfolio includes seven CMO and REMIC issues totaling $6.9 million, all of which are fully amortizing securities. All such investments are considered derivative securities. None of First Defiance's investments are considered to be high risk and management does not believe the risks associated with these investments to be significantly different from risks associated with other pass-through mortgage backed securities. First Defiance does not invest in off-balance sheet derivative securities.

The amortized cost and fair value of securities at December 31, 1999 by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Money market mutual funds and other mutual funds are not due at a single maturity date. 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	Yield
					(Dollars in thousands)					
Mortgage-backed securities	$ 311	5.60%	$ 696	8.64%	$ 90	9.14%	$37,705	6.50%	$38,802	6.54%
Corporate bonds	4,046	6.09%	10,819	6.68%					14,865	6.52%
REMICs and CMOs					6,426	6.39%	566	6.85%	6,992	6.42%
U.S. Government and federal agency obligations			15,814	6.25%	964	5.90%			16,778	6.23%
Obligations of states and political subdivisions	634	5.26%	1,406	5.80%	3,759	5.25%	745	5.15%	6,544	5.36%
Trust preferred stock							2,000	9.13%	2,000	9.13%
Total	$ 4,991		$28,735		$11,239		$41,016		85,981	
Mutual funds									8,981	
Equity securities									343	
Unrealized loss on securities available for sale									(1,659)	
Total									$93,646	

The carrying value of investment securities is as follows:

	December 31		
	1999	**1998**	**1997**
		(In thousands)	
Available-for-Sale Securities:			
Corporate bonds	**$ 14,746**	$ 11,196	$ 10,113
U. S. Treasury and other U. S. Government agencies and corporations	**16,374**	7,063	58,851
Obligations of state and political subdivisions	**5,381**	5,286	550
Other	**17,445**	24,009	12,922
Totals	**$ 53,946**	$ 47,554	$ 82,436
Trading Securities:			
U.S. Treasury and other U.S. Government agencies and corporations	**$ 29,805**	$ –	$ –
	$ 29,805	$ –	$ –

Held-to-Maturity Securities:			
U. S. Treasury and other U. S. Government agencies and corporations	**$ 8,997**	$ 12,531	$ 19,715
Obligations of state and political subdivisions	**898**	1,010	1,238
Totals	**$ 9,895**	$ 13,541	$ 20,953

For additional information regarding First Defiance's investment portfolio refer to Note 4 to the consolidated financial statements.

Interest-Bearing Deposits

First Defiance has interest-bearing deposits in the FHLB of Cincinnati amounting to $1.8 million and $5.3 million at December 31, 1999 and 1998.

Residential Loan Servicing Activities

First Federal and The Leader each has its own mortgage servicing portfolio. At December 31, 1999, First Federal serviced approximately $88.6 million of mortgage loans, while The Leader's servicing portfolio amounted to approximately $5.95 billion.

Servicing mortgage loans involves a contractual right to receive a fee for processing and administering loan payments. 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. These payments are held in custodial escrow accounts at First Federal, where the money can be invested by the Company in interest-earning assets at returns that historically have been greater than could be realized by the Company using the custodial escrow deposits as compensating balances to reduce the effective borrowing cost on the Company's warehouse credit facilities.

As compensation for its mortgage servicing activities, the Company receives servicing fees usually ranging from 0.25% to 0.44% per annum of the loan balances serviced, plus any late charges collected from delinquent borrowers and other fees incidental to the services provided. At December 31, 1999, the Company's weighted-average servicing fee was .41%. In the event of a default by the borrower, the Company receives no servicing fees until the default is cured.

Servicing is provided on mortgage loans on a recourse or nonrecourse basis. The Company's policy is to accept only a limited number of servicing assets on a recourse basis. As of December 31, 1999, on the basis of outstanding principal balances, only .07% of the mortgage servicing contracts owned by the Company involved recourse servicing. To the extent that servicing is done on a recourse basis, the Company is exposed to credit risk with respect to the underlying loan in the event of a repurchase. Additionally, many of the nonrecourse mortgage servicing contracts owned by the Company require the Company to advance all or part of the scheduled payments to the owner of the mortgage loan in the event of a default by the borrower. Many owners of mortgage loans also require the servicer to advance insurance premiums and tax payments on schedule even though sufficient escrow funds may not be available. The Company, therefore, must bear the funding costs associated with making such advances. If the delinquent loan does not become current, these advances are typically recovered at the time of the foreclosure sale. Foreclosure expenses are generally not fully reimbursable by the Federal National Mortgage Association ("FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC") or the Government National Mortgage Association ("GNMA"), for whom the Company provides significant amounts of mortgage loan servicing. As of December 31, 1999 and 1998, the Company had advanced approximately $5.6 million and $3.5 million, respectively, in funds on behalf of third-party investors.

Mortgage servicing rights represent a contractual right to service, and not a beneficial ownership interest in, underlying mortgage loans. Failure to service the loans in accordance with contract or other applicable requirements may lead to the termination of the servicing rights and the loss of future servicing fees. To date, there have been no terminations of mortgage servicing rights by any mortgage loan owners because of the Company's failure to service the loans in accordance with its obligations.

The following table sets forth certain information regarding the composition of the Company's mortgage servicing portfolio (excluding loans subserviced for others) as of the dates indicated:

	As of December 31		
	1999	**1998**	**1997**
	(In thousands)		
FHA insured/VA guaranteed residential	**$ 4,641,778**	$ 3,616,245	
Conventional loans	**1,205,908**	1,086,575	$ 17,844
Other loans	**191,377**	153,049	
Total mortgage servicing portfolio	**$ 6,039,063**	$ 4,855,869	$ 17,844
Fixed rate loans	**$ 6,032,886**	$ 4,847,764	$ 17,844
Adjustable rate loans	**6,177**	8,105	
Total mortgage servicing portfolio	**$ 6,039,063**	$ 4,855,869	$ 17,844

The following table shows the delinquency statistics for the mortgage loans serviced by the Company (excluding loans subserviced for others) compared with national average delinquency rates as of the dates presented:

	As of December 31								
	1999			1998			1997		
	Company		National Average(1)	Company		National Average(1)	Company		National Average(1)
	Number of Loans	Percentage of Servicing Portfolio (2)	Percentage of Loans	Number of Loans	Percentage of Servicing Portfolio (2)	Percentage of Loans	Number of Loans	Percentage of Servicing Portfolio (2)	Percentage of Loans
Loans delinquent for:									
30-59 days	**5,102**	**5.28%**	**2.88%**	5,155	6.23%	2.96%	5	1.78%	3.03%
60-89 days	**1,425**	**1.47**	**.63**	1,435	1.73	.68	–		.71
90 days and over	**1,007**	**1.04**	**.59**	818	.99	.60	1	.36	.62
Total delinquencies	**7,534**	**7.79%**	**4.10%**	7,408	8.95%	4.24%	6	2.14%	4.36%
Foreclosures	**2,167**	**2.24%**		2,161	2.61%	–	–	–	1.11%

(1) Source: Mortgage Bankers Association, "Delinquency Rates of I to 4 Unit Residential Mortgage Loans" (Seasonally Adjusted) (Data as of September 30, 1999 and December 31, 1998 and 1997, respectively).

(2) Delinquencies and foreclosures generally exceed the national average due to historically higher rates of delinquencies and foreclosures on FHA insured and VA guaranteed residential mortgage loans.

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 (excluding loans subserviced for others), at various mortgage interest rates:

	As of December 31								
	1999			1998			1997		
Rate	Number of Loans	Aggregate Principal Balance	Percentage of Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance	Percentage of Aggregate Principal Balance	Number of Loans	Aggregate Principal Balance	Percentage of Aggregate Principal Balance
Less than 5.00%	**697**	**$ 32,872**	**.54%**	1,144	$ 33,215	.68%			
5.00% - 5.99%	**18,326**	**1,238,781**	**20.51**	9,510	565,162	11.64			
6.00% - 6.99%	**35,221**	**2,427,105**	**40.19**	29,068	1,818,721	37.45			
7.00% - 7.99%	**31,094**	**1,721,873**	**28.51**	30,383	1,718,098	35.38	54	$ 3,904	21.88%
8.00% - 8.99%	**9,713**	**501,155**	**8.30**	12,310	480,142	9.89	216	13,540	75.88%
9.00% and over	**1,640**	**117,277**	**1.95**	355	240,531	4.96	11	400	2.24
Total	**96,691**	**$6,039,063**	**100.00%**	82,770	$4,855,869	100.00%	281	$17,844	100.00%

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Loan administration 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 (excluding loans subserviced for others) as of the dates shown. The changes in the remaining maturities as a percentage of unpaid principal between 1998 and 1997, as reflected below, are the result of acquisitions of mortgage servicing rights completed during 1998.

	As of December 31											
	1999				1998				1997			
Maturity	Number of Loans	Percentage of Number of Loans	Unpaid Principal Amount	Percentage Unpaid Principal Amount	Number of Loans	Percentage of Number of Loans	Unpaid Principal Amount	Percentage Unpaid Principal Amount	Number of Loans	Percentage of Number of Loans	Unpaid Principal Amount	Percentage Unpaid Principal Amount
	(Dollars in thousands)											
1–5 years	4,102	4.24%	$ 121,250	2.01%	5,843	7.06%	$ 147,446	3.04%				
6–10 years	5,823	6.02	120,517	2.00	5,053	6.10	147,092	3.03				
11–15 years	1,457	1.51	99,207	1.64	1,756	2.12	104,796	2.16				
16–20 years	4,894	5.06	209,012	3.46	6,643	8.03	288,755	5.95				
21–25 years	12,702	13.14	745,418	12.34	16,136	19.49	960,928	19.79				
More than 25 years	67,713	70.03	4,743,659	78.55	47,339	57.20	3,206,852	66.03	281	100.00%	$17,844	100.00%
Total	96,691	100.00%	$6,039,063	100.00%	82,770	100.00%	$4,855,869	100.00%	281	100.00%	$17,844	100.00%

The following table sets forth the geographic distribution of the mortgage loans (including delinquencies) serviced by the Company (excluding loans subserviced for others) by state:

	As of December 31											
	1999				1998				1997			
State	Number of Loans	Aggregate Principal Balance	Percentage of Aggregate Principal Balance	Percentage of Total Delinqs. by State(1)	Number of Loans	Aggregate Principal Balance	Percentage of Aggregate Principal Balance	Percentage of Total Delinqs. by State(1)	Number of Loans	Aggregate Principal Balance	Percentage of Aggregate Principal Balance	Percentage of Total Delinqs. by State(1)
	(Dollars in thousands)											
Ohio	35,336	$2,230,168	36.93%	31.46%	36,761	$2,153,287	44.34%	38.12%	281	$17,844	100.00%	100.00%
Florida	19,245	1,259,712	20.86	22.07	14,688	955,047	19.67	19.74				
Louisiana	10,226	679,799	11.26	16.30	6,836	443,228	9.13	10.96				
Washington	5,458	374,580	6.20	4.67	3,531	248,738	5.12	3.93				
Other (2)	26,426	1,494,804	24.75	25.50	20,954	1,055,569	21.74	27.25				
Total	96,691	$6,039,063	100.00%	100.00%	82,770	$4,855,869	100.00%	100.00%	281	$17,844	100.00%	100.00%

(1) In terms of number of loans outstanding.
(2) No other state accounted for greater than 6.00%, based on aggregate principal balances of the Company's mortgage loan servicing portfolio as of December 31, 1999.

Lending Activities

General. A savings association 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 securities. See "Regulation - Federal Regulation of Savings Associations." At December 31, 1999, First Federal's limit on loans-to-one borrower was $8.6 million and its five largest loans or groups of loans to one borrower, including related entities, were $8.2 million, $6.6 million, $3.6 million, $3.3 million and $3.0 million. All of these loans or groups of loans were performing in accordance with their terms at December 31, 1999.

Loan Portfolio Composition. Loan volume continues to be strong. The net increase in net loans outstanding over the prior year was $134.4 million, $126.6 million, and $26.0 million in 1999, 1998, and 1997, respectively. The loan portfolio contains no foreign loans nor any concentrations to identified borrowers engaged in the same or similar industries exceeding 10% of total loans.

