

Real People.

S M A R T

2005

DCB Financial Corp
ANNUAL REPORT

Banking.

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VISION.



LETTER TO THE SHAREHOLDERS

Living the Brand: Real People. Smart Banking.

Dear Shareholders,

I am pleased to say that 2005 was an exciting time for DCB Financial Corp. We made many strides in new product developments, technology innovations, market positioning and overall performance.

Based on the foundation that we laid in 2005, we are poised for continued growth and well on our way toward meeting our long-term high performance goals. While holding strong to what has made us who we are, our real people, we are building upon our other asset — our smart bankers. Innovation is critical for growth, and I think you will see in the following pages that we are truly innovating and living our brand of “Smart Banking.”



Once again, we completed the best year in The Bank's history. Our assets totaled over \$690 million, a 14% increase from last year. In addition, our earnings topped just over \$7.5 million, our highest ever. Strong loan growth, stable credit quality and increased efficiency have all contributed to the continued improvement in core earnings. Our key performance ratios now are among the best of Ohio's community banks.

Due to high growth in our market area, real estate lending continued to be a significant part of our overall strategy. Our Residential Lending and Corporate Banking Divisions experienced another phenomenal year. Credit quality was good, and net loans grew by nearly 12%. This growth was largely in

commercial real estate with a 15% increase and residential real estate with a 14% increase.

We also experienced notable loan growth with our credit cards and home equity loan portfolios. In addition, deposit growth came to the forefront with a near 11% increase, in a large part due to the reintroduction of the Prime Time Money Market account. Several other new product introductions included our RealRewards Visa credit card, business overdraft protection, a home equity line of credit with a fixed rate installment loan

option, and a Certificate of Deposit Registry System that allows The Bank to offer up to \$25 million of FDIC insurance on customer deposits. Many of these products were the focus of “Sales Blitz” campaigns by our Retail Banking and Marketing Divisions that involved advertising, sales training, and in-branch cross-selling

to existing customers.

While Retail Banking continued to develop a strong sales culture in the branches, numerous improvements also were made to better serve our customers. These included a customer survey program, extended customer service hours in our Customer Care Center, and an expanded ATM network, offering banking customers free access to over 580 Delaware County Bank and Trust and KeyBank ATMs.

Last October, our Trust Department celebrated its 15th year in business. Our Wealth Management Division, which includes both the Trust Department and Raymond James Brokerage and Investment Services,

now has combined assets under management of over \$269 million. We have added additional staff in the Raymond James Division to better serve our customers.

Earlier this year DCB Title Services, LLC moved to our Corporate headquarters. This company offers closing services and title insurance for commercial and residential real estate transactions through our underwriter, Old Republic National Title Insurance Company. This provides borrowers the convenience of closing their loans right here at our Corporate headquarters.

Other exciting developments included the launch of our Brand Image Campaign. The Bank introduced our Brand Promise, which states our promise to customers to fulfill a distinct market need:

“The Bank promises genuine, personal service and local decision-making with smart, competitive products, services and technology.”

As part of the launch, we introduced a new advertising campaign, which communicated our new messaging and offered a professional, cohesive design, to differentiate ourselves in the market and stimulate sales. It was met with great reception and will continue through 2006.

We also will roll out several new technological enhancements, such as the “no envelope” ATM, remote capture (a product that allows business customers to make deposits from their office), and dialogue banking. Dialogue banking is the newest innovation in branch design. It will be utilized in The Bank’s two new locations, slated to open in the 4th quarter of 2006. These enhancements are detailed further on pages 4 and 5.

At the beginning of 2006, we were pleased with the addition of Phillip Connolly to our Board of Directors. Phillip is President of Connolly Construction Company in Marysville, Ohio and a lifelong resident of Union County. We know Phillip will be a major contributor to the Board and will represent you and your organization very well.

While this was a remarkable year, it was marked by sadness as we lost Melissa Gaines, a Highland Lakes Office teller who joined The Bank in October, to a tragic traffic accident and Pat Blue, our downtown Delaware Banking Center Officer and a longtime bank employee, to cancer. Pat’s energy and enthusiasm for improving the quality of life in Delaware was endless and a vision in which we all share. As a lasting tribute to Pat’s memory, we renamed our employee Community Involvement Award in her honor.

As always, I am continually amazed at the strong sense of community and dedication that our employees and Directors display. I look forward to seeing you at the annual meeting, and if you can not attend, please accept my appreciation for your continued loyalty and support.

Thanks to you and the contribution of countless others, we are living the “smart banking” promise.

Sincerely,



Jeffrey T. Benton

President and Chief Executive Officer

“NO ENVELOPE” ATM

The Bank is constantly looking for innovative ways to improve customers' experience, and the “no envelope” ATM is no exception.

With no-envelope deposit technology, a customer can deposit one or more checks and even cash directly into a slot on the ATM. Using imaging technology, the ATM accepts the deposit, and an image of the deposit appears on the screen and the customer's receipt.

This technology offers customers better convenience and security when making deposits via drive-up ATMs. The ATM essentially does the work for the customer by calculating the deposited amount and eliminating the need for deposit envelopes. Plus, it offers customers that added measure of security when they leave the ATM with a printed image of their transaction.



DIALOGUE BANKING

Imagine walking into a bank with no teller counters, lines or vaults. Seem impossible? Thanks to dialogue banking, this is the future of banking and a concept that The Bank will roll out at two locations this year.

Upon entering the new offices, customers will be greeted by a host who will escort them to personalized stations. The stations will replace the teller counters, allowing for easier interaction and offering a friendlier, more inviting environment. The stations also will eliminate vaults. Similar to how an ATM accepts and dispenses cash, the stations will automate the process.

Look for the following dialogue banking locations to open in late 2006.

- Olentangy Crossing — off Route 23, north of Lewis Center Road
- Polaris — east of I-71 off Polaris Pkwy.

A drive thru only facility, located off Route 23 near the Corporate office, also will open.



BANKING

◀ REMOTE DEPOSIT CAPTURE

Gone are the days when business customers had to physically transport their checks to the bank. With the introduction of Remote Deposit Capture, customers can now make deposits from their office at any time of the day.

Customers simply scan checks with the Remote Deposit Capture device, and the images are captured, automatically balanced and then sent to The Bank for validation, processing and clearing. The benefits to businesses are numerous and include:

- No courier costs
- Earlier credit and fund availability
- Extended deposit window
- Increased deposit accuracy and efficiency
- Up-to-date financial reporting

The reason for introducing this new product is clear — better technology equals better customer service. It's all a part of the smart banking promise.

PRODUCT INNOVATIONS ▶

The Bank now offers a new Home Equity Line of Credit account to provide customers more flexibility. With the account's Fixed Rate Lock-In Option, customers can lock in a fixed rate at any time for up to five separate installment loans.

Beginning in May, The Bank will be one of the first banks in the area to offer Certificate of Deposit Account Registry System (CDARS), a product that is revolutionizing the way people think of time deposits. Through CDARS, The Bank can offer customers up to \$25 million in FDIC insurance and the convenience of one-stop banking. This provides the added benefit of allowing The Bank to make customers' deposits available for lending opportunities that build a stronger local community.

In addition, The Bank plans to offer online loan and deposit account opening capabilities. These improvements, along with many others, are just a few ways that The Bank continues to innovate its product offerings.



FINIAN CIALS



BUSINESS OF DCB FINANCIAL CORP

DCB Financial Corp (“DCB” or the “Corporation”) was incorporated under the laws of the State of Ohio on March 14, 1997, upon approval by the shareholders of The Delaware County Bank and Trust Company (the “Bank”) for the purpose of becoming a bank holding company by acquiring all of the outstanding shares of the Bank. The Bank is a commercial bank, chartered under the laws of the State of Ohio, and was organized in 1950. The Bank is a wholly-owned subsidiary of DCB.

