



## **DNB FINANCIAL CORPORATION AUDIT COMMITTEE CHARTER**

### **Purpose**

The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of DNB Financial Corporation (the “Company”) to (i) assist the Board in fulfilling its oversight responsibilities, (ii) Monitor the integrity of the Company’s financial reporting process and systems of internal controls regarding finance, accounting and regulatory compliance, (iii) Monitor the independence and performance of the Company’s independent auditors and internal auditors, (iv) Provide an avenue of communication among the independent auditors, management, the internal auditors, and the Board of Directors, (v) Establish and communicate to employees, management, independent internal and independent external auditors, and the Board of Directors, procedures to receive, review, retain and treat complaints and comments received by the Company and the Bank regarding accounting, internal accounting controls or auditing matters, and for the confidential, anonymous submission by Company and Bank employees of concerns regarding questionable accounting, internal accounting, control or auditing matters in accordance with Sarbanes Oxley section 301.

To effectively perform his or her role, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership.

### **Composition**

Audit Committee members shall meet the requirements of the Exchange that the Company is listed on. The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent, non-executive directors, free from any relationship that would interfere with the exercise of his or her independent judgment. All members shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, including a balance sheet, income statement, and cash flow statement. At least one member of the Committee shall have accounting or related financial management expertise. One of the members shall be designated “Chairperson”.

## **Meetings**

The Committee shall meet quarterly, or more frequently as circumstances dictate.

The Committee believes that the above mission statement sets forth its primary roles and responsibilities. In that connection, the following is meant to serve as a guide in achieving that mission.

## **Responsibilities and Duties**

The following are the duties and responsibilities of the Committee, which may be supplemented from time to time by the Board:

### **Financial Statement Review Procedures**

- Review the Company's interim financial results and annual audited financial statements prior to filing or distribution. The review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices, and judgments. Discuss with Independent Auditors its judgment about the quality, not just acceptability, of the Company's accounting principles as applied in its financial reporting.
- In consultation with management, independent auditors, and internal auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and steps taken by management to monitor, control, and report such exposures.
- Review significant findings prepared by the independent auditors and the internal auditors together with management's responses. Gain an understanding of whether internal control recommendations made by internal and independent auditors have been implemented by management.

### **Independent Auditors**

- The independent auditors are ultimately accountable to the Audit Committee and the Board of Directors. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors the appointment of the independent auditors or approve any discharge of auditors when circumstances warrant.
- Review the independent auditors' timetable, scope and approach of the quarterly reviews and annual examination of the financial statements.
- Obtain from the independent auditors their annual communication to the Audit Committee in satisfaction of SAS 61 regarding communication with the Audit

Committee, and, if applicable, any commentary on internal contracts or other recommendations.

- Review and discuss with the independent auditors all significant relationships they have with the Company that could impair the auditors' independence. Also ensure proper rotation of lead and concurring partners in accordance with Sarbanes Oxley section 208.
- Approve all non-audit services to be provided to the Company by the independent accountants in accordance with Sarbanes Oxley section 208.

### **Internal Auditors**

- Approve an Annual Risk Assessment and Audit Plan developed by the internal auditors.
- Meet quarterly with the internal auditors to gain an understanding of the effectiveness of the internal audit function. These meetings will also serve in evaluating their performance.
- Review significant reports prepared by the internal auditors together with management's response and follow-up to these reports.
- The Audit Committee may contract for internal audit services as necessary to assess the adequacy and effectiveness of internal controls, the accuracy of management reporting and compliance with laws, regulations and Bank policy. The Audit Committee will set forth the outsourcing vendor's responsibilities in a written contract, the terms of which must comply with the "Interagency Policy Statement of Internal Audit and Internal Audit Outsourcing."

### **Compliance with Laws and Regulations**

- Periodically obtain updates from management and compliance auditors regarding compliance with laws and regulations.
- Review the findings of any examination by regulatory agencies such as the Federal Reserve, FDIC, or Office of the Comptroller of the Currency.
- Be familiar with Management's response to regulatory examinations.

### **Other Committee Responsibilities**

- Review and update the Audit Committee Charter annually and submit changes to the charter to the Board of Directors for approval. Ensure that the charter is included within the Corporation's proxy statement once every three years.

- Prepare an annual Audit Committee Report for inclusion in the Corporation's Annual Proxy Statement that states a formal audit charter has been approved and that the Audit Committee has satisfied its responsibility during the year.
- Perform other oversight functions as requested by the Board of Directors. Further, the Audit Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities.
- Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.
- Meet periodically with the internal auditors, the independent accountants, and management in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately with the Audit Committee.
- Report Audit Committee actions to the Board of Directors with such recommendations, as the Audit Committee may deem appropriate.

#### **Authority to Engage Advisors and Funding**

- The Committee shall have the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties.
- The Company shall provide appropriate funding, as determined by the Committee in its capacity as a committee of the Board of Directors, for payment of: (i) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, (ii) compensation to any independent counsel or advisers engaged by the Committee as it determines necessary to carry out its duties, and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out the duties of the Committee.