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

	December 31									
	1999		**1998**		**1997**		**1996**		**1995**	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(Dollars in thousands)									
Real estate:										
Single-family residential	**$458,442**	**64.1%**	$365,116	62.7%	$255,428	57.0%	$241,787	57.1%	'$224,639	57.4%
Multi-family residential	**11,427**	**1.6**	13,763	2.4	9,363	2.1	9,175	2.2	16,929	4.3
Non-residential real estate	**11,801**	**1.7**	16,436	2.8	20,159	4.5	21,348	5.0	19,780	5.1
Construction	**7,808**	**1.1**	8,258	1.4	10,148	2.2	11,412	2.7	8,200	2.1
Total real estate loans	**489,478**	**68.5**	403,573	69.3	295,098	65.8	283,722	67.0	269,548	68.9
Other:										
Consumer finance	**64,326**	**9.0**	87,168	15.0	81,111	18.1	74,019	17.5	61,810	15.8
Commercial	**138,125**	**19.3**	70,109	12.0	29,758	6.6	26,674	6.3	23,647	6.0
Home equity and improvement	**22,781**	**3.2**	18,168	3.2	16,940	3.8	13,570	3.2	11,875	3.0
Mobile home	**46**	**-**	3,117	.5	25,424	5.7	25,199	6.0	24,671	6.3
Total non-real estate loans	**225,278**	**31.5**	178,562	30.7	153,233	34.2	139,462	33.0	122,003	31.1
Total loans	**714,756**	**100.00%**	582,135	100.0%	448,331	100.0%	423,184	100.0%	391,551	100.0%
Less:										
Loans in process	**3,291**		3,250		3,087		4,474		3,971	
Deferred loan origination fees	**764**		612		646		568		559	
Allowance for loan losses	**7,758**		9,789		2,686		2,217		1,817	
Net loans	**$702,943**		$568,484		$441,912		$415,925		$385,204	

Included above, First Defiance had $239.6 million, $119.9 million, $87,500, $558,600 and $3.8 million in loans classified as held for sale at December 31, 1999, 1998, 1997, 1996, and 1995 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, 1999 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.

	Due Before 12/31/00	Due Before 12/31/01	Due 3-5 Years After 12/31/99	Due 5-10 Years After 12/31/99	Due 10-15 Years After 12/31/99	Due 15+ Years After 12/31/99	Total
				(In thousands)			
Real estate	$259,397	$11,702	$44,049	$ 66,119	$47,957	$60,254	$489,478
Non-real estate:							
Commercial	44,999	12,205	31,050	32,085	5,927	11,859	138,125
Home equity and improvement	2,701	711	1,805	1,361	276	15,927	22,781
Mobile home	9	8	22	7	–	–	46
Consumer finance	23,872	17,880	22,096	460	18	–	64,326
Total	$330,978	$42,506	$99,022	$100,032	$54,178	$88,040	$714,756

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, 1999 which have fixed interest rates or which have floating or adjustable interest rates.

	Fixed Rates	Floating or Adjustable Rates	Total
		(In thousands)	
Real estate	$ 170,780	$ 59,301	$ 230,081
Non-real estate:			
Commercial	39,270	53,856	93,126
Other	42,847	17,724	60,571
	$ 252,897	$ 130,881	$ 383,778

Originations, Purchases and Sales of Loans. The lending activities of First Defiance 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 real estate brokers, developers, builders, and existing customers; newspapers and radio advertising; and walk-in customers.

First Defiance's loan approval process for all types of loans is intended to assess the borrowers 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 credit is first reviewed and underwritten by a commercial loan officer, who may approve credits within his or her lending limit. Credits exceeding an individual's lending limit may be approved by another loan officer with limits sufficient to cover the exposure. All credits which exceed $100,000 in aggregate exposure must be presented for approval to the Senior Loan Committee, a committee of senior lending personnel. Credits which exceed $250,000 in aggregate exposure must be presented to for approval to the Executive Loan Committee, a sub-committee of the Board of Directors.

A mortgage loan is initially reviewed by a mortgage loan originator. Approval for conforming mortgage loans which are sold to the secondary market occurs centrally by the Chief Underwriter or the Vice President of Mortgage Lending. Non-conforming mortgage loans must be approved by either the Vice President of Mortgage Lending or First Federal's Chief Operating Officer.

A consumer loan officer underwrites and may approve direct consumer credits within their lending limits. Credits exceeding an officer's lending limits may be approved by another loan officer with limits sufficient to cover the exposure. All indirect consumer credits are underwritten and approved centrally.

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 5.87% of First Defiance's total originations of mortgage loans in 1999 compared to 14.0% and 34.7% during 1998 and 1997, respectively. First Defiance continues to hold adjustable-rate securities in order improve its interest rate risk profile.

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 during the periods indicated:

	Year ended December 31		
	1999	**1998**	**1997**
	(In thousands)		
Loan originations:			
One to four family residential	**$154,142**	$163,355	$ 72,752
Five or more family residential	**313**	2,168	1,464
Non-residential real estate	**476**	4,025	5,153
Construction	**10,699**	13,852	11,044
Commercial	**149,819**	98,148	31,435
Mobile home	–	3,083	5,945
Home equity and improvement	**10,223**	15,381	10,103
Consumer	**21,122**	60,068	54,994
Total loans originated	**346,794**	360,080	192,890
Loans acquired through purchase of The Leader:			
One to four family residential	–	127,170	–
Five or more family residential	–	4,302	–
	–	131,472	–
Purchase of one to four family residential	**1,797,959**	596,681	–
Loan reductions:			
Loan pay-offs	**188,128**	185,793	106,840
Mortgage loans sold	**1,746,386**	674,066	8,242
Periodic principal repayments	**77,618**	94,570	52,661
	2,012,132	954,429	167,743
Net increase in total loans	**$132,621**	$133,804	$ 25,147

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, 1999, 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 which 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)				
Single-family residential	$1,067	0.15%	$ 60	0.01%	$ 146	0.02%	$ 1,273	0.18%
Non-residential and multi-family residential	396	0.06	–	–	–	–	396	0.06
Home equity and improvement	69	0.01	–	–	30	–	99	0.01
Consumer finance	1,307	0.18	247	0.03	117	0.02	1,671	0.23
Commercial	49	0.00	10	–	737	0.10	796	0.11
	2,888	0.40	317	0.04	1,030	0.14	4,235	0.59
Single-family residential backed by government guarantees	269	0.04	133	0.02	12,796	1.79	13,198	1.85
Total	$3,157	0.44%	$450	0.06%	$13,826	1.93%	$17,433	2.44%

Non-Performing Assets. All loans are reviewed on a regular basis and are placed on a non-accrual status when, in the opinion of management, the collection of additional interest is deemed insufficient to warrant further accrual. Generally, First Defiance places all loans more than 90 days past due on non-accrual status. When a loan is placed on non-accrual status, total unpaid interest accrued to date is reserved. Subsequent payments are either applied to the outstanding principal balance or recorded as interest income, depending on the assessment of the ultimate collectibility of the loan. First Defiance considers that a loan is impaired when, based on current information and events, it is probable that they will be unable to collect all amounts due (both principal and interest) according to the contractual terms of the loan agreement. When a loan is impaired, 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 measure of the impaired loan is less than the recorded investment, First Defiance will recognize an impairment by creating a valuation allowance. This policy excludes large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment such as residential mortgage, consumer installment, and credit card loans. Impairment of loans having recorded investments of $570,000, $570,000 and $537,000 has been recognized as of December 31, 1999, 1998 and 1997, respectively. Interest received and recorded in income during 1999, 1998 and 1997 on impaired loans including interest received and recorded in income prior to such impaired loan designation amounted to $36,000, $155,000, and $53,000, respectively. Unrecorded interest income on these and all non-performing loans in 1999, 1998 and 1997 was $154,000, $36,000, and $24,000, respectively. The average recorded investment in impaired loans during 1999, 1998 and 1997 was $570,000, $570,000, and $1.3 million, respectively. The total allowance for loan losses related to these loans was $402,000, $402,000 and $327,000 at December 31, 1999, 1998 and 1997, respectively.

Real estate acquired by foreclosure is classified as real estate owned until such time as it is sold. In addition, First Defiance also repossesses other assets securing loans, consisting primarily of automobiles and mobile homes. When such property is acquired it is recorded at the lower of the restated loan balance, less any allowance for loss, or fair value. 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 an allowance for losses is established by a charge to operations if the carrying value of property exceeds its estimated net realizable value.

As of December 31, 1999, First Defiance's total non-performing loans amounted to $1,030,000 or .14% of total loans, compared to $1,852,000 or .33% of total loans, at December 31, 1998.

The following table sets forth the amounts and categories of First Defiance's nonperforming assets and troubled debt restructurings at the dates indicated.

	December 31				
	1999	1998	1997	1996	1995
	(Dollars in thousands)				
Non-performing loans:					
Single-family residential	**$ 146**	$ 171	$ 313	$ 88	$ 263
Non-residential and multi-family residential real estate	**–**	–	–	19	–
Commercial	**737**	1,330	570	1,561	268
Mobile home	**–**	180	315	193	130
Consumer finance	**147**	171	167	111	111
Total non-performing loans	**1,030**	1,852	1,365	1,972	772
Real estate owned	**2,465**	1,337	18	–	1
Other repossessed assets	**92**	180	523	267	172
Total repossessed assets	**2,557**	1,517	541	267	173
Total non-performing assets	**$ 3,587**	$ 3,369	$1,906	$2,239	$ 945
Troubled debt restructurings	**$ –**	$ –	$ –	$ –	$ 437
Total non-performing assets as a percentage of total assets	**.36%**	.43%	.33%	.41%	.18%
Total non-performing loans and troubled debt restructurings as a percentage of total loans	**.14%**	.33%	.43%	.53%	.35%
Total non-performing assets and troubled debt restructurings as a percentage of total assets	**.36%**	.43%	.33%	.41%	.26%
Allowance for loan losses as a percent of total non-performing assets	**216.3%**	290.6%	140.9%	99.0%	192.3%

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Allowance for Loan Losses. It is management's policy to maintain an allowance for loan losses based upon an assessment of prior loss experience, the volume and type of lending conducted by First Defiance, industry standards, past due loans, general economic conditions and other factors related to the collectibility of the loan portfolio. Although management believes that it uses the best information available to make such determinations, future adjustments to 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, 1999, First Defiance's allowance for loan losses amounted to $7.8 million compared to $9.8 million at December 31, 1998. As of December 31, 1999 and 1998, $1.0 million and $1.5 million, respectively, constituted an allowance with respect to specific loans or assets held for sale. Charge-offs in non-real estate loans increased $664,000 for the year ended December 31, 1999 over 1998 due to increases in lending and delinquencies in this area. In addition, the majority of the mobile home portfolio was sold during 1999 at a loss of $1.0 million.

The following table sets forth the activity in First Defiance's allowance for loan losses during the periods indicated.

	Year Ended December 31				
	1999	**1998**	**1997**	**1996**	**1995**
	(Dollars in thousands)				
Allowance at beginning of year	**$9,789**	$2,686	$2,217	$1,817	$1,733
Provisions	**1,925**	7,769	1,613	1,020	374
Acquired allowance of The Leader	–	1,194	–	–	–
Charge-offs:					
Single-family real estate	**1,843**	352	–	–	–
Non-real estate:					
Consumer finance	**1,231**	1,053	1,078	430	230
Mobile home	**1,054**	620	259	334	91
Commercial	**107**	55	4	12	23
Total non-real estate	**2,392**	1,728	1,341	776	344
Total charge-offs	**4,235**	2,080	1,341	776	344
Recoveries:					
Consumer finance	**279**	220	195	152	51
Commercial	–	–	–	4	–
Mobile home	–	–	2	–	–
Assets held for sale	–	–		–	3
Total	**279**	220	197	156	54
Allowance at end of year	**$7,758**	$9,789	$2,686	$2,217	$1,817
Allowance for loan losses to total non-performing loans at end of year	**753.2%**	528.6%	196.8%	112.4%	235.4%
Allowance for loan losses to total loans at end of year	**1.10**	1.68%	.60%	.52%	.46%
Allowance for loan losses to net chargeoffs for the year	**196.11**	470.63	234.79	357.58	626.55
Net charge offs for the year to average loans	**.56**	.36	.27	.16	.08

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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					
	1999		1998		1997	
	Amount	**Percent of total loans by category**	**Amount**	**Percent of total loans by category**	**Amount**	**Percent of total loans by category**
			(Dollars in thousands)			
Real estate mortgage loans	**$1,964**	**68.5%**	$1,654	69.3%	$ 351	65.8%
Other:						
Commercial business loans	**2,317**	**19.3**	1,760	12.0	828	6.6
Mobile home loans	**–**	**–**	1,309	.5	361	5.7
Consumer and home equity and improvement loans	**3,477**	**12.2**	5,066	18.2	1,146	21.9
	$7,758	**100.0%**	$9,789	100.0%	$2,686	100.0%

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 Federal Home Loan Bank 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. First Defiance also utilizes other banks to fund a portion of its mortgage banking operation.

Deposits. First Defiance's deposits are attracted principally from within First Federal's primary market area through the offering of a broad selection of deposit instruments, including checking accounts, money market accounts, regular savings accounts, and term certificate accounts. Included among these deposit products are individual retirement account certificates of approximately $51.5 million at December 31, 1999. Also included in these amounts are $60.1 million of brokered certificates obtained from national brokers to supplement First Defiance's funding requirements. 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.

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

			Year ended December 31			
		1999		**1998**		
	Amount	Rate	Amount	Rate	Amount	Rate
Non interest DDAs	**$13,165**	**– %**	$ 2,547	– %	$ 2,545	– %
Interest bearing DDAs	**73,377**	**2.97**	66,806	2.65	48,766	2.88
Savings deposits	**53,247**	**1.65**	56,135	1.95	63,028	2.58
Time deposits	**333,115**	**5.06**	283,766	5.44	268,235	5.58
Totals	**$472,904**	**4.21%**	$409,254	4.48%	$382,574	4.70%

The following table sets forth the maturities of First Defiance's certificates of deposit having principal amounts of $100,000 or more at December 31, 1999.