The Bank conducts business from its main office at 110 Riverbend Avenue in Lewis Center, Ohio and from its 16 branch offices located in Delaware, Ohio and surrounding communities. The Bank provides customary retail and commercial banking services to its customers, including checking and savings accounts, time deposits, IRAs, safe deposit facilities, personal loans, commercial loans, real estate mortgage loans, installment loans, night depository facilities and wealth management services. The Bank also provides treasury management, bond registrar and payment agent services. Through its information systems department, the Bank provides data processing, disaster recovery, and check processing services to other financial institutions; however, such services are not a significant part of operations or revenue.

DCB, through the Bank, grants residential real estate, commercial real estate, consumer and commercial loans to customers located primarily in Delaware, Franklin, and Union Counties, Ohio. Unemployment statistics in these counties have historically been among the lowest in the State of Ohio, and real estate values have been stable to rising. DCB also invests in U.S. Government and agency obligations, obligations of states and political subdivisions, corporate obligations, mortgage-backed securities, commercial paper and other investments permitted by applicable law. Funds for lending and other investment activities come primarily from customer deposits, borrowed funds, and to a lesser extent, from principal repayments on securities from loan or security sales.

As a financial holding company, DCB is subject to regulation, supervision and examination by the Federal Reserve Board. As a commercial bank chartered under the laws of the State of Ohio, the Bank is subject to regulation, supervision and examination by the State of Ohio Division of Financial Institutions and the Federal Deposit Insurance Corporation (the “FDIC”). The FDIC insures deposits in the Bank up to applicable limits. The Bank is also a member of the Federal Home Loan Bank (the “FHLB”) of Cincinnati.

COMMON STOCK AND SHAREHOLDER MATTERS

DCB had 3,826,098 common shares outstanding on February 22, 2006, held of record by approximately 1,531 shareholders. There is no established public trading market for DCB's common shares. DCB's common shares are traded on a limited basis on the Over-The-Counter Electronic Bulletin Board. At times however, various brokerage firms maintain daily bid and ask prices for DCB's common stock. The range of high and low transactions as reported by Sweeney, Cartwright & Co. is reported below. These transactions are shown without retail mark-up, mark-down or commissions.

| | Quarter ended | | | |
|---------------------|-------------------|------------------|-----------------------|----------------------|
| | March 31, 2005 | June 30, 2005 | September 30, 2005 | December 31, 2005 |
| High | \$ 29.00 | \$ 27.15 | \$ 27.90 | \$ 28.85 |
| Low | 20.75 | 25.00 | 26.05 | 25.55 |
| Dividends per share | 0.11 | 0.12 | 0.12 | 0.13 |
| | March 31, 2004 | June 30, 2004 | September 30, 2004 | December 31, 2004 |
| High | \$ 23.50 | \$ 24.15 | \$ 26.00 | \$ 29.00 |
| Low | 20.00 | 23.25 | 23.45 | 23.60 |
| Dividends per share | 0.10 | 0.16 | 0.11 | 0.11 |

Management does not have knowledge of the prices in all transactions and has not verified the accuracy of those prices that have been reported. Because of the lack of an established market for DCB's stock, these prices may not reflect the prices at which the stock would trade in a more active market. DCB sold no securities during 2005 or 2004 that were not registered under the Securities Acts.

Income of DCB primarily consists of dividends, which are periodically declared and paid by the Board of Directors of the Bank on common shares of the Bank held by DCB. While management of DCB expects to maintain the Corporation's policy of paying regular cash dividends in the future, no assurances can be given that any dividends will be declared or, if declared, what the amount of any such dividends will be. See Note 11 to the Consolidated Financial Statements for a description of dividend restrictions.

SELECTED CONSOLIDATED FINANCIAL INFORMATION AND OTHER DATA

The following tables set forth certain information concerning the consolidated financial condition, earnings and other data regarding DCB at the dates and for the periods indicated.

| Selected consolidated financial condition data: (In thousands) | At December 31, | | | | |
|--|-----------------|------------|------------|------------|------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| Total assets | \$ 690,896 | \$ 611,685 | \$ 553,297 | \$ 522,998 | \$ 519,380 |
| Cash and cash equivalents | 18,069 | 11,238 | 20,349 | 32,503 | 17,945 |
| Securities available for sale | 96,580 | 96,123 | 108,547 | 96,477 | 84,021 |
| Securities held to maturity | — | — | — | — | 34,718 |
| Net loans | 547,510 | 478,487 | 400,616 | 366,487 | 358,960 |
| Deposits | 503,906 | 454,574 | 442,352 | 438,623 | 430,714 |
| Borrowed funds | 128,535 | 101,028 | 54,312 | 29,802 | 37,336 |
| Shareholders' equity | 56,254 | 54,261 | 49,689 | 52,528 | 49,121 |

| Selected Operating Data (In thousands, except per share data) | Year ended December 31, | | | | |
|--|-------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| Interest and dividend income | \$ 36,566 | \$ 27,813 | \$ 26,591 | \$ 30,882 | \$ 35,736 |
| Interest expense | 13,750 | 7,802 | 7,973 | 10,142 | 16,369 |
| Net interest income | 22,816 | 20,011 | 18,618 | 20,740 | 19,367 |
| Provision for loan losses | 2,000 | 1,696 | 1,418 | 2,950 | 872 |
| Net interest income after provision for loan losses | 20,816 | 18,315 | 17,200 | 17,790 | 18,495 |
| Noninterest income | 5,654 | 7,618 | 6,624 | 6,259 | 5,625 |
| Noninterest expense | 15,665 | 15,985 | 16,508 | 18,010 | 17,377 |
| Income before income tax | 10,805 | 9,948 | 7,316 | 6,039 | 6,743 |
| Income tax expense | 3,249 | 2,973 | 2,287 | 2,036 | 2,245 |
| Net income | <u>\$ 7,556</u> | <u>\$ 6,975</u> | <u>\$ 5,029</u> | <u>\$ 4,003</u> | <u>\$ 4,498</u> |
| Per Share Data: | | | | | |
| Basic earnings per share | <u>\$ 1.94</u> | <u>\$ 1.77</u> | <u>\$ 1.26</u> | <u>\$ 0.96</u> | <u>\$ 1.08</u> |
| Diluted earnings per share | <u>\$ 1.94</u> | <u>\$ 1.77</u> | <u>\$ 1.26</u> | <u>\$ 0.96</u> | <u>\$ 1.08</u> |
| Dividends declared per share | <u>\$ 0.48</u> | <u>\$ 0.48</u> | <u>\$ 0.39</u> | <u>\$ 0.34</u> | <u>\$ 0.30</u> |

| Selected Financial Ratios: | At or for the year ended December 31, | | | | |
|--|---------------------------------------|--------|--------|--------|--------|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| Interest rate spread | 3.37% | 3.55% | 3.48% | 3.79% | 3.42% |
| Net interest margin | 3.66 | 3.72 | 3.75 | 4.24 | 4.10 |
| Return on average equity | 13.68 | 13.14 | 10.11 | 7.82 | 9.40 |
| Return on average assets | 1.15 | 1.13 | 0.91 | 0.76 | 0.89 |
| Average equity to average assets | 8.41 | 8.60 | 8.96 | 9.78 | 9.43 |
| Dividend payout ratio | 24.74 | 27.12 | 30.95 | 35.42 | 27.78 |
| Allowance for loan losses as a percentage of loans past due over 90 days still accruing interest and nonaccrual loans | 142.73 | 140.75 | 151.18 | 114.55 | 200.17 |

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

INTRODUCTION

In the following pages, management presents an analysis of DCB's consolidated financial condition and results of operations as of and for the year ended December 31, 2005, compared to prior years. This discussion is designed to provide shareholders with a more comprehensive review of the operating results and financial position than could be obtained from an examination of the financial statements alone. This analysis should be read in conjunction with the financial statements, the related footnotes and the selected financial data included elsewhere in this report.

