



## **DNB FINANCIAL CORPORATION BENEFITS & COMPENSATION COMMITTEE CHARTER**

### **Purpose**

The Compensation Committee (the “Committee”) of DNB Financial Corporation (the “Corporation”) and DNB First, National Association (the “Bank”) is responsible for human resource policies, salaries and benefits, incentive compensation, executive development and management succession planning. It also deals with policies relating to nondiscriminatory employment practices, including those related to hiring, compensation and promotion.

### **Composition**

The Committee shall consist of three or more directors, each of whom shall satisfy the definition of independent director as defined in any qualitative listing requirements for The NASDAQ Stock Market, Inc. issuers and any applicable Securities and Exchange Commission rules and regulations. Committee members shall be elected by the Board of Directors (the “Board”) at the Board’s annual organizational meeting. Members shall serve until their successors are appointed. The Committee’s Chairperson shall be designated by the full Board or, if it does not do so, the Committee members shall elect a Chairperson by vote of a majority of the full Committee. The Chief Executive Officer (“CEO”) and the Bank’s Human Resource Manager will meet often with the Committee, but neither one shall be a member of the Committee or participate in all of its meetings. The Committee may form and delegate authority to subcommittees when appropriate.

### **Meetings**

The Committee shall meet at least annually, or more frequently as circumstances dictate. The Committee Chairperson will preside at each meeting and, in consultation with the other members of the Committee, will set the frequency and length of each meeting and the agenda of items to be addressed at each meeting. The Chairperson of the Committee shall ensure that the agenda for each meeting is circulated to each Committee member in advance of the meeting. Minutes of the meeting will be prepared and approved by the Board of Directors.

## **Responsibilities and Duties**

The principal responsibilities of the Committee are:

**Developing and Monitoring Human Resource Policies** - The Committee will develop human resource policies for the Corporation and the Bank and will monitor the Corporation and the Bank's adherence to the policies on a continual basis. The Bank's human resource policies include the following:

- Employment Policies (Corporate Handbook)
- Salary Administration Policy
- Family Medical Leave Act
- Americans with Disabilities Act
- Sexual Harassment Policy
- Discretionary Leave Policy
- Other federal and stock regulatory employee policies

**Appraising the Performance of the Chief Executive Officer** - The Committee will complete a written performance evaluation of the CEO each year. The Committee will meet with the CEO to discuss his or her strengths, weaknesses, review goals set at the beginning of the current year and to establish goals for the coming year. The Committee will recommend to the Board of Directors the annual salary, bonus, stock options, and other benefits, direct and indirect, of the CEO; provided that the CEO may not be present during voting or deliberations on his or her compensation. In making its recommendation, the Committee will consider:

- Shareholder return
- The performance of the Corporation and the Bank
- The level of salary, bonus, stock options, and other benefits, direct and indirect, of the CEO relative to CEOs at comparable companies
- The level of salary, bonus, stock options, and other benefits, direct and indirect, given the CEO in recent years

The Committee will make recommendations to the Board of Directors regarding the compensation, extension of the employment agreements and change in control agreements of the CEO, executive officers and other senior officers.

**Preparation of Report** - The Committee shall review and discuss with management the Compensation Discussion and Analysis required by Securities and Exchange Commission Regulation S-K, Item 402. Based on such review and discussion, the Committee shall determine whether to recommend to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's annual report or proxy statement

for the annual meeting of shareholders. The Committee shall provide, over the names of the Committee members, the required Compensation Committee report for the Company's proxy statement for the annual meeting of shareholders.

**Oversight of Executive Compensation Programs** - The Committee will review on an annual basis the Corporation's and the Bank's executive compensation programs to determine that they are properly researched and coordinated. In determining how corporate performance will be rewarded, the Committee will ensure that a significant portion of an executive's compensation is connected to the long-term interest of the shareholders. There will be an appropriate balance between short-term pay and long-term incentives. An important responsibility of the Committee is the development of an appropriate balance while focusing on long-term shareholder value.

**Oversight of Staff Compensation Programs** - The Committee will review on an annual basis the Corporation's and the Bank's salary administration program to determine that it is current and properly researched and coordinated. The Committee will review recommendations from the CEO and Human Resource Manager concerning compensation adjustments and will then make recommendations to the Board of Directors.

**Oversight of the Performance Incentive Compensation Plan** - Prior to the beginning of each fiscal year, the Committee will review the Corporation's Incentive Equity & Deferred Compensation Plan, Stock Option Plan and the Bank's Incentive Compensation Plan to determine that they are properly structured to reward exceptional performance. The Committee will consider the overall performance of the Corporation and the Bank and the cost of the Incentive Compensation Plan to ascertain that shareholder value is being increased by exceptional performance. The Committee will make recommendations to the Board of Directors regarding changes and payouts under the plan.

**Oversight of Staff Benefits Programs** - The Committee will review on a continual basis the Corporation's and the Bank's benefit programs to determine that they are current and properly coordinated. The Committee will review recommendations from the CEO and Human Resources Manager concerning benefit program adjustments and will then make its recommendations to the Board of Directors.

**Oversight of 401(k) Plan and Pension Plan** - The Committee will appoint the trustees of the Bank's Employee 401(k) Plan and Pension Plan. The Committee will monitor the Plans and will meet with the Plans' administrators on a quarterly basis for adjustments or revisions.

**Oversight of Executive Development and Management Succession Planning** - The Committee will review on an annual basis the executive development program facilitated by the CEO and managed by the Human Resource Manager. The Committee will integrate management succession planning with the executive development program.

**Oversight of Director Compensation** - The Committee shall review on an annual basis, in conjunction with the Nominating and Corporate Governance Committee, the appropriate levels of director compensation and an appropriate director compensation program and shall make recommendations to the Board regarding the same.

## **Evaluations**

Annually, the Committee shall conduct a performance evaluation and review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for final approval.

## **Committee Resources**

The Committee shall have the authority to obtain advice and seek assistance from internal or external legal or other advisors. The Committee shall have the sole authority to retain and terminate any compensation consultant used to assist the Committee in evaluating executive compensation, including sole authority to approve such consultant's fees and other retention terms.

## **Consistency with Articles of Incorporation and Bylaws**

To the extent that any provision or section of this Charter may be inconsistent with any article, provision or section of the Articles of Incorporation or the Bylaws of the Company, the Articles of Incorporation or the Bylaws, as appropriate, shall fully control.