	(In thousands)
Certificates of deposit maturing in quarter ending:	
March 31, 2000	$ 17,129
June 30, 2000	11,454
September 30, 2000	9,373
December 31, 2000	10,650
After December 31, 2000	12,643
Total certificates of deposit with balances of $100,000 or more	$61,249

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

	1999	1998
	(In thousands)	
Demand, NOW and money market accounts	**$ 92**	$ 78
Savings Accounts	**5**	2
Certificates	**1,242**	645
	$1,339	$725

For additional information regarding First Defiance's deposits see Note 9 to the financial statements.

Borrowings. First Defiance may obtain advances from the FHLB of Cincinnati upon the security of the common stock it owns in that bank and certain of its residential mortgage loans, 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. Such advances are generally available to meet seasonal and other withdrawals of deposit accounts and to permit increased lending. See "Regulation - Federal Regulation of Savings Associations - Federal Home Loan Bank System."

In addition, First Defiance has utilized funding from banks and other sources. As of December 31, 1999, First Defiance has available a $160 million revolving warehouse loan agreement with various banks secured by mortgage loans held for sale with interest at the federal funds rate plus 60 to 125 basis points, or the LIBOR index plus 100 basis points. This funding facility had $47.0 million outstanding against it as of December 31, 1999 with a weighted average rate of 6.64%.

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

	December 31 1999	1998	1997
	(Dollars in thousands)		
Long-term:			
FHLB advances	**$187,410**	$98,497	$ 4,529
Weighted average interest rate	**5.28%**	4.93%	6.57%
Notes	**$6,461**	$ 368	
Weighted average interest rate	**4.31%**	6.26%	
Short-term:			
FHLB advances	**$ 78,000**	$69,645	$67,136
Weighted average interest rate	**5.00%**	5.18%	5.85%
Mortgage Warehouse borrowings	**$ 47,043**		
Weighted average interest rate	**6.64%**		

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

	Year ended December 31 1999	1998	1997
	(Dollars in thousands)		
Long-term:			
Maximum balance - FHLB	**$187,410**	$ 98,497	$ 5,601
Average balance - FHLB	**107,319**	21,829	4,529
Weighted average interest rate of FHLB advances	**4.83%**	5.87%	6.19%
Maximum balance - Term	**$ 6,472**	$ 40,283	–
Average balance - Term	**4,449**	25,879	–
Weighted average interest rate of term borrowings	**4.02%**	6.50%	–
Short-term:			
Maximum balance - FHLB	**$136,250**	$ 69,645	$70,135
Average balance - FHLB	**88,247**	49,462	53,039
Weighted average interest rate of FHLB advances	**5.29%**	5.43%	5.77%
Maximum balance – Mortgage Warehouse	**$ 49,632**	$147,165	$ –
Average balance – Mortgage Warehouse	**25,272**	61,789	–
Weighted average interest rate of Mortgage Warehouse	**6.47%**	4.46%	5.77%
Maximum balance – Line of Credit Facility	**$ 7,000**	$ –	$ –
Average balance – Line of Credit Facility	**90**	–	–
Weighted average interest rate of of Line of Credit Facility	**6.22%**	–	–

$1.1 million of First Defiance's outstanding long-term FHLB advances were obtained in the first calendar quarter of 1992 as part of the Company's asset and liability management strategy and $1.3 million were obtained in the fourth quarter of 1995 as part of the FHLB's Affordable Housing Program. First Defiance utilizes short-term advances from the FHLB to meet cash flow needs and for short-term investment purposes. There were $78.0 and $69.6 million in short-term advances outstanding at December 31, 1999 and 1998, respectively. First Defiance borrows funds under a variety of programs at the FHLB. At December 31, 1999, $78.0 million was outstanding under First Defiance's REPO Advance line of credit. The total available under the REPO line is $175.0 million. Amounts are generally borrowed under the REPO line on an overnight basis.

For additional information regarding First Defiance's FHLB Advances, warehouse and term debt see Notes 10 and 11 to the financial statements.

Employees

First Defiance had 363 employees at December 31, 1999. None of these employees are represented by a collective bargaining agent, and First Defiance believes that it enjoys good relations with its personnel.

Competition

The industries in which the Company operates are highly competitive. The Company competes for the acquisition of mortgage loan servicing rights and bulk loan portfolios mainly with mortgage companies, savings associations, commercial banks and other institutional investors. The Company believes that it has competed successfully for the acquisition of mortgage loan servicing rights and bulk loan portfolios by relying on the advantages provided by its unique corporate structure and the secondary marketing expertise of the employees in each Subsidiary.

Competition in originating mortgage loans arises mainly from other mortgage companies and commercial banks. The distinction among market participants is based primarily on price and, to a lesser extent, the quality of customer service and name recognition. Aggressive pricing policies of the Company's competitors, especially during a declining period of mortgage loan originations, could in the future result in a decrease in the Company's mortgage loan origination volume and/or a decrease in the profitability of the Company's loan originations, thereby reducing the Company's revenues and net income. 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 mortgage brokers and borrowers than is furnished by competitors. First Federal does have 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 primarily on price and, to a lesser extent, 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, First Federal and Leader, as an operating subsidiary of First Federal, are subject to regulation, examination and oversight by the OTS. Because First Federal's deposits are insured by the FDIC, First Federal is also subject to examination and regulation by the FDIC. First Defiance and First Federal must file periodic reports with the OTS and examinations are conducted periodically by the OTS and the FDIC to determine whether First Federal is in compliance with various regulatory requirements and is operating in a safe and sound manner. First Federal is a member of the FHLB of Cincinnati.

First Federal and Leader are 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, on a consolidated basis with Leader, is required by OTS regulations to meet certain minimum capital requirements. Current capital requirements call for tangible capital of 1.5% of adjusted total assets, 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% of risk-weighted assets.

The following table sets forth the amount and percentage level of regulatory capital of First Federal at December 31, 1999, and the amount by which it exceeds the minimum capital requirements. Tangible and core capital are reflected as a percentage of adjusted total assets. Total (or risk-based) capital, which consists of core and supplementary capital, is reflected as a percentage of risk-weighted assets. Assets are weighted at percentage levels ranging from 0% to 100% depending on their relative risk.

	At December 31, 1999	
	Amount	**Percent**
	(In thousands)	
Tangible capital	**$ 51,641**	**5.41%**
Requirement	**14,312**	**1.50**
Excess	**$ 37,329**	**3.91**
Core capital	**$ 51,641**	**5.41**
Requirement	**38,165**	**4.00**
Excess	**$ 13,476**	**1.41**
Total capital	**$ 57,594**	**10.09%**
Risk-based requirement	**45,668**	**8.00**
Excess	**$ 11,926**	**2.09**

The OTS has adopted regulations governing prompt corrective action to resolve the problems of capital deficient and otherwise troubled savings associations. At each successively lower defined capital category, an association is subject to more restrictive and numerous mandatory or discretionary regulatory actions or limits, and the OTS has less flexibility in determining how to resolve the problems of the institution. In addition, the OTS generally can downgrade an association's capital category, notwithstanding its capital level, if, after notice and opportunity for hearing, the association is deemed to be engaging in an unsafe or unsound practice because it has not corrected deficiencies that resulted in it receiving a less than satisfactory examination rating on matters other than capital or it is deemed to be in an unsafe or unsound condition. An undercapitalized association must submit a capital restoration plan to the OTS and is subject to increased monitoring and growth restrictions. Critically undercapitalized institutions must be placed in conservatorship or receivership within 90 days of reaching that capitalization level, except under limited circumstances.

First Federal's capital at December 31, 1999, meets the standards for a well-capitalized institution, although its risk-based capital is just slightly over the threshold for well-capitalized status. Leader has had a significant effect on First Federal's risk-based capital, due to the treatment under OTS regulations of mortgage servicing rights, which comprise a majority of Leaders' assets. For risk-based capital calculations, OTS regulations limit the amount of mortgage servicing rights that generally can be included in risk-based capital to the lesser of (i) the amount of First Federal's core capital, or (ii) 90% of the fair value of the servicing assets. As Leader's mortgage servicing portfolio has grown at a faster rate than First Federal's core capital, First Federal's risk-based capital level has been adversely affected. First Federal is pursuing ways to permit Leader to continue to grow without jeopardizing First Federal's qualification as a well-capitalized institution, but no assurance can be given that First Federal will retain its well-capitalized classification. If First Federal does not remain well-capitalized, its use of brokered deposits could be adversely affected. Federal law requires that an institution which is adequately capitalized must obtain FDIC approval to utilize brokered deposits. First Federal has used brokered deposits to fund certain aspects of Leader's mortgage banking activities.

The OTS has adopted an interest rate risk component to the risk-based capital requirement. Pursuant to that requirement, a savings association must measure the effect of an immediate 200 basis point change in interest rates on the value of its portfolio, as determined under the methodology established by the OTS. If the measured interest rate risk is above the level deemed normal under the regulation, the association will be required to deduct one-half of that excess exposure from its total capital when determining its level of risk-based capital. (See Asset/Liability Management Section of Management's Discussion and Analysis).

Federal law prohibits an insured institution from making a capital distribution to anyone or paying management fees to any person having control of the association if, after such distribution or payment, the association would be undercapitalized. In addition, each company controlling an undercapitalized association must guarantee that the association will comply with its capital plan until the association has been adequately capitalized on an average during each of four preceding calendar quarters and must provide adequate assurances of performance. The aggregate liability pursuant to such guarantee is limited to the lesser of (a) an amount equal to 5% of the association's total assets at the time the institution became undercapitalized or (b) the amount that is necessary to bring the association into compliance with all capital standards applicable to such association at the time the association fails to comply with its capital restoration plan.

Limitations on Capital Distributions. The OTS imposes various restrictions or requirements on the ability of associations to make capital distributions. Capital distributions include, without limitation, payments of cash dividends, repurchases and certain other acquisitions by an association of its shares and payments to stockholders of another association in an acquisition of such other association.

An application must be submitted and approval from the OTS must be obtained by a subsidiary of a savings and loan holding company (i) if the proposed distribution would cause total distributions for the calendar year to exceed net income for that year to date plus the savings association's retained net income for that year to date plus the retained net income for the preceding two years; (ii) if the savings association will not be at least adequately capitalized following the capital distribution; (iii) if the proposed distribution would violate a prohibition contained in any applicable statute, regulation or agreement between the savings association and the OTS (or the FDIC), or a condition imposed on the savings association in an OTS-approved application or notice. If a savings association subsidiary of a holding company is not required to file an application, it must file a notice of the proposed capital distribution with the OTS. First Federal did not pay any dividends to First Defiance during 1999.

Liquidity. OTS regulations require that each savings association maintain an average daily balance of liquid assets (such as cash, certain time deposits, bankers' acceptances and specified United States Government, state or federal agency obligations) of not less than 4% of its net withdrawable savings deposits plus borrowings payable in one year or less computed as of the end of the prior quarter or based on the average daily balance during the prior quarter. Monetary penalties may be imposed upon associations failing to meet liquidity requirements. The eligible liquidity of First Federal, as computed under current regulations, at December 31, 1999, was $30.6 million, or 6.07% and exceeded the 4.0% liquidity requirement by approximately $10.5 million.

Qualified Thrift Lender Test. Savings associations must meet one of two tests in order to be a qualified thrift lender ("QTL"). The first test requires a savings association to maintain a specified level of investments in assets that are designated as qualifying thrift investments ("QTIs"). Generally, QTIs are assets related to domestic residential real estate and manufactured housing, although they also include credit card, student and small business loans and stock issued by any FHLB, the FHLMC or the FNMA. Under the QTL test, 65% of an institution's "portfolio assets" (total assets less goodwill and other intangibles, property used to conduct business and 20% of liquid assets) must consist of QTI on a monthly average basis in nine out of every 12 months. The second test permits a savings association to qualify as a QTL by meeting the definition of "domestic building and loan association" under the Internal Revenue Code of 1986, as amended (the "Code"). In order for an institution to meet the definition of a "domestic building and loan association" under the Code, at least 60% of its assets must consist of specified types of property, including cash, loans secured by residential real estate or deposits, educational loans and certain governmental obligations. The OTS may grant exceptions to the QTL tests under certain circumstances. If a savings association fails to meet either one of the QTL tests, the association and its holding company become subject to certain operating and regulatory restrictions and the savings association will not be eligible for new FHLB advances. At December 31, 1999, First Federal met the QTL Test.

Lending Limits. OTS regulations generally limit the aggregate amount that a savings association may lend to one borrower (the "Lending Limit") to an amount equal to 15% of the savings association's total capital under the regulatory capital requirements plus any additional loan reserve not included in total capital (the "Lending Limit Capital"). A savings association may loan to one borrower an additional amount not to exceed 10% of total capital plus additional reserves if the additional loan amount is fully secured by certain forms of "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, an association may lend to one borrower up to $500,000 "for any purpose." At December 31, 1999, First Federal was in compliance with this lending limit.

Transactions with Insiders and Affiliates. Loans to executive officers, directors and principal shareholders and their related interests must conform to the Lending Limit, and the total of such loans cannot exceed the association's Lending Limit Capital. 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. First Federal was in compliance with such restrictions at December 31, 1999.