FORWARD-LOOKING STATEMENTS

Certain statements in this report constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to the financial condition and prospects, lending risks, plans for future business development and marketing activities, capital spending and financing sources, capital structure, the effects of regulation and competition, and the prospective business of both the Corporation and its wholly-owned subsidiary The Delaware County Bank & Trust Company (the "Bank"). Where used in this report, the word "anticipate," "believe," "estimate," "expect," "intend," and similar words and expressions, as they relate to the Corporation or the Bank or their respective management, identify forward-looking statements. Such forward-looking statements reflect the current views of the Corporation and are based on information currently available to the management of the Corporation and the Bank and upon current expectations, estimates, and projections about the Corporation and its industry, management's belief with respect thereto, and certain assumptions made by management. These forward-looking statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. Potential risks and uncertainties include, but are not limited to: (i) significant increases in competitive pressure in the banking and financial services industries; (ii) changes in the interest rate environment which could reduce anticipated or actual margins; (iii) changes in political conditions or the legislative or regulatory environment; (iv) general economic conditions, either nationally or regionally (especially in central Ohio), becoming less favorable than expected resulting in, among other things, a deterioration in credit quality of assets; (v) changes occurring in business conditions and inflation; (vi) changes in technology; (vii) changes in monetary and tax policies; (viii) changes in the securities markets; and (ix) other risks and uncertainties detailed from time to time in the filings of the Corporation with the Commission.

The Corporation does not undertake, and specifically disclaims any obligation, to publicly revise any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

CRITICAL ACCOUNTING POLICIES

DCB's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and follow general practices within the financial services industry. The application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the financial statements; as this information changes, the financial statements could reflect different estimates, assumptions, and judgments.

The procedures for assessing the adequacy of the allowance for loan losses reflect our evaluation of credit risk after careful consideration of all information available to us. In developing this assessment, we must rely on estimates and exercise judgment regarding matters where the ultimate outcome is unknown such as economic factors, developments affecting companies in specific industries and issues with respect to single borrowers. Depending on changes in circumstances, future assessments of credit risk may yield materially different results, which may require an increase or a decrease in the allowance for loan losses.

The allowance is regularly reviewed by management to determine whether the amount is considered adequate to absorb probable losses. This evaluation includes specific loss estimates on certain individually reviewed loans, statistical loss estimates for loan pools that are based on historical loss experience, and general loss estimates that are based upon the size, quality, and concentration characteristics of the various loan portfolios, adverse situations that may affect a borrower's ability to repay, and current economic and industry conditions. Also considered as part of that judgment is a review of the Bank's trends in delinquencies and loan losses, as well as trends in delinquencies and losses for the region and nationally, and economic factors.

The allowance for loan losses is maintained at a level believed adequate by management to absorb probable losses inherent in the loan portfolio. Management's evaluation of the adequacy of the allowance is an estimate based on management's current judgment about the credit quality of the loan portfolio. While the Corporation strives to reflect all known risk factors in its evaluations, judgment errors may occur.

OVERVIEW OF 2005

The Bank provides customary retail and commercial banking services to its customers, including checking and savings accounts, time deposits, IRAs, safe deposit facilities, personal loans, commercial loans, real estate mortgage loans, installment loans, trust, and other wealth management services. The Bank also provides treasury management, bond registrar and paying agent services.

The Corporation, through the Bank, grants residential real estate, commercial real estate, consumer and commercial loans to customers located primarily in Delaware, Franklin, Licking, Morrow, Marion and Union Counties, Ohio. General economic conditions in the Corporation's market area have been sound, including unemployment statistics, which have generally remained stable. Real estate values, especially in the Bank's core geographic area, have been stable to rising for the last five years.

Due to the high level of growth in the Corporation's market area, construction lending has become a significant part of the Corporation's overall lending strategy. Construction loans are secured by residential and business real estate, generally occupied by the borrower on completion. The Bank's construction lending program is established in a manner to minimize risk of this type of lending by not making a significant amount of loans on speculative projects. Construction loans also are generally made in amounts of 80% or less of the value of collateral.

DCB's assets totaled \$690,896 at year-end 2005 compared to \$611,685 at year-end 2004, an increase of \$79,211, or 12.9%. The growth in assets was mainly attributed to the loan growth the Corporation experienced within its normal markets, particularly in its commercial real estate and residential real estate portfolios.

Shareholders' equity increased by \$1,993 during 2005, as dividends paid of \$1,866, repurchase of 108,672 shares for a total of \$2.9 million, and an \$807 after tax reduction in the fair value of securities designated as available for sale partially offset period earnings of \$7,556.

During 2005, DCB Financial Corp announced its Board of Directors had authorized the repurchase of up to 200,000 of its outstanding shares of common stock over a two year period commencing June 16, 2005. The stock repurchase plan authorizes the Company to make repurchases from time to time in the open market or in privately negotiated transactions. On June 16, 2005, prior to this announcement, the Company had 3,934,760 shares of common stock outstanding. On December 31, 2005, 91,328 shares remained available for purchase under the Corporation's stock repurchase program.

Net income for 2005 was \$7,556, or \$1.94 per share, up \$581 from \$6,975, or \$1.77 per share in 2004. The increase in net income during 2005 was related primarily to growth in earning assets, the allocation of funds from lower yielding to higher yielding asset categories, stable credit trends, and increased efficiency as a result of continuing cost controls.

The increase in net interest income is mainly attributable to the growth in interest earning assets coupled with the rising rate environment. The Company's net interest margin experienced some pressure in 2005 as the continuing loan growth was mainly funded with borrowings and higher cost deposits. These pressures are mainly due to the overall increased competition experienced in the Bank's market areas.

The Bank operates in a highly competitive industry due to statewide and interstate branching by banks, savings and loan associations and credit unions. In its primary market area of Delaware County, Ohio and surrounding counties, the Bank competes for new deposit dollars and loans with several financial service companies, including large regional and smaller community banks, as well as savings and loan associations, credit unions, finance companies, insurance companies, brokerage firms and investment companies. The most recent market data indicates there are approximately fifteen other deposit taking and lending institutions competing in the Bank's primary market. According to this market data, the Bank currently ranks first in market share in Delaware County with approximately 34.1% of the market.

Total noninterest expense for 2005 declined \$320, or 2.0% to \$15,665, from \$15,985 in 2004. The overall expense reduction was primarily the result of a decrease in occupancy and equipment expense, and reduced State franchise taxes. Additionally, management has developed a comprehensive cost controls and efficiencies that have reduced operating expenses in a number of different operational areas. The reduced operating costs are best exemplified by the Corporation's efficiency ratios of 54.2% for the year ending December 31, 2005 and 57.9% for the year ending December 31, 2004.

The change in income tax expense is primarily attributable to the increase in tax exempt earnings during 2005, offset by the growth in pre-tax income year over year. The provision for income taxes totaled \$3,249 in 2005 and \$2,973 in 2004, resulting in effective tax rates of 30.1% and 29.9%.

The ability to generate earnings is impacted in part by competitive pricing on loans and deposits, and by changes in the rates on various U.S. Treasury, U. S. Government Agency and State and political subdivision issues which comprise a significant portion of the Bank's investment portfolio. The Bank is competitive with interest rates and loan fees that it charges, in pricing and variety of accounts it offers to the depositor. The Corporation confirms this by completing regular rate shops and comparisons versus competing financial services companies. The dominant pricing mechanism on loans is the prime interest rate as published in the Wall Street Journal, on a fixed rate plus spread over funding costs. The interest spread depends on the overall account relationship and the creditworthiness of the borrower.

Deposit rates are reviewed weekly by management and are generally discussed by the Asset/Liability Committee on a monthly basis. The Bank's primary objective in setting deposit rates is to remain competitive in the market area, develop funding opportunities while earning an adequate interest rate margin.

ANALYSIS OF FINANCIAL CONDITION

DCB's assets totaled \$690,896 at year-end 2005 compared to \$611,685 at year-end 2004, an increase of \$79,211, or 12.9%. The growth in assets was mainly attributed to loan growth the Corporation experi-

enced within its normal markets, particularly in commercial real estate and residential real estate. The Corporation has also seen improved loan growth in its consumer retail products, particularly credit cards and home equity loans. The funding that accommodated this loan growth was supplied through increased borrowings, consisting mainly of Federal Home Loan Bank advances.

Total securities, including FHLB securities increased slightly to \$99,907 at year-end 2005, compared to \$98,979 at year-end 2004. DCB invests primarily in U.S. Treasury notes, obligations of U.S. government agencies, municipal bonds, corporate obligations and mortgage-backed securities. Mortgage-backed securities include Federal Home Loan Mortgage Corporation ("FHLMC"), Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA") participation certificates and collateralized mortgage obligations ("CMOs"). The mortgage-backed securities portfolio, totaling \$38,016 at year-end 2005, provides DCB with a constant cash flow stream from principal repayments, which is utilized to fund other areas of the balance sheet. Management classifies securities as available for sale to provide DCB with the flexibility to redeploy funds into loans as demand warrants. DCB held no derivative securities or structured notes during any period presented.

Total loans, including loans held for sale, increased \$70,258, or 14.5%, from \$484,427 at year-end 2004 to \$554,685 at year-end 2005. The growth in the overall loan portfolio was attributed to increases in commercial real estate loans, residential real estate and home equity, real estate construction and land development, offset by a decline in commercial and industrial. Other loan categories in which the Corporation participates remained relatively stable or experienced small increases in loans outstanding. Commercial real estate loans increased \$26,853, or 15.3%, from \$175,796 at year-end 2004 to \$202,649 at year-end 2005. Residential real estate and home equity loans increased \$23,777, or 14.0%, from \$170,010 at year-end 2004 to \$193,787 at year-end 2005. The geographic area in which the Corporation operates continues to experience increases in the commercial and residential real estate activity.

Total deposits increased \$49,332 or 10.9%, to \$503,906 at year-end 2005 from \$454,574 at December 31, 2005. Noninterest-bearing deposits increased \$3,829, or 5.9%, while interest-bearing deposits increased \$45,503, or 11.7%. The increase is mainly attributed to increased deposit activity from the Corporation's larger public fund customers. The Corporation utilizes a variety of alternative deposit funding sources to overcome the competitive challenges experienced within its primary market. Utilizing brokered certificates of deposits and money market sweeps, the Corporation is able to provide additional funding for the Company's loan portfolio. At year end, the Bank had approximately \$23,231 in brokered certificates of deposit outstanding. The slower growth of core deposits is attributed to the competition in the Corporation's geographic area, where the growth of competitors' branch locations have made it increasingly difficult to obtain deposits. Management intends to continue to develop new products, and to monitor the rate structure of its deposit products to encourage the growth within its deposit liabilities. In addition, the Corporation has used other borrowings, generally from the FHLB, to fund its loan growth. Continued reliance on outside funding rather than lower cost deposits could increase the Corporation's overall cost of funds. Interest-bearing demand and money market deposits increased from 49.3% of total interest-bearing deposits at year-end 2004 to 49.7% of total interest-bearing deposits at year-end 2005, as DCB experienced a \$24,336, or 12.7%, increase in volume of such accounts. The increase in such deposits has been primarily due to economic trends resulting in the shift of customer funds from other investment alternatives to liquid savings products, such as the creation of new products for the Bank's public fund customers. DCB experienced a decrease of \$12,368 in savings deposits while such accounts decreased from 15.0% of total interest-bearing deposits at December 31, 2004 to 10.6% of total interest-bearing deposits at year-end 2005. Time deposits increased \$33,535, or 24.1%, comprising 39.7% of total interest-bearing deposits at year-end 2005 compared to 35.7% at year-end 2004.

Borrowed funds totaled \$128,535 at year-end 2005 compared to \$101,028 at year-end 2004. During 2005, management utilized long-term FHLB advances to fund the loan growth with lower long-term borrowing costs in the current economic environment. Typically, the Company utilized a matched funding methodology for its long-term borrowing. This was done by matching the rates, terms and expected cash flows of

its loans to the various products offered by the FHLB. This matching principle was used to not only provide funding, but also as a means of mitigating interest rate risk associated with originating longer-term fixed rate loans. The Corporation utilizes a number of additional borrowing alternatives of which provide additional balances that are available for the Corporation to use. As of year ending December 31, 2005 additional unused borrowings totaled \$78,993 available to the Corporation through its various wholesale funding avenues with other bank credit facilities.

Shareholders' equity increased by \$1,993 during 2005, as dividends paid of \$1,866, repurchase of 108,672 shares for a total of \$2.9 million, and an \$807 after-tax reduction in the fair value of securities designated as available for sale partially offset period earnings of \$7,556.

During 2005, DCB Financial Corp announced its Board of Directors had authorized the repurchase of up to 200,000 of its outstanding shares of common stock over a two year period commencing June 16, 2005. The stock repurchase plan authorizes the Company to make repurchases from time to time in the open market or in privately negotiated transactions. Prior to this announcement, the Company had 3,934,760 shares of common stock outstanding. On December 31, 2005, 91,328 shares remained available for repurchase under the Corporation's stock repurchase program.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2005 AND DECEMBER 31, 2004

Net Income. Net income for 2005 totaled \$7,556, an increase of \$581 or 8.3% over net income for 2004 of \$6,975. Basic and diluted earnings per share totaled \$1.94 for 2005 and \$1.77 for 2004. Return on average assets was 1.15% and 1.13% for 2005 and 2004, while return on average equity was 13.68% and 13.14% over the same two years. The increase in net income was related principally to growth in earning assets, the allocation of funds from lower yielding to higher yielding asset categories, stable credit trends and increased operating efficiencies.

The Corporation developed new products during 2004 to increase revenues associated with noninterest income. In order to provide comprehensive services in the wealth management area, the Corporation entered into an agreement with Raymond James Financial Services to offer a variety of investment and retirement services to complement the trust services currently offered.

Net Interest Income. Net interest income represents the amount by which interest income on interest-earning assets exceeds interest paid on interest-bearing liabilities. Net interest income is the largest component of DCB's income and is affected by the interest rate environment, the volume and the composition of interest-earning assets and interest-bearing liabilities.

Net interest income was \$22,816 for 2005 compared to \$20,011 for 2004. The \$2,805 increase was mainly attributed to the continued increase in earning assets, coupled with the rising rate environment during the year ended December 31, 2005. However, the Company's net interest margin continues to experience some pressure as much of the continued loan growth has been funded with borrowings and higher cost deposits. To attract the additional deposits needed to fund loan growth, the Company continues to utilize products such as time deposits, brokered deposits and money market accounts, which generally carry higher costs compared to checking and savings products. These higher cost deposit products and other borrowings may continue to be utilized by management, which may negatively impact the net interest margin in future periods.

As a result of the these shifts in the components of interest-earning assets and interest-bearing liabilities, as well as movements in market interest rates, DCB's net interest margin, which is calculated by dividing net interest income by average interest-earning assets, decreased from 3.72% in 2004 to 3.66% in

2005. Additionally, because of the increased competition in the Bank's marketplace, management has recognized the importance of offering special rates on certain deposit products. These special deposit rates tend to negatively effect the Corporation's net interest margin. It is likely that these offerings will continue to be offered to secure liquidity while maintaining market share.

Provision and Allowance for Loan Losses. The provision for loan losses represents the charge to income necessary to adjust the allowance for loan losses to an amount that represents management's assessment of the losses known and inherent in the Bank's loan portfolio. All lending activity contains associated risks of loan losses and the Bank recognizes these credit risks as a necessary element of its business activity. To assist in identifying potential loan losses, the Bank maintains a credit administration function that regularly evaluates lending relationships as well as overall loan portfolio conditions. One of the primary objectives of this credit administration function is to make recommendations to management as to both specific loss allowances and overall portfolio loss allowances. Management further evaluates these reserve levels through an ongoing credit quality process, which in addition to evaluating the current credit quality of the lending portfolios, examines other economic indicators and trends, which could affect the overall loss rates associated with the lending process.