All transactions between savings associations and their affiliates must comport with Sections 23A and 23B of the Federal Reserve Act ("FRA"). 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 is an affiliate of First Federal. Generally, Sections 23A and 23B of the FRA (i) limit the extent to which a savings association or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, (ii) limit the aggregate of all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus, and (iii) require that all such transactions be on terms substantially the same, or at least as favorable to the association, as those provided in transactions with a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and other similar types of transactions. In addition to the limits in Sections 23A and 23B, a savings association may not make any loan or other extension of credit to an affiliate unless the affiliate is engaged only in activities permissible for a bank holding company and may not purchase or invest in securities of any affiliate except shares of a subsidiary. First Federal was in compliance with these requirements and restrictions at December 31, 1999.

Federal Deposit Insurance Corporation Regulations. The FDIC has examination authority over all insured depository institutions, including First Federal, and has authority to initiate enforcement actions if the FDIC does not believe the OTS has taken appropriate action to safeguard safety and soundness and the deposit insurance fund.

The FDIC administers two separate insurance funds, the Bank Insurance Fund ("BIF") for commercial banks and state savings banks and the SAIF for savings associations. The FDIC is required to maintain designated levels of reserves in each fund. The FDIC may increase assessment rates for either fund if necessary to restore the fund's ratio of reserves to insured deposits to its target level within a reasonable time and may decrease such rates if such target level has been met. The FDIC has established a risk-based assessment system for both SAIF and BIF members. Under this system, assessments vary based on the risk the institution poses to its deposit insurance fund. The risk level is determined based on the institution's capital level and the FDIC's level of supervisory concern about the institution.

FRB Reserve Requirements. FRB regulations currently require that reserves of 3% of net transaction accounts (primarily NOW accounts) up to $44.3 million (subject to an exemption of up to $5.0 million), and of 10% of net transaction accounts in excess of $44.3 million. At December 31, 1999, First Federal was in compliance with its reserve requirements.

Federal Home Loan Banks. The FHLBs provide credit to their members in the form of advances. First Federal is a member of the FHLB of Cincinnati and must maintain an investment in the capital stock of that FHLB in an amount equal to the greater of 1.0% of the aggregate outstanding principal amount of First Federal's residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year, or 5% of its advances from the FHLB. First Federal is in compliance with this requirement with an investment in stock of the FHLB of Cincinnati of $14.2 million at December 31, 1999.

Upon the origination or renewal of a loan or advance, the FHLB of Cincinnati is required by law to obtain and maintain a security interest in collateral in one or more of the following categories: fully disbursed, whole first mortgage loans on improved residential property or securities representing a whole interest in such loans; securities issued, insured or guaranteed by the United States government or an agency thereof; deposits in any FHLB; or other real estate related collateral (up to 30% of the member association's capital) acceptable to the applicable FHLB, if such collateral has a readily ascertainable value and the FHLB can perfect its security interest in the collateral.

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 FHLBs. The standards take into account a member's performance under the Community Reinvestment Act and its record of lending to first-time home buyers. All long-term advances by each FHLB must be made only to provide funds for residential housing finance.

Holding Company Regulation. First Defiance is a unitary savings and loan holding company and is subject to OTS regulations, examination, supervision and reporting requirements.

There are generally no restrictions on the activities of unitary savings and loan holding companies. The broad latitude to engage in activities under current law can be restricted if the OTS determines that there is reasonable cause to believe that the continuation of an activity by a savings and loan holding company constitutes a serious risk to the financial safety, soundness or stability of its subsidiary savings association. The OTS may impose such restrictions as deemed necessary to address such risk, including limiting (i) payment of dividends by the savings association, (ii) transactions between the savings association and its affiliates, and (iii) any activities of the savings association that might create a serious risk that the liabilities of the holding company and its affiliates may be imposed on the savings association. Notwithstanding the foregoing rules as to permissible business activities of a unitary savings and loan holding company, if the savings association subsidiary of a holding company fails to meet the QTL Test, then its unitary holding company would become subject to the activities restrictions applicable to multiple holding companies. At December 31, 1999, First Federal met the QTL Test.

Federal law generally prohibits a savings and loan holding company from controlling any other savings association or savings and loan holding company, without prior approval of the OTS, 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. If First Defiance were to acquire control of another savings institution, other than through a merger or other business combination with First Federal, First Defiance would become a multiple savings and loan holding company and its activities would thereafter be limited generally to those activities authorized by the FRB as permissible for bank holding companies.

On November 12, 1999, the Gramm-Leach-Bliley Act (the "GLB Act") was enacted into law. The GLB Act repealed prior laws which had generally prevented banks from affiliating with securities and insurance firms and made other significant changes in the financial services in which various types of financial institutions may engage. The GLB authorizes a new "financial holding company," which can own banks and thrifts and which are also permitted to engage in a variety of financial activities, including insurance and securities underwriting and agency activities, as long as the depository institutions it owns are well capitalized, well managed and meet certain other tests.

Prior to the GLB Act, unitary savings and loan holding companies which met certain requirements were the only financial institution holding companies that were permitted to engage in any type of business activity, whether or not the activity was a financial service. The GLB Act continues those broad powers for unitary thrift holding companies in existence on May 4, 1999, including First Defiance. Any thrift holding company newly formed after May 4, 1999, or any existing unitary thrift holding company acquired after that date by a company which is not a “financial holding company” or an eligible unitary thrift holding company, however, will be subject to the same restrictions as a multiple thrift holding company, which generally is limited to activities that are considered incidental to banking.

The GLB Act is not expected to have a material effect on the activities in which First Defiance and First Federal currently engage, except to the extent that competition from other types of financial institutions may increase as they engage in activities not permitted prior to enactment of the GLB Act.

Federal Taxation

The Company and its subsidiaries are each subject to the federal tax laws and regulations which apply to corporations generally. Certain thrift institutions, including First Federal, were prior to the enactment of the Small Business Jobs Protection Act, which was signed into law on August 21, 1996, allowed deductions for bad debts under methods more favorable than those granted to other taxpayers. Qualified thrift institutions could compute deductions for bad debts using either the specific charge off method of Section 166 of the Code, or the reserve method of Section 593 of the Code under which a thrift institution annually could elect to deduct bad debts under either (i) the "percentage of taxable income" method applicable only to thrift institutions, or (ii) the "experience" method that also was available to small banks. Under the "percentage of taxable income" method, a thrift institution generally was allowed a deduction for an addition to its bad debt reserve equal to 8% of its taxable income (determined without regard to this deduction and with additional adjustments). Under the experience method, a thrift institution was generally allowed a deduction for an addition to its bad debt reserve equal to the greater of (i) an amount based on its actual average experience for losses in the current and five preceding taxable years, or (ii) an amount necessary to restore the reserve to its balance as of the close of the base year. A thrift institution could elect annually to compute its allowable addition to bad debt reserves for qualifying loans either under the experience method or the percentage of taxable income method. For tax year 1995, First Federal used the percentage of taxable income method.

Section 1616(a) of the Small Business Job Protection Act repealed the Section 593 reserve method of accounting for bad debts by thrift institutions, effective for taxable years beginning after 1995. Thrift institutions that would be treated as small banks are allowed to utilize the experience method applicable to such institutions, while thrift institutions that are treated as large banks are required to use only the specific charge off method. For purposes of this method, First Federal was treated as a large bank. The percentage of taxable income method of accounting for bad debts is no longer available for any financial institution.

A thrift institution required to change its method of computing reserves for bad debt treated such change as a change in the method of accounting, initiated by the taxpayer, and having been made with the consent of the Secretary of the Treasury. Any adjustment under Section 481(a) of the Code required to be recaptured with respect to such change generally will be determined solely with respect to the "applicable excess reserves" of the taxpayer. The amount of the applicable excess reserves being taken into account ratably over a six-taxable year period, beginning with the first taxable year beginning after 1995. Because First Federal met the defined residential loan requirement, it was able to suspend the recapture of the excess reserves until 1998. In the case of a thrift institution that becomes a large bank, the amount of the institution's applicable excess reserves generally is the excess of (i) the balances of its reserve for losses on qualifying real property loans (generally loans secured by improved real estate) and its reserve for losses on nonqualifying loans (all other types of loans) as of the close of its last taxable year beginning before January 1, 1996, over (ii) the balances of such reserves as of the close of its last taxable year beginning before January 1, 1988 (i.e., the "pre-

1988 reserves"). In the case of a thrift institution that becomes a small bank, the amount of the institution's applicable excess reserves generally is the excess of (i) the balances of its reserve for losses on qualifying real property loans and its reserve for losses on nonqualifying loans as of the close of its last taxable year beginning before January 1, 1996, over (ii) the greater of the balance of (a) its pre-1988 reserves or (b) what the thrift's reserves would have been at the close of its last year beginning before January 1, 1996, had the thrift always used the experience method.

In addition to the regular income tax, the Company and its subsidiaries are subject to a minimum tax. An alternative minimum tax is imposed at a minimum tax rate of 20% on "alternative minimum taxable income" (which is the sum of a corporation's regular taxable income, with certain adjustments, and tax preference items), less any available exemption. Such tax preference items include interest on certain tax-exempt bonds issued after August 7, 1986. In addition, 75% of the amount by which a corporation's "adjusted current earnings" exceeds its alternative minimum taxable income computed without regard to this preference item and prior to reduction by net operating losses, is included in alternative minimum taxable income. Net operating losses can offset no more than 90% of alternative minimum taxable income. The alternative minimum tax is imposed to the extent it exceeds the corporation's regular income tax. Payments of alternative minimum tax may be used as credits against regular tax liabilities in future years.

The balance of the pre-1988 reserves is subject to the provisions of Section 593(e) as modified by the Small Business Job Protection Act which requires recapture in the case of certain excessive distributions to shareholders. The pre-1988 reserves may not be utilized for payment of cash dividends or other distributions to a shareholder (including distributions in dissolution or liquidation) or for any other purpose (except to absorb bad debt losses). Distribution of a cash dividend by a thrift institution to a shareholder is treated as made: first, out of the institution's post-1951 accumulated earnings and profits; second, out of the pre-1988 reserves; and third, out of such other accounts as may be proper. To the extent a distribution by First Federal to the Company is deemed paid out of its pre-1988 reserves under these rules, the pre-1988 reserves would be reduced and First Federal's gross income for tax purposes would be increased by the amount which, when reduced by the income tax, if any, attributable to the inclusion of such amount in its gross income, equals the amount deemed paid out of the pre-1988 reserves. As of December 31, 1999, First Federal's pre-1988 reserves for tax purposes totaled approximately $9.52 million.

The tax returns of First Federal have been audited or closed without audit through the tax year ended December 31, 1995. The tax returns for The Leader have been closed through their tax year ended September 30, 1995. In the opinion of management, any examination of open returns would not result in a deficiency which would have a material adverse effect on the financial condition of First Defiance.

Ohio Taxation

The Company is subject to the Ohio corporation franchise tax, which, as applied to the Company, is a tax measured by both net earnings and net worth. The rate of tax is the greater of (i) 5.1% on the first $50,000 of computed Ohio taxable income and 8.5% of computed Ohio taxable income in excess of $50,000 or (ii) 0.4% times taxable net worth.

In computing its tax under the net worth method, the Company may exclude 100% of its investment in the capital stock of First Federal after the Conversion, as reflected on the balance sheet of the Company, in computing its taxable net worth as long as it owns at least 25% of the issued and outstanding capital stock of First Federal. The calculation of the exclusion from net worth is based on the ratio of the excludable investment (net of any appreciation or goodwill included in such investment) to total assets multiplied by the net value of the stock. As a holding company, the Company may be entitled to various other deductions in computing taxable net worth that are not generally available to operating companies. Effective for the 1999 tax year, a corporation that qualifies as a "qualifying holding company" is exempt from tax on the net worth basis. To be considered a qualifying holding company, a corporation must satisfy certain criteria and must make an annual election to be treated as a qualified holding company for tax purposes. Generally, to qualify as a qualifying holding company, a large portion of a corporation's assets and income must be attributable to holdings in other corporations or business organizations.

A special litter tax is also applicable to all corporations, including the Company, subject to the Ohio corporation franchise tax other than "financial institutions." If the franchise tax is paid on the net income basis, the litter tax is equal to .11% of the first $50,000 of computed Ohio taxable income and .22% of computed Ohio taxable income in excess of $50,000. If the franchise tax is paid on the net worth basis, the litter tax is equal to .014% times taxable net worth.

First Federal is a "financial institution" for State of Ohio tax purposes. As such, it is subject to the Ohio corporate franchise tax on "financial institutions," which is imposed annually at a rate of 1.5% of First Federal's book net worth determined in accordance with GAAP. Effective for the 1999 tax year, the tax rate is 1.4% of book net worth. As a "financial institution," First Federal is not subject to any tax based upon net income or net profits imposed by the State of Ohio. On December 31, 1998, The Leader was converted to a single-member limited liability company. As such, its operations are not subject to state taxation as a separate entity.