DCB's provision is determined based upon management's estimate of the overall collectibility of loans within the portfolio as determined by ongoing credit reviews. The provision for the allowance for loan and lease losses totaled \$2,000 in 2005, compared to \$1,696 in 2004. Net charge-offs for 2005 were \$1,283, which represents 0.24% of average loans, compared to net charge-offs of \$1,209, or 0.28% of average loans in 2004.

The allowance for loan losses increased by \$717 to \$5,535 at year-end 2005 from \$4,818 at year-end 2004. As a percent of gross loans, the allowance was proportional at 1.00% at year-end 2005 and 2004. DCB maintains an allowance for loan losses at a level to absorb management's estimate of probable inherent credit losses in its portfolio. The stable percentage of charge-offs during 2005 was mainly attributed to the improved economic conditions that affected the commercial loan portfolio in the current year, and to management's continuing focus on activities related to monitoring, collection, and workout of delinquent loans. Management continues to monitor exposure to industry segments, and believes that the loan portfolio remains adequately diversified. During 2005, the Corporation's loan charge-offs largely consisted of retail loans that were originated indirectly through its auto dealer network. The Corporation's provision for loan losses for 2005 was heavily influenced by portfolio growth as well as an increase in the provision related to impaired loans.

To assist in identifying potential loan losses, management maintains a methodology for establishing appropriate loan loss values. The Board of Directors has approved a policy that directs management to "develop and maintain an appropriate, systematic, and consistently applied process to determine the amounts of the Allowance for Loan Losses (ALLL)." The methodology that management adopted involves identifying both specific and non-specific components. The specific allowance allocation is determined from information provided through the Bank's watch list, loan review function and loan grade status applied to specific credits. The allocated allowance is developed by utilizing historical net loss components for each identified segment of the loan portfolio. Additionally, current economic condition factors are used to adjust the historical net loss components. Management performs analysis of the loan portfolio on a monthly basis, and evaluates economic conditions as they relate to potential credit risk within its portfolios on a quarterly basis.

Noninterest Income. Total noninterest income decreased \$1,964, or 25.8% to \$5,654 in 2005 compared to \$7,618 in 2004. The decrease was mainly a result of the sale of the Corporation's investment in ProCentury Corporation, a specialty property and casualty insurance holding company on April 20, 2004. The absence of the gain recognized on the sale of ProCentury investment was partially offset by an increase in the gain on loans sold in the secondary market in 2005. The Corporation also experienced increases in account service charges, trust, and wealth management activities. These increases

are generally attributed to a higher number of accounts and customers served by the Corporation. Data processing services and transactional volume from the Bank's retail products remained at or slightly higher than the previous year's levels.

Noninterest Expense. Total noninterest expense decreased \$320, or 2.0%, for the year ended December 31, 2005, compared to the same period in 2004. The decrease was primarily the result of a decline in state franchise taxes, and other noninterest expenses, and occupancy and equipment expenses due to certain capitalized assets becoming fully depreciated. The aforementioned decreases in noninterest expenses for the year ended December 31, 2005, were partially offset by an increase in advertising expenses incurred related to the Corporation's promotions, increase in professional expenses incurred mainly attributable to services related to Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"), and salaries and benefits due to commission and bonus expenses incurred. The increases in compensation and employee benefits were planned increases related to normal merit increases and staffing associated with the Corporation's continuing growth. The additions were mainly associated with revenue generating positions, or infrastructure positions associated with compliance and credit operations. With its broad line of products and services, the Corporation expects to continue to manage and be able to meet the needs of the market and obtain the business needed to sustain the additional overhead expenses associated with new operations.

Income Taxes. The change in income tax expense is primarily attributable to the increase in tax exempt earnings offset by the growth in pre-tax income. See Note 9 to the Consolidated Financial Statements for additional information regarding income taxes. The provision for income taxes totaled \$3,249 in 2005 and \$2,973 in 2004 resulting in effective tax rates of 30.1% and 29.9%.

COMPARISON OF RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2004 AND DECEMBER 31, 2003

Net Income. Net income for 2004 totaled \$6,975, an increase of \$1,946 or 38.7% over net income for 2003 of \$5,029. Basic earnings per share totaled \$1.77 for 2004 and \$1.26 for 2003, while diluted earnings per share totaled \$1.77 for 2004 and \$1.26 for 2003. Return on average assets was 1.13% and 0.91% for 2004 and 2003, while return on average equity was 13.14% and 10.11% over the same two years. The increase in net income was related principally to growth in earning assets, the allocation of funds from lower yielding to higher yielding asset categories, increased emphasis on operating expense cost control, and the result of a \$1.6 million in after-tax gain on sale of the Corporation's unconsolidated affiliate, ProCentury.

Also, the Corporation developed new products during 2004 to increase revenues associated with noninterest income. In order to provide comprehensive services in the wealth management area, the Corporation entered into an agreement with Raymond James financial services to offer a variety of investment and retirement services to complement the trust services currently offered. The Corporation developed a new overdraft assurance program that created additional non-interest revenue when compared to 2003. This program allows the Bank to pay overdraft items for its most creditworthy customers in return for a nominal service charge.

Net Interest Income. Net interest income represents the amount by which interest income on interest-earning assets exceeds interest paid on interest-bearing liabilities. Net interest income is the largest component of DCB's income and is affected by the interest rate environment, the volume and the composition of interest-earning assets and interest-bearing liabilities.

Net interest income was \$20,011 for 2004 compared to \$18,618 for 2003. The increase of \$1,393 is mainly attributed to the overall increase in average loan balances. Though DCB was able to reduce its

overall cost of funds through strategic initiatives developed through its Asset/ Liability Committee (ALCO), a significant portion of the Corporation's loan portfolio is variable rate. As a result of these shifts in the components of interest-earning assets and interest-bearing liabilities, as well as movements in market interest rates, DCB's net interest margin, which is calculated by dividing net interest income by average interest-earning assets, decreased from 3.75% in 2003 to 3.72% in 2004. Additionally, because of the increased competition in the Bank's primary marketplace, management has recognized the importance of offering special rates on certain deposit products. These special deposit rates negatively affected the Corporation's net interest margin.

Provision and Allowance for Loan Losses. DCB's provision is determined based upon management's estimate of the overall collectibility of loans within the portfolio as determined by ongoing credit reviews. The provision for the allowance for loan and lease losses totaled \$1,696 in 2004, compared to \$1,418 in 2003. Net charge-offs for 2004 were \$1,209, which represents 0.28% of average loans, compared to net charge-offs of \$1,181, or 0.31% of average loans in 2003.

The allowance for loan losses increased by \$487 to \$4,818 at year-end 2004 from \$4,331 at year-end 2003. As a percent of gross loans and leases, the allowance decreased to 1.00% at year-end 2004 from 1.07% at year-end 2003. DCB maintains an allowance for loan losses at a level to absorb management's estimate of probable incurred credit losses in its portfolio. Improved exposure to credit losses in the commercial loan portfolio required a more normalized provision compared to the prior year. The stable level of charge-offs during 2004 was mainly attributed to the improved economic conditions that affected the commercial loan portfolio in the 2004, and to management's increased activities related to monitoring, collection, and workout of delinquent loans. Management continues to monitor exposure to industry segments, and believes that the loan portfolio remains adequately diversified. During 2004, the Corporation's loan charge-offs largely consisted of commercial loans in a variety of sectors. Five small commercial loans accounted for approximately 30% of the net charge-offs recorded in 2004. These loans were concentrated in production, retail and service sectors. The provision for loan losses in 2004 was primarily influenced by growth in the loan portfolio.