Item 2. Properties

At December 31, 1999, First Federal conducted its business from its main office at 601 Clinton Street, Defiance, Ohio, and thirteen other full service branches in northwestern Ohio. At December 31, 1999, The Leader conducted its business from leased office space at 1015 Euclid Avenue, Cleveland, Ohio. First Insurance conducted its business from office space at 507 5th Street, Defiance, Ohio.

First Defiance maintains its headquarters in the main office of First Federal at 601 Clinton Street, Defiance, Ohio.

The following table sets forth certain information with respect to the office and other properties of the Company at December 31, 1999. See Note 8 to the Consolidated Financial Statements.

Description/address	Leased/owned	Net book value of property	Deposits
		(Dollars in thousands)	
Main Office			
601 Clinton Street Defiance, OH	Owned	$ 5,853	$227,762
Branch Offices			
204 E. High Street Bryan, OH	Owned	1,178	80,140
211 S. Fulton Street Wauseon, OH	Owned	828	41,449
625 Scott Street Napoleon, OH	Owned	1,681	63,568
1050 East Main Street Montpelier, OH	Owned	627	17,801
926 East High Street Bryan, OH	Owned	118	7,500
1333 Woodlawn Napoleon, OH	Owned	82	15,389
825 N. Clinton Street Defiance, OH	Owned	410	8,845
Inside Super K-Mart 190 Stadium Dr. Defiance, OH	Leased	130	4,314
905 N. Williams St. Paulding, OH	Owned	1,149	12,990
201 E. High St. Hicksville, OH	Owned	616	7,088
3900 N. Main St. Findlay, OH	Owned	1,509	15,444
11694 N. Countyline St. Fostoria, OH	Leased	–	679
Main Office, The Leader 1015 Euclid Avenue Cleveland, OH	Leased	221	N/A
First Insurance & Investments 507 5th Street Defiance, OH	Owned	302	N/A
1401 South Jefferson Defiance, OH	Owned	252	N/A
		$14,654	$502,969

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. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of securities holders during the fourth quarter of 1999.

PART II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters

The Company's common stock trades on the Nasdaq Stock market under the symbol "FDEF." As of March 6, 2000, the Company had 1,811 shareholders of record. The table below shows the reported high and low sales prices of the common stock and cash dividends declared per share of common stock during the periods indicated in fiscal 1999 and 1998.

	December 31, 1999			December 31, 1998		
	High	**Low**	**Dividend**	High	Low	Dividend
Quarter Ended:						
March 31	**$14.50**	**$10.125**	**$.10**	$15.875	$14.625	$.09
June 30	**12.125**	**10.25**	**.10**	15.875	14.00	.09
September 31	**12.3125**	**10.00**	**.10**	14.625	11.50	.09
December 31	**11.8125**	**9.875**	**.11**	15.00	11.00	.10

For information regarding restrictions on the payment of dividends, see "Item 1. Business – Regulation – Limitations on Capital Distributions" in this report.

Item 6. Selected Financial Data

The following table sets forth certain summary consolidated financial data at or for the periods indicated. This information should be read in conjunction with the Consolidated Financial Statements and notes thereto included herein. See "Item 8. Financial Statements and Supplementary Data."

	At or For Year Ended December 31,				
	1999	1998	1997	1996	1995
	(In Thousands, except per share data)				
Selected Consolidated Financial Data:					
Total assets	**$987,994**	$785,399	$579,698	$543,411	$525,550
Loans held-to maturity, net	**465,321**	448,574	441,824	415,366	381,444
Loans held-for-sale	**237,622**	119,910	88	559	3,759
Allowance for loan losses	**7,758**	9,789	2,686	2,217	1,817
Non-performing assets	**3,587**	3,369	1,906	2,239	945
Securities available-for-sale	**53,946**	47,554	82,436	77,407	93,041
Trading securities	**29,805**	-	-	-	-
Securities held-to-maturity	**9,895**	13,541	20,953	25,937	26,073
Mortgage servicing rights	**97,519**	76,452	188	121	-
Deposits and borrowers' escrow balances	**564,511**	511,313	395,983	383,139	382,414
FHLB advances	**265,410**	168,142	71,665	40,821	6,842
Stockholders' equity	**89,416**	93,710	106,884	116,565	133,506
Selected Consolidated Operating Results:					
Total interest income	**$53,379**	$49,056	$43,858	$41,257	$38,565
Total interest expense	**31,582**	26,946	21,387	19,459	20,289
Net interest income	**21,797**	22,110	22,471	21,798	18,276
Provision for loan losses	**1,925**	7,769	1,613	1,020	374
Non-interest income	**40,794**	17,528	1,627	1,328	1,035
Non-interest expense 1	**47,414**	26,940	14,093	15,958	10,560
Income before income taxes	**13,252**	4,929	8,392	6,148	8,377
Income taxes	**4,629**	1,818	2,985	1,997	2,856
Net income	**8,623**	3,111	5,407	4,151	5,521
Basic earnings per share 1,2,	**1.33**	0.42	0.65	0.43	0.54
Diluted earnings per share 1,2	**1.29**	0.40	0.62	0.42	0.53
Selected Financial Ratios and Other Data					
Performance Ratios:					
Return on average assets 1	**0.99%**	0.45%	0.96%	0.78%	1.13%
Return on average equity 1	**9.52%**	2.99%	4.69%	3.26%	6.14%
Interest rate spread 3	**2.93%**	3.25%	3.39%	3.22%	3.01%
Net interest margin 3	**3.12%**	3.62%	4.24%	4.31%	3.87%
Ratio of operating expense to average total assets 1	**5.44%**	3.85%	2.51%	3.02%	2.16%

(footnotes on next page)

	At or For Year Ended December 31,				
	1999	**1998**	**1997**	**1996**	**1995**
	(In Thousands, except per share data)				
Selected Financial Ratios and Other Data (continued):					
Quality Ratios:					
Non-performing assets to total assets at end of period 4	**0.36%**	0.43%	0.33%	0.41%	0.24%
Allowance for loan losses to non-performing assets 4	**216.28%**	209.56%	140.92%	99.02%	192.28%
Allowance for loan losses to total loans receivable	**1.09%**	1.69%	0.60%	0.52%	0.47%
Capital Ratios:					
Equity to total assets at end of period	**9.05%**	11.93%	18.44%	21.45%	25.40%
Tangible equity to tangible assets at end of period	**7.68%**	10.41%	18.44%	21.45%	25.40%
Average equity to average assets	**10.48%**	14.86%	20.55%	24.07%	18.36%
Book value per share	**$13.12**	$12.37	$12.53	$12.31	$12.16
Tangible book value per share	**$10.97**	$10.61	$12.53	$12.31	$12.16
Ratio of average interest-earning assets to average interest-bearing liabilities	**104.52%**	108.43%	121.45%	128.53%	120.41%
Cash Earnings:					
Cash earnings 1	**$9,382**	$3,393	$5,407	$4,151	$5,521
Basic cash earnings per share 1	**1.44**	0.45	0.65	0.43	0.54
Diluted cash earnings per share 1	**1.40**	0.43	0.62	0.42	0.53
Cash return on average assets 1	**1.09%**	0.49%	0.96%	0.78%	1.13%
Cash return on average equity 1	**11.99%**	3.44%	4.69%	3.26%	6.14%
Ratio of cash operating expense to average total tangible assets 1	**15.43%**	3.84%	2.51%	3.02%	2.16%
Stock Price and Dividend Information:					
High	**$14.50**	$15.875	$16.25	$12.50	$10.75
Low	**9.875**	11.00	11.75	9.875	5.75
Close	**10.50**	14.25	16.00	12.375	10.125
Cash dividend declared per share	**0.41**	0.37	0.33	0.29	0.28
Dividend payout ratio 5	**30.83%**	88.10%	50.77%	48.33%	51.85%

1. *Non-interest expense for 1996 includes a one-time charge of $2.461 million to recapitalize the Savings Association Insurance Fund (SAIF). Without the SAIF charge, net income for 1996 would have been $5.775 million, or $.60 basic earnings per share ($.59 on a diluted basis), return on average assets would have been 1.09%, return on equity would have been 4.54% and the ratio of operating expense to total assets would have been 2.55%.*
2. *Earnings per share for 1995-1996 have been restated for FASB statement 128*
3. *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.*
4. *Non-performing assets consist of non-accrual loans that are contractually past due 90 days or more; loans that are deemed impaired under the criteria of FASB Statement No. 114; and real estate, mobile homes and other assets acquired by foreclosure or deed-in-lieu thereof.*
5. *Dividend payout ratio was calculated using basic earnings per share.*

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

First Defiance is a unitary thrift holding company which conducts business through its subsidiaries, First Federal, The Leader and First Insurance.

First Federal is a federally chartered savings bank that provides financial services to communities based in northwest Ohio where it operates 13 full-service branches, including a branch in Fostoria Ohio that opened in November 1999. First Federal provides a broad range of financial services including checking accounts, savings accounts, certificates of deposit, individual retirement accounts, real estate mortgage loans, commercial loans, consumer loans, home equity loans, and trust services.

The Leader is a mortgage banking company that specializes in servicing loans originated under first-time homebuyer programs. Under these programs, first-time homebuyers are able to obtain loans at rates generally below market at the time of closing. The funds for the loans are available as a result of bond issues through various state and local governmental units. The Leader, as master servicer under the bond programs, purchases the loans from the originator, principally other financial institutions or mortgage brokers. Once purchased by The Leader, the loans under the specific bond programs are packaged and GNMA securities are issued to the bond trustees under the programs. As of December 31, 1999, The Leader services approximately 95,000 loans with a total balance of $6.0 billion (including subservicing, 99,000 loans with a balance of $6.3 billion). Of these loans, 79,000 are bond program loans with balances of $5.0 billion. Because the loans under the first-time homebuyer programs are issued at below market rates, they generally have significantly lower pre-payments than conventional mortgage loans. The Leader also collects a significant amount of ancillary fees, including late charges and credit life insurance commissions.

First Insurance sells a variety of property and casualty, group health and life insurance products and investment and annuity products. Because the First Insurance acquisition occurred at the end of December 1998, only the results of operations for the fiscal year ended December 31, 1999 are impacted by this transaction.

Financial Condition

Total assets at December 31, 1999 were $988.0 million, an increase of 25.8% from December 31, 1998's total of $785.4 million. The July 1, 1998 acquisition of The Leader has continued to significantly impact the statement of condition of First Defiance. As a result of increased production at The Leader, loans held for sale and mortgage servicing rights increased from $119.9 million and $76.5 million, respectively, as of December 31, 1998 to $237.6 million and $97.5 million, respectively, at December 31, 1999. In addition, loans held for sale which have been securitized in the normal course of The Leader's operations have been included as trading securities in the investment portfolio. These securities amounted to $29.8 million as of December 31, 1999 and there were no such securities at December 31, 1998. Additionally, the balance of the Leader's customer's principal and interest payments along with tax and insurance escrow balances decreased from $76.7 million at December 31, 1998 to $61.0 million at December 31, 1999. This decrease resulted from a decrease in refinancing activities at the end of 1999 compared to 1998, which results in lower balances held in The Leader's customer's principal and interest escrow accounts.

Leader's increased activity and the decrease in escrow balances were funded primarily through Federal Home Loan Bank ("FHLB") debt, national certificates of deposit, and other bank borrowings. FHLB debt grew $97.3 million for the year, from $168.1 million as of December 31, 1998 to $265.4 million at December 31, 1999. Brokered certificates of deposit increased from $9.4 million at December 31, 1998 to $60.1 million as of December 31, 1999. Warehouse and term notes payable increased from $368,000 to $53.5 million at December 31, 1998 and 1999, respectively.

Excluding The Leader's operations, loans receivable increased $16.6 million, from $448.6 million at December 31, 1998 to $465.3 million as of December 31, 1999. This increase was the result of increases in the commercial and home equity portfolios, partially offset by decreases in the mortgage and consumer portfolios. Commercial loans increased $68.0 million, from $70.1 million at December 31, 1998 to $138.1 million as of December 31, 1999. Home equity and improvement loans increased from $18.2 million to $22.8 million as of December 31, 1998 and 1999, respectively. Mortgage loans decreased from $283.7 million as of December 31, 1998 to $251.9 million at December 31, 1999. Additionally, consumer loans decreased $22.9 million, from $87.2 million to $64.3 million as of December 31, 1998 and 1999, respectively. Management believes that the Company will continue to achieve increases in the commercial loan portfolio due to an increased emphasis on this type of lending. The 26% year over year decrease in the consumer portfolio was anticipated by the Company as a result of stricter underwriting standards that were implemented as a result of credit quality issues noted in December of 1998. The decrease in the mortgage portfolio resulted from decreased mortgage loan production compared to 1998 regular pay-downs of the existing portfolio and sales of all qualifying fixed rate production into the secondary market.

Investment securities, which include available for sale, trading, and held to maturity securities, increased by $32.5 million to $93.6 million from $61.1 million. As discussed above, the increase was primarily the result of the addition of $29.8 million in trading securities related to the securitization of certain available for sale mortgage loans.

First Defiance had growth in deposits for the year of $69.0 million, to $503.0 million at December 31, 1999 from $434.0 million at December 31, 1998. The most significant growth was in certificates of deposit, which increased from $291.7 million at December 31, 1998 to $355.0 million at December 31, 1999. The majority of the growth in certificates of deposits resulted from the growth in national or brokered certificates. In addition, money market demand accounts increased to $46.7 million at December 31, 1999 from $33.9 million at December 31, 1998. Savings and checking accounts decreased from $54.6 million and $53.8 million, respectively, at December 31, 1998 to $49.2 million and $52.0 million, respectively, at December 31, 1999.

Average Balances, Interest Rates and Yields

The following table presents for the periods indicated the total dollar amounts of interest from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, and the net interest margin. Dividends received on Federal Home Loan Bank stock are included as interest income. The table does not reflect the effect of income taxes.

	Year Ended December 31,								
	1999			1998			1997		
	Average Balance	Interest	Yield/ Rate (1)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
	(Dollars in thousands)								
Interest-Earning Assets									
Loans receivable	**$657,009**	**$49,927**	**7.60%**	$521,968	$43,369	8.31%	$428,550	$37,302	8.70%
Securities	**56,668**	**3,452**	**6.09**	81,320	5,082	6.25	103,304	6,556	6.35
Interest bearing deposits	–	–	–	12,259	605	4.94	–	–	–
Dividends on FHLB stock	**12,157**	**861**	**7.08**	4,669	334	7.15	3,355	242	7.21
Total interest-earning assets	**725,834**	**54,240**	**7.47**	620,216	49,390	7.96	535,209	44,100	8.24
Non-interest-earning assets	**145,667**			78,706			25,500		
Total assets	**$871,501**			$698,922			$560,709		
Interest-Bearing Liabilities									
Deposits	**$472,904**	**$19,889**	**4.21**	$409,254	18,340	4.48	$382,574	17,992	4.70
FHLB advances	**195,566**	**9,872**	**5.05**	75,062	4,171	5.56	58,100	3,394	5.84
Warehouse and term notes payable	**29,721**	**1,821**	**6.13**	87,668	4,435	5.06	–	–	–
Total interest-bearing liabilities	**698,191**	**31,582**	**4.52**	571,984	26,946	4.71	440,674	21,386	4.85
Non-interest-bearing liabilities	**82,691**			23,046			4,804		
Total liabilities	**780,882**			595,030			445,478		
Stockholders' equity	**90,619**			103,892			115,231		
Total liabilities and stockholders' equity	**$871,501**			$698,922			$560,709		
Net interest income; interest rate spread		**$22,658**	**2.95%**		$22,444	3.25%		$22,714	3.39%
Net interest margin (2)			**3.12%**			3.62%			4.24%
Average interest-earning assets to average interest-bearing liabilities			**104%**			108%			121%

(1) At December 31, 1999, the yields earned and rates paid were as follows: loans receivable, 7.69%; securities, 6.40%; other interest-earning assets, 7.00%; total interest-earning assets, 7.54%; deposits, 4.37%; FHLB advances, 5.17%; warehouse and term notes payable 6.29% total interest-bearing liabilities, 4.65%; and interest rate spread 2.89%.

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

Rate/Volume Analysis

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 interest income and 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.

	Year Ended December 31,								
	1999 vs. 1998			1998 vs. 1997			1997 vs. 1996		
	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)	Increase (decrease) due to rate	Increase (decrease) due to volume	Total increase (decrease)
					(In thousands)				
Interest-Earning Assets									
Loans	**$ (4,662)**	**$ 11,220**	**$ 6,558**	$(2,064)	$ 8,131	$ 6,067	$ 190	$2,477	$2,667
Securities	**(89)**	**(1,541)**	**(1,630)**	(79)	(1,395)	(1,474)	204	(270)	(66)
Interest bearing deposits	–	**(605)**	**(605)**	–	605	605	–	–	–
FHLB stock	**(9)**	**536**	**527**	(3)	95	92	7	28	35
Total interest-earning assets	**$ (4,760)**	**$ (9,610)**	**$ 4,850**	$(2,146)	$ 7,436	$ 5,290	$ 401	$2,235	$2,636
Interest-Bearing Liabilities									
Deposits	**$ (1,303)**	**$ 2,852**	**$ 1,549**	$ (907)	$ 1,255	$ 348	$(642)	$ 55	$ (587)
FHLB advances	**(995)**	**6,696**	**5,701**	(214)	991	777	164	2,350	2,514
Warehouse and term notes payable	**317**	**(2,931)**	**(2,614)**	–	4,435	4,435	–	–	–
Total interest-bearing liabilities	**$ (1,981)**	**$ 6,617**	**$ 4,636**	$(1,121)	$ 6,681	$ 5,560	$(478)	$2,405	$1,927
Increase (decrease) in net interest income			**$ 214**			$ (270)			$ 709

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Results of Operations

General – First Defiance reported net income of $8.6 million for the year ended December 31, 1999 compared to $3.1 million and $5.4 million for the years ended December 31, 1998 and December 31, 1997 respectively. Net income for 1998 was negatively impacted by a $5.4 million pre-tax ($3.6 million after-tax and $.46 on a diluted per share basis) fourth quarter adjustment to the reserve for loan losses. See discussion on Provision for Loan Losses.

On a diluted per share basis, First Defiance's net income was $1.29, $.40, and $.62 for the years ended December 31, 1999, 1998 and 1997 respectively. Earnings per share have been favorably impacted in both 1999 and 1998 by a reduction in average shares outstanding as a result of a number of share repurchase programs. On a diluted basis, the average shares outstanding have declined from 8.7 million in 1997 to 7.8 million in 1998 and 6.7 million in 1999. Since January 1998, a total of 2.0 million shares have been repurchased under stock repurchase programs, including 816,000 in 1999.

Net interest income was $21.8 million for the year ended December 31, 1999, compared to $22.1 million and $22.5 million for the years ended December 31, 1998 and 1997 respectively. Net interest margin was 3.12%, 3.62%, and 4.24% for the years ended December 31, 1999, 1998 and 1997, respectively. The decrease in net interest margin in 1999 is primarily a result of the financing required to support the $67.0 million increase in average non-interest earning assets from $78.7 million in 1998 to $145.7 million in 1999. The increase in average non-interest earning assets was the result of increases in the average balances in mortgage servicing rights, goodwill, and prepaid expenses and other assets. Mortgage servicing rights increased from an average of $35.5 million for 1998 to $83.9 million for 1999, while goodwill increased from an average of $5.1 million in 1998 to $12.5 million in 1999. These average non-earning assets increased due to the fact that only six months of The Leader's operations were included in the average balance for 1998 and total secondary market activity increased dramatically in 1999. The decrease in the net interest margin in 1998 compared to 1997 resulted from similar downward pressures corresponding to the increase in average non-interest earning assets from $25.5 million for 1997 to $78.7 million for 1998.

The yield on interest earning assets was 7.47% for the year ended December 31, 1999, a decrease from the years ended December 31, 1998 and 1997 when the yields on interest earning assets were 7.96% and 8.24%, respectively. The decline in yields between 1999 and 1998 and the yields between 1998 and 1997 is primarily due to the addition of The Leader's mortgage loans available for sale during the second half of 1998 and the subsequent increases in the average balance on these loans. Those loans, which had an average balance of $186.8 million and $65.8 million for the years ended December 31, 1999 and 1998, respectively, are generally originated under first-time homebuyer programs and carried an average interest rate of 6.15% and 6.47% for the years ended December 31, 1999 and 1998, respectively. The Company's cost of funds decreased to 4.52% for the year ended December 31, 1999 compared to 4.71% and

4.85% for the years ended December 31, 1998 and 1997, respectively. As a result of the decline in yield on average earning assets outpacing the decline in cost of funds, the interest rate spread decreased to 2.95% for the year ended December 31, 1999 compared to 3.25% for 1998 and 3.39% for 1997.

The provision for loan losses for the year ended December 31, 1999 was $1.9 million, compared to $7.8 million for 1998 and $1.6 million for 1997.

The addition of The Leader significantly impacts the comparability of both non-interest income and non-interest expense because of the revenues and costs associated with the mortgage banking operation are included for only the last six months of 1998. For the year ended December 31, 1999 non-interest income was $40.8 million compared to $17.5 million for 1998 and only $1.6 million for 1997. Non-interest expense for the year ended December 31, 1999 was $47.4 million compared to $26.9 million for 1998 and $14.1 million for 1997.

Income for The Leader for the twelve months ended December 31, 1999 and the six months ended December 31, 1998 included in First Defiance's results was $4.1 million and $1.4 million, respectively. The net earnings of First Defiance after factoring in the after-tax cost of funding the acquisition were increased by $2.6 million and $747,000, or $.38 and $.10 per diluted share for the years ended December 31, 1999 and 1998, respectively.

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.

Total interest income increased by $4.3 million, or 8.81%, from $49.1 million for the year ended December 31, 1998 to $53.4 million for the year ended December 31, 1999. The increase was due to a $135.1 million increase in the average balance of loans outstanding for 1999 when compared to 1998. The yield on those loans declined to 7.60% in 1999 versus 8.31% in 1998. The increase in loans receivable was primarily attributable to the growth in the average balance of The Leader's loans held for sale. The average balance of these loans grew from $65.8 million for 1998 to $186.8 million for 1999. The increase of those loans also caused the reduced yield because of the below market nature of loans originated under the first-time homebuyer programs. Interest income was favorably impacted by the increase in the average balance in commercial loans, which was $107.3 million for 1999 compared to $42.5 million for 1998. The increase in commercial loan balances occurred after the hiring of three experienced commercial lenders and a commercial credit analyst during the second half of 1998. The increases in loans held for sale and commercial loans were partially offset by a $32.1 million decrease in the average balance on mortgage loans and a $20.0 million decrease in the average balance on all consumer loans. As discussed above, mortgage loan production for 1999 was lower than 1998 due to the significant amount of refinance activity in the prior year. The decrease in the average balance on consumer loans was anticipated as underwriting standards were strengthened in response to credit qualify problems in this portfolio noted in 1998. See the discussion of the provision for loan loss.

In 1998, total interest income increased by $5.2 million, or 11.9%, from $43.9 million for the year ended December 31, 1997 to $49.1 million for the year ended December 31, 1998. The increase was due to a $93.5 million increase in the average balance of loans outstanding for 1998 when compared to 1997. The increase was primarily attributable to the acquisition of The Leader's loans available for sale, which averaged $131.5 million for the last six months of 1998, and an increase in the average balance of the commercial loan portfolio, which increased from $28.3 million to $42.5 million as a result of the hiring of three experienced commercial lenders in the second half of 1998. The yield on those loans declined to 8.31% in 1998 versus 8.70% in 1997 because of the low coupons on The Leader's available for sale portfolio.

Interest earnings from the investment portfolio and other interest bearing deposits declined to $3.5 million in 1999 compared to $5.7 million in 1998 and $6.6 million in 1997. The decline in 1999 was due to a decrease in the average balance of securities and other interest bearing deposits from $93.6 million in 1998 to $56.7 million in 1999. The decline was primarily due to maturities and calls of securities during 1999 being used as a funding source for the growth in the loan portfolio. The yield on the average portfolio balance in 1999 was 6.09%. In 1998, the portfolio had a yield of 6.08% on an average balance of $93.6 million while in 1997 the investment portfolio had a yield of 6.35% on an average balance of $103.3 million.

Interest expense increased by $4.7 million, or 17.2%, to $31.6 million in 1999 compared to $26.9 million for 1998. This increase is due to the increase in the average interest bearing liabilities from $572.0 million in 1998 to $698.2 million in 1999. The increase in average interest bearing liabilities was the result of increased funding requirements relating to the loans held for sale and mortgage servicing rights at The Leader, net of the increase in average escrow deposits (which are included in non-interest bearing liabilities) from $12.4 million in 1998 to $70.9 million in 1999.

From the time that First Defiance acquired The Leader in June 1998 until December 1998, The Leader utilized a consortium of banks to provide its funding needs for both warehoused mortgage loans and mortgage servicing rights. In December 1998, the bank debts were paid off by First Defiance and replaced with less costly internal sources of funding, primarily FHLB advances and brokered certificates of deposit. As a result, the average balance of FHLB advances in 1999 increased by $120.5 million to $195.6 million from $75.1 million in 1998. First Defiance took advantage of lower interest rates during the later part of 1998 and the first several months of 1999 and fixed a portion the advances for one, two and five years. Overall, the rate paid on FHLB advances was 5.05% in 1999 compared to 5.56% in 1998. The increase in FHLB advances replaced debt to outside banks, which had an average balance of $87.7 million in 1998 compared to $29.7 million in 1999. The average cost paid on those outside borrowings in 1998 was a net 5.06% including a credit received from the banks for borrowers escrow funds deposited in those financial institutions. That credit, which was at a federal funds rate, totaled $1.7 million in 1998. Excluding the credit for escrow balances, the cost of bank financing in 1998 was 7.04%. As noted above, for 1999, the borrowers escrow funds have been placed on deposit with First Federal as a source of no-cost funds. The cost of the $29.7 million average bank financing in 1999 was 6.13%. First Defiance retains warehouse lines of credit with financial institutions totaling $170 million as of December 31, 1999 to supplement its other funding sources.