Noninterest Income. Total noninterest income increased \$994, or 15.0% to \$7,618 in 2004 compared to \$6,624 in 2003. The increase was mainly the result of a \$2.6 million gain on the sale of the Corporation's investment in the unconsolidated affiliate, ProCentury Corporation. The gain recognized on the sale of ProCentury investment was partially offset by a decrease in the volume of loans sold in the secondary market, which is mainly attributed to retaining these loans within the retail portfolios. In addition, transactional volume from the Bank's retail products remained at or below the previous year's levels. The Corporation developed a new overdraft assurance program that created additional non-interest revenue when compared to 2003. This program allows the Bank to pay overdraft items for its most creditworthy customers or return for a nominal service charge. Additionally, the Corporation experienced increases in earnings on bank owned life insurance, account service charges, and trust activities. These increases are generally attributed to a higher number of accounts and customers served by the Corporation.

Noninterest Expense. Total noninterest expense decreased \$523, or 3.2%, in 2004 compared to 2003. The decrease was primarily the result of decreases in salaries and employee benefits, outside professional services, and various operating costs due to management's expense control initiatives. The decrease in outside professional services is attributed to decreased consulting and legal fees. The decrease in compensation and employee benefits were planned decreases relating to management's human resource efficiency initiatives implemented during 2004.

Income Taxes. The change in income tax expense is primarily attributable to the increase in tax exempt earnings offset by the growth in pre-tax income. See Note 9 to the Consolidated Financial Statements for additional information regarding income taxes. The provision for income taxes totaled \$2,973 in 2004 and \$2,287 in 2003, resulting in effective tax rates of 29.9% and 31.3%.

| | 2005 | | | Year ended December 31, 2004 | | | 2003 | | |
|---|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|-----------------------------------|-----------------------------|----------------|
| | Average outstanding balance | Interest earned/ paid | Yield/ rate | Average outstanding balance | Interest earned/ paid | Yield/ rate | Average outstanding balance | Interest earned/ paid | Yield/ rate |
| Interest-earning assets: | | | | | | | | | |
| Federal funds sold | \$ 238 | \$ 13 | 5.59% | \$ 451 | \$ 8 | 1.77% | \$ 14,082 | \$ 144 | 1.02% |
| Taxable securities | 73,932 | 3,091 | 4.18 | 78,875 | 2,855 | 3.62 | 77,882 | 2,876 | 3.69 |
| Tax-exempt securities (1) | 23,861 | 800 | 3.35 | 19,380 | 709 | 3.66 | 17,049 | 702 | 4.12 |
| Loans (2) | 525,233 | 32,662 | 6.22 | 438,861 | 24,241 | 5.52 | 387,627 | 22,869 | 5.90 |
| Total interest-earning assets | 623,264 | 36,566 | 5.87 | 537,567 | 27,813 | 5.17 | 496,640 | 26,591 | 5.35 |
| Noninterest-earning assets | 33,609 | | | 79,696 | | | 58,209 | | |
| Total assets | <u>\$ 656,873</u> | | | <u>\$ 617,263</u> | | | <u>\$ 554,849</u> | | |
| Interest-bearing liabilities: | | | | | | | | | |
| Demand and money market deposits | | | | | | | | | |
| | \$ 195,959 | \$ 4,267 | 2.18% | \$ 168,880 | \$ 1,441 | 0.85% | \$ 171,045 | \$ 2,149 | 1.26% |
| Savings deposits | 54,920 | 271 | 0.49 | 61,320 | 303 | 0.49 | 62,792 | 420 | 0.67 |
| Certificates of deposit | 173,216 | 5,128 | 2.96 | 143,359 | 3,334 | 2.33 | 141,650 | 4,099 | 2.89 |
| Total deposits | 424,095 | 9,666 | 2.28 | 373,559 | 5,078 | 1.36 | 375,487 | 6,668 | 1.78 |
| Borrowed funds | 125,013 | 4,084 | 3.27 | 107,826 | 2,724 | 2.53 | 51,146 | 1,305 | 2.55 |
| Total interest-bearing liabilities | 549,108 | 13,750 | 2.50 | 481,385 | 7,802 | 1.62 | 426,634 | 7,973 | 1.87 |
| Noninterest-bearing liabilities | 52,519 | | | 82,800 | | | 78,480 | | |
| Total liabilities | 601,627 | | | 564,185 | | | 505,113 | | |
| Shareholders' equity | 55,246 | | | 53,078 | | | 49,736 | | |
| Total liabilities and shareholders' equity | <u>\$ 656,873</u> | | | <u>\$ 617,263</u> | | | <u>\$ 554,849</u> | | |
| Net interest income; interest rate spread | | <u>\$ 22,816</u> | <u>3.37%</u> | | <u>\$ 20,011</u> | <u>3.55%</u> | | <u>\$ 18,618</u> | <u>3.48%</u> |
| Net interest margin (net interest income as a percent of average interest-earning assets) | | | <u>3.66%</u> | | | <u>3.72%</u> | | | <u>3.75%</u> |
| Average interest-earning assets to average interest-bearing liabilities | | | <u>113.50%</u> | | | <u>111.67%</u> | | | <u>116.41%</u> |

(1) Interest on tax-exempt securities is reported on a historical basis without tax-equivalent adjustment. Interest on tax-exempt securities on a tax equivalent basis was \$1,222 in 2005, \$1,076 in 2004, and \$1,064 in 2003.

(2) Includes nonaccrual loans.

The table below describes the extent to which changes in interest rates and changes in volume of interest-earning assets and interest-bearing liabilities have affected DCB's interest income and expense during the years indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume (multiplied by prior year rate); (2) changes in rate (multiplied by prior year volume); and, (3) total changes in rate and volume. The combined effects of changes in both volume and rate, that are not separately identified, have been allocated proportionately to the change due to volume and change due to rate:

| | Year ended December 31, | | | | | |
|---|----------------------------------|-----------------|-----------------|----------------------------------|-----------------|----------------|
| | 2005 vs. 2004 | | | 2004 vs. 2003 | | |
| | Increase (decrease) due to | | | Increase (decrease) due to | | |
| | Volume | Rate | Total | Volume | Rate | Total |
| Interest income attributable to: | | | | | | |
| Federal funds sold | \$ (4) | \$ 9 | \$ 5 | \$ (138) | \$ 2 | \$ (136) |
| Taxable securities | (180) | 416 | 236 | 36 | (57) | (21) |
| Tax-exempt securities | 165 | (74) | 91 | 97 | (90) | 7 |
| Loans | <u>4,770</u> | <u>3,651</u> | <u>8,421</u> | <u>3,015</u> | <u>(1,643)</u> | <u>1,372</u> |
| Total interest income | <u>4,751</u> | <u>4,002</u> | <u>8,753</u> | <u>3,010</u> | <u>(1,788)</u> | <u>1,222</u> |
| Interest expense attributable to: | | | | | | |
| Demand and money market deposits | 231 | 2,595 | 2,826 | (27) | (681) | (708) |
| Savings deposits | (31) | (1) | (32) | (10) | (107) | (117) |
| Certificates of deposit | 677 | 1,117 | 1,794 | 49 | (814) | (765) |
| Borrowed funds | <u>433</u> | <u>927</u> | <u>1,360</u> | <u>1,445</u> | <u>(26)</u> | <u>1,419</u> |
| Total interest expense | <u>1,310</u> | <u>4,638</u> | <u>5,948</u> | <u>1,457</u> | <u>(1,628)</u> | <u>(171)</u> |
| Increase (decrease) in net interest income | <u>\$ 3,441</u> | <u>\$ (636)</u> | <u>\$ 2,805</u> | <u>\$1,553</u> | <u>\$ (160)</u> | <u>\$1,393</u> |

ASSET AND LIABILITY MANAGEMENT AND MARKET RISK

The Asset/Liability Committee (“ALCO”) of DCB Financial Corp utilizes a variety of tools to measure and monitor interest rate risk. This is defined as the risk that DCB’s financial condition will be adversely affected due to movements in interest rates. To a lesser extent, DCB is also exposed to liquidity risk, or the risk that changes in cash flows could adversely affect its ability to honor its financial obligations. The ALCO committee monitors changes in the interest rate environment and changes to its lending and deposit rates based on liquidity and profitability analysis. During 2005 and 2004 several new programs were introduced to mitigate interest rate risk in the balance sheet.