In 1998, interest expense increased by $5.6 million, or 26.0%, to $26.9 million compared to $21.4 million for 1997. The large increase is primarily due to the financing requirements of The Leader's operations. The average bank debt outstanding for the six months that The Leader was included in First Defiance's results in 1998 was approximately $175.3 million or $87.7 million average balance for the year. The net cost of those funds was approximately 5.06%, net of the credit that The Leader was receiving for escrow funds on deposit at the banks' fed funds rates. Beginning in November 1998, those escrow balances were placed on deposit with First Federal.

Interest expense in 1998 also increased because of an increase in the average balance of deposits outstanding, which increased to $409.3 million in 1998 compared to $382.6 million in 1997. The average cost of those deposits declined by 22 basis points in 1998, to 4.48% from 4.70% in 1997. The average balance of FHLB advances increased to $75.1 million in 1998 from $58.1 million in 1997. The average cost of those advances declined to 5.56% from 5.84%. The balance in FHLB advances increased substantially in December 1998, as they were used as the primary source of funding to replace The Leader's bank debt.

As a result of the foregoing, First Defiance's net interest income was $21.8 million for the year ended December 31, 1999 compared to $22.1 million for the year ended December 31, 1998 and $22.5 million for the year ended December 31, 1997. Net interest margin for the year ended December 31, 1999 declined to 3.12% from 3.62% for 1998 and 4.24% for 1997. The decline was due to the financing of The Leader, particularly the financing of mortgage servicing rights and goodwill, which are both non-interest earning assets. The balance of mortgage servicing rights at December 31, 1999 was $97.5 million and the balance of goodwill at that date was $14.7 million.

Provision for Loan Losses – First Defiance's provision for loan losses was $1.9 million for the year ended December 31, 1999, compared to $7.8 million and $1.6 million for the years ended December 31, 1998 and 1997, respectively. Provisions for loan losses are charged to earnings to bring the total allowance for loan losses to a level that is deemed appropriate by management. Factors considered by management include identifiable risk in the portfolios, historical experience, the volume and type of lending conducted by First Defiance, industry standards, the amount of non-performing assets, including loans which meet the FASB Statement No. 114 definition of impaired, 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.

In 1998, four factors combined to require the large increase in the loan loss provision: an increase in charge-offs and delinquencies within First Federal's consumer loan portfolio, rapid growth in First Federal's commercial loan portfolio, the status of First Federal's mobile home loan portfolio, and the acquisition of The Leader Mortgage Company. The consolidated allowance for loan losses at December 31, 1999 was $7.8 million, compared to $9.8 million at December 1998 and $2.7 million at December 31, 1997.

During 1998 First Federal experienced increased levels of charge-offs of loans in its consumer loan portfolio, which is comprised primarily of automobile loans. In response to the level of charge-offs and internal and external reviews of this portfolio, management increased the allowance for consumer loans by approximately $3.6 million. Subsequent to that review, consumer loan underwriting and approval, which were previously performed through First Federal's branch network, were centralized at the main office under experienced underwriters with revised lending authority. The total outstanding balance of consumer loans originated in 1997 and 1998 (the period identified in the internal and external reviews to have the underwriting deficiencies) were $67.9 million as of December 31, 1998 and declined to $38.6 million at December 31, 1999. The reserve against this portfolio was $4.3 million (or 6.33% of the outstanding balance) at December 31, 1998 and $2.9 million (or 7.51% of the outstanding balance) at December 31, 1999. Total consumer loans outstanding and the corresponding reserves were $87.2 million and $5.1 million at December 31, 1998 and $64.3 million and $3.5 million at December 31, 1999.

The growth in the commercial loan portfolio also has resulted in an increase in the allowance for loan losses. During 1998, when the balance of commercial loans increased from $29.8 million to $70.1 million, the related allowance for loan losses increased by $932,000. Commercial loans have continued to experience significant growth in 1999 as the portfolio has grown to $138.1 million as of December 31, 1999. The related allowance for loan losses for commercial loans grew $557,000 to $2.3 million at December 31, 1999.

During 1998, First Federal reserved 40% against the remaining mobile home loan balances not already classified as doubtful or loss. This adjustment resulted in increasing the mobile home loan loss allowance to $1.3 million at December 31, 1998. In May of 1999, First Federal sold the remaining mobile home portfolio, which had a net book value (after deducting the related reserve) of $1.8 million, for $2.1 million.

During the last six months of 1998, there also was a $351,000 increase in the provision for loan losses as a result of the acquisition of The Leader. Most of the loans that are originated or acquired by The Leader have FHA or VA guarantees. As a result, the risk of loss on those loans is limited to the legal costs associated with foreclosure on the loan, which has averaged approximately $1,600 per loan in foreclosure. This is a cost that The Leader incurs whether the loan is included in its own portfolio or serviced for others. It has been The Leader's general practice to repurchase loans which have a note rate of 8% or greater that are in foreclosure out of the GNMA pool in order to avoid having to advance principal and interest payments to the investors for those loans, as is required under their agreements with GNMA. The Leader reserves for the foreclosure losses when the loan goes to foreclosure, whether the loan is purchased from the GNMA pool or not. Management also records an estimated loss reserve to provide for potential losses as loans become delinquent based on The Leader's historical loss experience on similar loans. A provision related to those loans totaling $1.8 million was recorded by The Leader in 1999. The increase in provision expense for The Leader in 1999 compared to 1998 was the result of increased foreclosure proceedings along with increases in the general reserve resulting from the increase in total number of loans serviced by The Leader from 86,000 loans as of December 31, 1998 to 99,000 loans at December 31, 1999.

Total non-performing loans were $1.0 million, or .14% of total loans, as of December 31, 1999, compared with $1.9 million, or .33% of total loans, as of December 31, 1998, and $1.4 million, or .43% of total loans, as of December 31, 1997. Total charge-offs were $4.2 million, $2.1 million, and $1.3 million for the periods ended December 31, 1999, 1998, and 1997, respectively. Over the same periods, recoveries amounted to $279,000, $220,000, and $197,000, respectively.

Non-interest Income – In acquiring The Leader, First Defiance exchanged net interest income for a large increase in non-interest income, primarily loan servicing fees and gains on sale of mortgage loans. Total non-interest income increased by $23.3 million to $40.8 million for the year ended December 31, 1999 from $17.5 million for the year ended December 31, 1998. Non-interest income for the year ended December 31, 1997 was only $1.6 million. For the year ended 1999, The Leader recognized $27.9 million in loan servicing fees compared to $12.5 million for the six-months included in First Defiance's year ended December 31, 1998. Total gains on sale of mortgage loans at The Leader increased from $2.0 million for the six-months of 1998 to $6.3 million for 1999 primarily due to increased loan production and sales. The Leader also realized a one-time gain on the sale of non-core mortgage servicing rights totaling $479,000 in 1999.

Excluding The Leader's results, non-interest income was $4.8 million in 1999, $3.3 million in 1998, and $1.6 million in 1997. Total gains on sale of loans (excluding The Leader) were $794,000 in 1999, compared to $1.4 million in 1998 and only $116,000 for 1997. The 1998 gains on sale included a $785,000 gain in the third quarter of 1998 from the sale of $30.7 million of seasoned mortgage loans. In 1998, First Federal also realized a $240,000 gain from its sale of a large portion of its mobile home loan portfolio. Additionally, dividends on FHLB stock increased to $861,000 in 1999 compared to $334,000 in 1998 and $242,000 in 1997. The increase in these dividends was the result of purchasing more stock throughout 1998 and 1999 to support the additional borrowings at the FHLB.

The 1999 results also include the revenue associated First Insurance. Total revenues for First Insurance for 1999 were $1.4 million.

Non-interest Expense – Total non-interest expense for 1999 was $47.4 million compared to $26.9 million for the year ended December 31, 1998 and $14.1 million for the year ended December 31, 1997. As with non-interest income, the addition of The Leader in July 1998 significantly increased the consolidated level of non-interest expense. For the six months from July 1 to December 31, 1998, The Leader's total non-interest expense was $12.2 million compared to $29.6 million for the year ended December 31, 1999. Included in the 1999 total are $10.1 million in compensation and benefits ($3.8 million in 1998), $1.6 million in occupancy costs ($489,000 in 1998), $12.6 million in amortization of mortgage servicing rights ($5.3 million in 1998) and $2.1 million in amortization of goodwill and other acquisition costs, including non-compete and employment agreements ($1.1 million in 1998).

Excluding The Leader, non-interest expense for First Defiance for 1999 was $17.8 million compared to $14.7 million in 1998 and $14.1 million in 1997. The increase from 1998 to 1999 was primarily due to compensation and benefit expense that increased by $2.2 million over 1998. Of this increase, $1.0 million related to compensation and benefits for First Insurance and $1.2 million related to increases in compensation and benefits at First Federal. The First Federal increase was due to a number of factors including increases in staffing levels resulting from branch and product line (i.e., commercial lending and trust services) expansion, the payment of incentive bonuses to salaried employees, the payment of a discretionary contribution to the Company's 401(k) plan, increases in the cost of the Company's group medical plan, and decreases in the amount of payroll costs deferred because of a reduction in mortgage loan production. The payment of incentive bonuses and discretionary 401(k) contributions represented a partial payment of pools established at the beginning of 1999. Certain targets were established for earnings per share, revenue growth and efficiencies. The achievement of a portion of those objectives resulted in a partial payment of the bonus and 401(k) pools. No bonus or discretionary 401(k) payments were made in 1998, the first year of the incentive based compensation programs.

In addition to compensation expense, occupancy costs increased $611,000 in 1999 resulting from the expansion of the branch network into Findlay and Fostoria, depreciation on the Company's expanded wide area network, and occupancy costs related to First Insurance. Data processing costs increased by $258,000 in 1999 resulting from upgrading systems with the Company's third party provider, Y2K related expenditures, and the expansion of the branch network. Amortization of goodwill increased by $201,000 as a result of the First Insurance acquisition. Additionally, other non-interest expenses increased $374,000 as a result of the First Insurance acquisition, the expansion of the Company's branch and ATM networks, costs associated with attracting national certificates of deposit, and increases in the examination fees charged by the regulators. These increases in non-interest expenses were partially mitigated by a $290,000 reduction in state franchise tax due to tax planning strategies and a $314,000 reduction in loan servicing due to the sale of the majority of the mobile home portfolio in 1998.

Non-interest expense for First Defiance for 1998, excluding the impact of The Leader would have increased by $649,000 over 1997. Occupancy expense increased by

$665,000 due to the addition of the Hicksville and Paulding branches and a full year of depreciation expense on major renovations completed in early to mid-1997. Data processing costs increased by $200,000 due to the enhancement of certain systems. Amortization of mortgage servicing rights increased by $240,000 due to an increase in loans serviced for others at First Federal. Also, state franchise tax increased by $116,000. Those increases were partially offset by a $740,000 decline in compensation, which decreased due to a reduction in ESOP expense, the termination of First Federal's defined benefit pension plan, and a reduction in year-end bonuses, including the elimination of year-end bonuses for most of First Defiance's salaried personnel because of 1998 operating results. Also, the discretionary contribution to the Company's 401(k) plan was not made because the Board of Directors determined that the 1998 operating results did not warrant such a contribution. Those adjustments more than offset increased compensation related to staffing increases, including a full year with branches in Paulding and Hicksville, the expansion of the commercial loan department beginning in mid-1998, and the hiring of trust department personnel between July and October.

Income Taxes – Income tax amounted to $4.6 million in 1999 compared to $1.8 million in 1998 and $3.0 million in 1997. The effective tax rates for the three years were 34.9%, 36.9%, and 35.6% respectively. The decrease in the effective tax rate from 1998 to 1999 is the result of the increase in non-taxable interest income and a reduction of income at the holding company level that is subject to state income tax. The increase in the effective tax rate from 1997 to 1998 is the result of the addition of non-deductible goodwill. See Note 14 to the Consolidated Financial Statements.

Cash Earnings

The selected financial data presented in the following table highlights the performance of First Defiance on a cash basis for each of the three years in the period ended December 31, 1999. The data has been adjusted to exclude the amortization of goodwill and the related tax benefit of tax deductible goodwill. This goodwill resulted from the acquisitions of The Leader, and the insurance agencies which were combined to form First Insurance and Investments which were recorded using the purchase method of accounting. The amortization of goodwill does not result in a cash expense and has essentially no economic impact on liquidity and funds management activity. Cash basis financial data provide an additional basis for measuring a company's ability to support future growth, pay dividends, and repurchase shares. The cash basis data presented in the table below has not been adjusted to exclude the impact of other non-cash items such as depreciation, the provision for loan losses, and amortization of MRP and ESOP expense.

	1999	1998	1997
	(dollars in thousands, except per share amounts)		
Year Ended December 31			
Non-interest expense	$46,639	$26,658	$14,093
Income before income taxes	14,027	5,211	8,392
Net income	9,382	3,393	5,407
Per Common Share			
Net income per basic share	$1.44	$.45	$.65
Net income per diluted share	1.40	.43	.62
Weighted average common shares (000s)	6,502	7,491	8,360
Weighted average diluted common shares (000s)	6,700	7,811	8,706
Performance Ratios			
Return on average assets	1.09%	.49%	.96%
Return on average equity	11.99	3.44	4.69
Ratio of cash operating expense to tangible assets	5.43	3.84	2.51
Goodwill			
Goodwill average balance	$12,519	$5,115	-
Goodwill amortization (after tax)	759	282	-

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.

Credit risk is increased by lending or investing activities that concentrate a financial institution's assets in a way that exposes the institution to a material loss from any single occurrence or group of related occurrences. Diversifying loans and investments to prevent concentrations of risks is one manner 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.

Liquidity and Capital Resources

First Federal is required under applicable federal regulations to maintain specified levels of "liquid" investments in qualifying types of United States Treasury, agency and other investments having maturities of five years or less. Current OTS regulations require that a savings institutions maintain liquid assets not less than 4% of its average daily balance of net withdrawable deposit accounts and borrowings payable in one year or less. First Federal's liquidity exceeded applicable requirements at December 31, 1999.

Cash used in operating activities was $165.3 million for the year ended December 31, 1999. Cash provided by operations was $51.3 million, and $11.6 million for the years ended December 31, 1998, and 1997, respectively. Cash was generated by First Defiance's operating activities during the years ended December 31, 1998 and 1997, primarily as a result of net income. In 1999, the Company used more cash in operating activities than were provided because of net growth in the held for sale loan portfolio which was funded through financing activities. 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, goodwill amortization, ESOP expense related to the release of ESOP shares in accordance with AICPA SOP 93-6, the origination 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 operations and financing activities, as well as proceeds from payments on existing loans and proceeds from maturities of securities. In 1999 cash provided from the sale and maturity of investment securities totaled $25.6 million, while $30.4 million in additional securities were purchased. Principal financing activities include the gathering of deposits and advance payments from loan servicing customers, the utilization of FHLB advances, and borrowings from other bank sources. For the year ended December 31, 1999, FHLB advances increased by $97.3 million, warehouse and term notes payable increased by $53.1 million, and national certificates of deposit increased by $50.7 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, 1999, First Defiance had an aggregate of $79.0 million in unfunded commitments to originate loans (including unused portions of lines of credit and letters of credit) and no commitments to purchase securities. At the same date, First Defiance had commitments to sell $209.1 million of loans held for sale. At that date First Defiance had commitments to acquire $222.0 million of mortgage loans under first-time home buyer programs, all of which have offsetting commitments for sale into the secondary market as GNMA or FNMA mortgage backed securities. Also as of December 31, 1999, the total amount of certificates of deposit that are scheduled to mature by December 31, 2000 was $293.2 million. First Defiance believes that it has adequate resources to fund commitments as they arise. It can adjust the rate on savings certificates to retain deposits in changing interest rate environments; it can sell or securitize mortgage or non-mortgage loans; and it can turn to other sources of financing including FHLB advances. Because the FHLB requires that the collateral must exceed 150% of the outstanding advance balance, First Defiance may also from time-to-time be required to utilize other sources of financing, including brokered certificates of deposit and bank advances. At December 31, 1999 First Defiance has $170 million of lines available from other financial institutions, of which $47 million is being utilized.

Stockholders' equity decreased by $4.3 million, or 4.6% at December 31, 1999 compared to December 31, 1998 due to the repurchase of 816,000 shares of First Defiance stock (10.8% of shares outstanding at the beginning of the year). The shares in 1999 were repurchased at an average cost of $12.74 per share and, as a result, stockholders equity was reduced by $10.4 million. First Defiance made similar purchases of 1.2 million shares of common stock during 1998. Additionally, shareholders equity was reduced by $1.3 million as a result of a decrease in the market value of available for sale securities.

The equity reduction, caused by the factors discussed above, was offset to a lesser degree by earnings retention, the vesting or issuance of shares under the Company's Management Recognition Plan ("MRP") and Employee Stock Ownership Plan ("ESOP"), and the issuance of stock under stock option programs. Net income for 1999 was $8.6 million, of which $2.7 million was returned to shareholders in the form of declared dividends ($.41 per share). The vesting of MRP shares and release of ESOP shares increased equity by $381,000 and $622,000 respectively. Stock option exercises increased equity by approximately $417,000. The book value of First Defiance's common stock was $13.12 at December 31, 1999, compared to $12.37 at December 31, 1998. The tangible book value (excluding goodwill) of those shares was $10.97 and $10.61 at December 31, 1999 and 1998.

First Federal is subject to various capital requirements of the Office of Thrift Supervision. At December 31, 1999, First Federal had capital ratios that exceeded the minimum regulatory requirements. See Item 1. Business – Regulation – Regulatory Capital Requirements in this report.

Year 2000

During 1999, the Company prepared for potential computer system and other problems related to the Year 2000 date change. The process involved the identification and remediation of date recognition problems in computer systems, software and other operating equipment. It also included working with third-party vendors, developing and testing contingency plans, and planning for potential liquidity needs associated with potential large cash withdrawals. To date, no Year 2000 failures have been noted in any of the Company's systems.

Although considered unlikely, unanticipated problems in First Defiance's core business processes or systems, including problems with non-compliant third parties and general disruptions to the economy could still occur despite efforts to remediate such problems and the related contingency planning. Management will continue to monitor all processes throughout 2000 to address any issues as they arise and ensure that all systems continue to function appropriately.

Because its data processing functions are outsourced, the cost of Year 2000 remediation was not material to First Federal. First Federal's third party processor assessed a fee of less than $50,000 to cover the cost of the test bank established to provide for the appropriate testing. Testing itself was performed by individuals responsible for the various applications and was coordinated by the Vice President of Operations. The cost of the individuals was not quantified, however the three primary individuals involved devoted approximately 60% of their time during the testing phase which was essentially completed during the 1999 first quarter. First Federal's total out of pocket expenses recognized in conjunction with Year 2000 compliance were less than $100,000 in 1999.

The estimated total cost of Year 2000 compliance by The Leader was approximately $650,000 including the cost of hardware and software upgrades, programming costs, and retention bonuses to key staff members involved in the Year 2000 project. The portion of the costs associated with hardware acquisitions was capitalized while internal programming costs and retention payments were expensed. The retention bonuses will be paid to certain employees who are still employed on June 30, 2000. Year 2000 expense for The Leader for 1999 was less than $300,000.

Item 7A. Quantitative and Qualitative Disclosure 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 what management believes to be 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. The results of the simulation indicate that in an environment where interest rates rise 100 basis points over a 12 month period, using 2000 projected amounts as a base case, First Defiance's net interest income would decrease by 2.5%. Were interest rates to fall by 100 basis points during the same 12-month period, the simulation indicates that net interest income would increase by 2.5%.

The acquisition of The Leader Mortgage Company provided First Defiance with a significant source of non-interest income. The mortgage banking operations also serve as a countermeasure against the decline in the value of mortgage loans during a rising rate environment because increases in interest rates tend to increase the value of mortgage servicing rights because of the resulting decrease in prepayment rates on the underlying loans. Conversely, in a decreasing interest rate environment, the value of the mortgage servicing portfolio tends to decrease due to increased prepayments on the underlying loans. However, because The Leader's portfolio is comprised primarily of below market-rate loans, the prepayments on the loans it serviced have been much lower than industry averages. The Leader averaged 7.6% prepayments for the year ended December 31, 1999 which is lower than the prepayment speeds for the mortgage industry as a whole, and lower than the 11.1% experience for the year ended December 31, 1998. The simulation model used by First Defiance measures the impact of rising and falling interest rates on net interest income only. The Company also monitors the potential change in the value of its mortgage servicing portfolio given the same 100 basis point shift in interest rates. At December 31, 1999, a 100 basis point decrease in interest rates would require First Defiance to establish a reserve for impairment of mortgage servicing rights of less than $25,000.

First Defiance, through The Leader, has significantly increased its origination capabilities, on both a retail and wholesale basis. Loan production at The Leader was $1.9 billion for the year ended December 31, 1999, compared to $588.4 million for the six-months ended December 31, 1998. Mortgage servicing rights increased from $76.5 million as of December 31, 1998 to $97.5 million as of December 31, 1999. To protect themselves from the risk of changing interest rates, mortgage banking companies frequently use off balance sheet financial instruments to hedge the exposure of the mortgage loan pipeline. The Leader does not need to hedge its mortgage loan pipeline because the trustees under the various first-time homebuyer programs are required to fund the issuance of the GNMA securities backed by the mortgages in The Leader's pipeline at a guaranteed price.

First Defiance also has increased its lending activities in the commercial loan area. 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 Defiance's commercial portfolio increased to $138.1 million, which is split between $44.2 million of fixed rate loans and $93.9 million of adjustable rate loans at December 31, 1999. Certain of the 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 is generally less than seven years. First Defiance also has significant balances of consumer loans which tend to have a shorter duration than residential mortgage loans ($64.4 million at December 31, 1999) and home equity and improvement loans ($22.8 million at December 31, 1999) which fluctuate with changes in the prime lending rate. Also, to limit its interest rate risk, First Federal has been selling fixed rate mortgage loans with a maturity of 15 years or greater in the secondary market. Historically, loans with maturities less than 20 years have been retained in portfolio although First Federal began selling a portion of its 15 year fixed rate mortgage loans in the secondary market beginning in January 1999. For the year ended December 31, 1999, First Federal sold $39.7 million of loans in the secondary market. At December 31, 1999 First Federal's servicing portfolio totaled $88.6 million, compared to $62.2 million at December 31, 1998.

In addition to the simulation analysis, First Federal also utilizes the "market value of net portfolio equity" ("NPV") methodology adopted by the OTS. Under the NPV methodology, interest rate risk exposure ("IRR") is assessed by reviewing the estimated changes in First Federal's net interest income ("NII") and NPV that would hypothetically occur if interest rates simultaneously rise or fall along the yield curve. Projected values of NII and NPV at both higher and lower regulatory defined scenarios are compared to base case values (no change in rates) to determine the sensitivity to changing interest rates. Presented in the following table, as of December 31, 1999, is an analysis of First Federal's (which for this purpose also includes The Leader) estimated interest rate risk as measured by changes in NPV for instantaneous and sustained parallel shifts in interest rates up and down 300 basis points in 100 point increments. Assumptions used in calculating the amounts in this table are generally those assumptions utilized by the OTS in assessing the interest rate risk of the thrifts it regulates. However, because First Defiance utilizes a model that evaluates the market value of mortgage servicing rights on a loan-by-loan basis, management believes that the results generated by that model are more accurate than the generic OTS assumptions. For purposes of this table, management's valuation of mortgage servicing rights have been substituted for OTS' results. NPV is calculated by the OTS for the purposes of interest rate risk assessment and should not be considered as an indicator of value of First Federal.

December 31, 1999					
	Net Portfolio Value			Net Portfolio Value as % of Present Value of Assets	
Change in Rates	$ Amount (Dollars in Thousands)	$ Change	% Change	NPV Ratio	Change
+300 bp	102,152	(23,298)	(19)	10.96%	(154) bp
+200 bp	111,042	(14,408)	(11)	11.62%	(88) bp
+100 bp	118,462	(6,988)	(6)	12.10%	(40) bp
0 bp	125,450	-	-	12.50%	-
-100 bp	127,324	1,874	1	12.45%	(5) bp
-200 bp	120,895	(4,555)	(4)	11.73%	(77) bp
-300 bp	111,636	(13,814)	(11)	10.82%	(168) bp

In the event of a 300 basis point change in interest rates based upon estimates as of December 31, 1999, First Federal would experience an 11% decrease in NPV in a declining rate environment and a 19% decrease in NPV in a rising rate environment. During periods of rising rates, the value of monetary assets declines. Conversely, during periods of falling rates, the value of monetary assets increases. Mortgage servicing rights act as a natural hedge to these changes in value of other monetary assets as MSRs generally rise in value in a rising rate environment and decline in value in a falling rate environment because of the prepayments of the underlying mortgage loans. 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 NPV methodology, the decline in NPV in a rising rate environment is because First Federal has used FHLB advances and deposits with shorter terms than the assets in which it invests. The decline in NPV in a falling rate environment is because of the reduction in value in mortgage servicing rights. The analysis indicated that increases or decreases in monetary assets and increases or decreases in mortgage servicing rights generally offset each other in both rising and falling rate environments.

In evaluating First Federal's exposure to interest rate risk, certain shortcomings inherent in the method of analysis presented in the foregoing table 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.

Forward Looking Information

Forward looking statements in this report are made in reliance upon the safe harbor provisions of the private Securities Litigation Reform Act of 1995. The statements in this report, which are not historical fact, are forward looking statements and they include, among other statements, projections about growth in the Financial Condition section and projections about interest rate risk simulations included in the Asset/Liability Management section. Actual results may differ from expectations contained in such forward looking information as a result of factors including but not limited to the interest rate environment, economic policy or condition, federal and state banking and tax regulations, and competitive factors in the marketplace. Each of these factors could affect estimates, assumptions, uncertainties and risks considered in the development of forward looking information and could cause actual results to differ materially from management's expectation regarding future performance.