First, the Corporation developed a matched funding program through the FHLB to match off longer term commercial and real estate loans with liabilities of similar term and rate structures. Secondly, the Corporation offered special deposit programs correlated to prevailing asset maturities. The income of financial institutions is primarily derived from the excess of interest earned on interest-earning assets over the interest paid on interest-bearing liabilities. Accordingly, the ALCO Committee places great importance on monitoring and controlling interest rate risk. The measurement and analysis of the exposure of DCB’s primary operating subsidiary, The Delaware County Bank and Trust Company, to changes in the interest rate environment are referred to as asset/liability modeling. One method used to analyze DCB’s sensitivity to changes in interest rates is the “net portfolio value” (“NPV”) methodology.

NPV is generally considered to be the present value of the difference between expected incoming cash flows on interest-earning and other assets and expected outgoing cash flows on interest-bearing and other liabilities. For example, the asset/liability model that DCB currently employs attempts to measure the change in NPV for a variety of interest rate scenarios, typically for parallel shifts of +/- 100 to +/-300 basis points in market rates. Presented below is an analysis depicting the changes in DCB’s interest rate risk as of December 31, 2005 and December 31, 2004, as measured by changes in NPV for instantaneous and sustained parallel shifts of -100 to +300 basis points in market interest rates. These parallel shifts were used to more accurately represent the current interest rate environment in which DCB Financial operates.

As illustrated in the tables, the institution’s NPV is more sensitive to rising rates than declining rates. From an overall perspective, such difference in sensitivity occurs principally because the balance sheet of the Bank is liability sensitive. The liability sensitivity of the balance sheet is due to the generally short-term nature of the Bank’s liabilities, (checking, savings and money market accounts) versus the longer-term nature of fixed rate installment loans and commercial loans. Though the institution does employ variable loan structures, these structures generally adjust based on annual time frames compared to daily or weekly time frames for liability. Additionally, as rates rise borrowers are less likely to refinance or payoff loans prior to contractual maturities, increasing the risk that the institution may hold below market rate loans in a rising rate environment.

The following table depicts the ALCO’s four most likely interest rate scenarios and their affect on NPV. At year-end 2005, management believes the interest rate cycle is still rising. The analysis presented in the table indicates that the benefit in a declining rate environment is due to reduced funding costs or a liability sensitive balance sheet that is accompanied by fixed rate loans and investments which continue to earn interest at their present levels. As depicted below, in a rising rate environment a liability sensitive balance sheet results in a decline in NPV.

The slight increase in interest rate risk as determined by modeling is due to the increased utilization of short-term liabilities to fund the Corporation's loan growth. This risk was offset somewhat by management's use of matched funding principles for longer term loans, and the use of other interest rate management techniques. The Corporation has operated within the ALCO's interest rate risk limits over the last three years.

| Change in Interest Rate (Basis Points) | December 31, 2005 | | | December 31, 2004 | | |
|--|---------------------|--------------------|--------------|---------------------|--------------------|--------------|
| | \$ Change In NPV | % Change In NPV | NPV Ratio | \$ Change In NPV | % Change In NPV | NPV Ratio |
| +300 | \$ (20,985) | (45)% | 4.05% | \$ (17,258) | (40)% | 3.75% |
| +200 | (14,228) | (30) | 5.01% | (11,614) | (27) | 4.54% |
| +100 | (718) | (15) | 5.98% | (6,087) | (14) | 6.27% |
| Base | — | — | 6.92% | — | — | 7.15% |
| -100 | 8,456 | 19 | 8.01% | 6,561 | 15 | 8.09% |

In a rising interest rate environment, DCB's net interest income can be negatively affected. Moreover, rising interest rates could negatively affect DCB's earnings due to diminished loan demand. As part of its interest rate risk strategy, DCB has attempted to utilize adjustable-rate and short-term-duration loans and investments. DCB intends to limit the addition of unhedged fixed-rate long-duration loans and securities to its portfolio.

LIQUIDITY

Liquidity is the ability of DCB to fund customers' needs for borrowing and deposit withdrawals. The purpose of liquidity management is to assure sufficient cash flow to meet all of the financial commitments and to capitalize on opportunities for business expansion. This ability depends on the institution's financial strength, asset quality and types of deposit and investment instruments offered by DCB to its customers. DCB's principal sources of funds are deposits, loan and securities repayments, maturities of securities, sales of securities available for sale and other funds provided by operations. The Bank also has the ability to obtain funding from other sources including the FHLB, Federal Reserve, and through its correspondent bank relationships. While scheduled loan repayments and maturing investments are relatively predictable, deposit flows and early loan and mortgage-backed security prepayments are more influenced by interest rates, general economic conditions and competition. DCB maintains investments in liquid assets based upon management's assessment of (1) need for funds, (2) expected deposit flows, (3) yields available on short-term liquid assets and (4) objectives of the asset/liability management program.

Cash and cash equivalents increased \$6,831, or 60.8%, from \$11,238 at year-end 2004 to \$18,069 at year-end 2005. Cash and cash equivalents at year-end 2005 represented 2.6% of total assets compared to 1.8% of total assets at year-end 2004. The Bank has the ability to borrow funds from the Federal Home Loan Bank and has various federal fund sources from correspondent banks, should DCB need to supplement its future liquidity needs in order to meet loan demand or to fund investment opportunities. The Bank also has the ability to issue term brokered certificate of deposits in the secondary market to provide additional funding outside of its normal geographical boundaries. In addition to funding maturing deposits and other deposit liabilities, DCB Financial also has off-balance sheet commitments in the form of lines of credit and letters of credit utilized by customers in the normal course of business. Financial instruments include off-balance credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. These off-balance sheet commitments are not considered to have a major effect on the

liquidity position of the Corporation. Further, management believes the DCB's liquidity position is strong based on its stable level of cash, cash equivalents, core deposits, the stability of its other funding sources and the support provided by its capital base.

As summarized in the Consolidated Statements of Cash Flows, the most significant transactions which affected the DCB's level of cash and cash equivalents, cash flows and liquidity during 2005 were securities purchases of \$32,413; the net increase in loans of \$70,651; the net increase in deposits of \$49,332; securities sales of \$15,263; net proceeds from FHLB advances and other short-term borrowings totaling \$27,507; and the receipt of proceeds from maturities and repayments of securities of \$16,080.

CAPITAL RESOURCES

As previously stated, total shareholders' equity increased \$1,993, primarily due to \$7,556 of period earnings, partially offset by cash dividends paid of \$1,866, repurchase of 108,672 shares for a total of \$2.9 million, and an \$807 after tax reduction in the fair value of securities designated as available for sale.

The final number of shares to be purchased through the repurchase plan announced in June 2005 and the price to be paid will depend upon the availability of shares, the prevailing market prices and any other considerations that may, in the opinion of DCB's Board of Directors or management, affect the advisability of purchasing shares.

Tier 1 capital is shareholders' equity excluding the net unrealized gains or losses on securities classified as available for sale and a percentage of mortgage-servicing rights. Total capital includes Tier 1 capital plus the allowance for loan losses, not to exceed 1.25% of risk weighted assets. Risk weighted assets are DCB's total assets after such assets are assessed for risk and assigned a weighting factor based on their inherent risk.

DCB and its subsidiaries meet all regulatory capital requirements. DCB's consolidated ratio of total capital to risk-weighted assets was 11.5% at year-end 2005, while the Tier 1 risk-based consolidated capital ratio was 10.5%. Regulatory minimums call for a total risk-based capital ratio of 8.0%, at least half of which must be Tier 1 capital. DCB's consolidated leverage ratio, defined as Tier 1 capital divided by average assets, was 8.3% at year-end 2005 and exceeded the regulatory minimum for capital adequacy purposes of 4.0%.

The following table sets forth the Corporation's obligations and commitments to make future payments under contract as of December 31, 2005.

| Contractual Obligations | Payment due by year | | | | |
|--|---------------------|---------------------|-----------------|----------------|----------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| FHLB advances | \$102,925 | \$11,985 | \$16,964 | \$7,202 | \$66,774 |
| Federal funds purchased and other short-term borrowings | 25,610 | 25,610 | | | |
| Operating lease obligations | 7,458 | 858 | 1,374 | 1,045 | 4,181 |
| Loan and line of credit commitments | 133,929 | 133,929 | — | — | — |
| Total contractual obligations | <u>\$269,922</u> | <u>\$172,382</u> | <u>\$18,338</u> | <u>\$8,247</u> | <u>\$70,955</u> |

CONSOLIDATED BALANCE SHEETS

December 31, 2005 and 2004
(Dollars in thousands, except share amounts)

| | 2005 | 2004 |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash and due from financial institutions | \$ 18,069 | \$ 11,238 |
| Securities available for sale | 96,580 | 96,123 |
| Loans held for sale | 1,640 | 1,122 |
| Total loans | 553,045 | 483,305 |
| Less allowance for loan losses | (5,535) | (4,818) |
| Net loans | 547,510 | 478,487 |
| Real estate owned | 386 | — |
| Investment in FHLB stock | 3,327 | 2,856 |
| Premises and equipment, net | 8,854 | 8,846 |
| Investment in unconsolidated affiliates | 614 | 295 |
| Bank owned life insurance | 8,898 | 8,457 |
| Accrued interest receivable and other assets | 5,018 | 4,261 |
| | <u>\$ 690,896</u> | <u>\$ 611,685</u> |
| LIABILITIES | | |
| Deposits | | |
| Noninterest-bearing | \$ 68,977 | \$ 65,148 |
| Interest-bearing | 434,929 | 389,426 |
| Total deposits | 503,906 | 454,574 |
| Federal funds purchased and other short-term borrowings | 25,610 | 5,215 |
| Federal Home Loan Bank advances | 102,925 | 95,813 |
| Accrued interest payable and other liabilities | 2,201 | 1,822 |
| Total liabilities | 634,642 | 557,424 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, no par value, 7,500,000 shares authorized, 4,273,200 issued at December 31, 2005 and 2004 | 3,780 | 3,780 |
| Retained earnings | 63,552 | 57,862 |
| Treasury stock, at cost, 447,112 and 338,440 shares at December 31, 2005 and 2004 | (10,506) | (7,616) |
| Accumulated other comprehensive income (loss) | (572) | 235 |
| Total shareholders' equity | 56,254 | 54,261 |
| | <u>\$ 690,896</u> | <u>\$ 611,685</u> |

CONSOLIDATED STATEMENTS OF INCOME

Year ended December 31, 2005, 2004 and 2003

(Dollars in thousands, except per share amounts)

| | 2005 | 2004 | 2003 |
|---|-----------|-----------|-----------|
| Interest and dividend income | | | |
| Loans | \$ 32,662 | \$ 24,241 | \$ 22,869 |
| Taxable securities | 3,091 | 2,855 | 2,876 |
| Tax-exempt securities | 800 | 709 | 702 |
| Federal funds sold and other | 13 | 8 | 144 |
| Total interest income | 36,566 | 27,813 | 26,591 |
| Interest expense | | | |
| Deposits | 9,666 | 5,078 | 6,668 |
| Borrowings | 4,084 | 2,724 | 1,305 |
| Total interest expense | 13,750 | 7,802 | 7,973 |
| Net interest income | 22,816 | 20,011 | 18,618 |
| Provision for loan losses | 2,000 | 1,696 | 1,418 |
| Net interest income after provision for loan losses | 20,816 | 18,315 | 17,200 |
| Noninterest income | | | |
| Service charges on deposit accounts | 2,592 | 2,543 | 2,634 |
| Trust department income | 668 | 646 | 609 |
| Gains (losses) on sales of securities | — | (4) | 51 |
| Gains (losses) on sale of assets | (35) | (140) | 649 |
| Gains on sales of loans | 407 | 179 | 979 |
| Gain on sale of unconsolidated affiliate | — | 2,638 | — |
| Treasury management fees | 469 | 512 | 547 |
| Data processing servicing fees | 310 | 288 | 366 |
| Earnings on bank owned life insurance | 441 | 450 | 108 |
| Other | 802 | 506 | 681 |
| Total noninterest income | 5,654 | 7,618 | 6,624 |
| Noninterest expense | | | |
| Salaries and other employee benefits | 8,541 | 7,941 | 8,226 |
| Occupancy and equipment | 3,244 | 3,802 | 4,030 |
| Professional services | 417 | 274 | 578 |
| Advertising | 394 | 337 | 321 |
| Postage, freight and courier | 361 | 376 | 347 |
| Supplies | 247 | 243 | 257 |
| State franchise taxes | 458 | 544 | 484 |
| Other | 2,003 | 2,468 | 2,265 |
| Total noninterest expense | 15,665 | 15,985 | 16,508 |
| Income before income taxes | 10,805 | 9,948 | 7,316 |
| Income tax expense | 3,249 | 2,973 | 2,287 |
| Net income | \$ 7,556 | \$ 6,975 | \$ 5,029 |
| Basic earnings per common share | \$ 1.94 | \$ 1.77 | \$ 1.26 |
| Diluted earnings per common share | \$ 1.94 | \$ 1.77 | \$ 1.26 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year ended December 31, 2005, 2004, and 2003

(Dollars in thousands, except per share data)

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|-----------------|-----------------|-----------------|
| Net income | \$ 7,556 | \$ 6,975 | \$ 5,029 |
| Reclassification for realized (gains) losses on sale of securities included in net income, net of (taxes) benefits of \$1 and \$(17) | — | 3 | (34) |
| Unrealized losses on securities available for sale, net of tax benefits of \$416, \$267, and \$419 | <u>(807)</u> | <u>(518)</u> | <u>(813)</u> |
| Comprehensive income | <u>\$ 6,749</u> | <u>\$ 6,460</u> | <u>\$ 4,182</u> |
| Accumulated comprehensive income (loss) | <u>\$ (572)</u> | <u>\$ 235</u> | <u>\$ 750</u> |

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended December 31, 2005, 2004 and 2003
(Dollars in thousands, except per share amounts)

| | Common Stock | Retained Earnings | Accumulated Other Treasury Stock | Total Comprehensive Income (Loss) | Shareholders' Equity |
|---|-----------------|----------------------|---|---|-------------------------|
| Balance at January 1, 2003 | \$ 3,780 | \$ 49,303 | \$ (2,152) | \$ 1,597 | \$ 52,528 |
| Net income | — | 5,029 | — | — | 5,029 |
| Unrealized losses on securities designated as available for sale, net of tax benefits | — | — | — | (847) | (847) |
| Purchase of treasury stock - 237,274 shares at cost | — | — | (5,536) | — | (5,536) |
| Sale of 3,800 shares of treasury stock | — | — | 72 | — | 72 |
| Dividends (\$0.39 per share) | — | (1,557) | — | — | (1,557) |
| Balance at December 31, 2003 | 3,780 | 52,775 | (7,616) | 750 | 49,689 |
| Net income | — | 6,975 | — | — | 6,975 |
| Unrealized losses on securities designated as available for sale, net of tax benefits | — | — | — | (515) | (515) |
| Dividends (\$0.48 per share) | — | (1,888) | — | — | (1,888) |
| Balance at December 31, 2004 | 3,780 | 57,862 | (7,616) | 235 | 54,261 |
| Net income | — | 7,556 | — | — | 7,556 |
| Unrealized losses on securities designated as available for sale, net of tax benefits | — | — | — | (807) | (807) |
| Purchase of treasury stock - 108,672 shares at cost | — | — | (2,890) | — | (2,890) |
| Dividends (\$0.48 per share) | — | (1,866) | — | — | (1,866) |
| Balance at December 31, 2005 | <u>\$ 3,780</u> | <u>\$ 63,552</u> | <u>\$ (10,506)</u> | <u>\$ (572)</u> | <u>\$ 56,254</u> |

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31, 2005, 2004 and 2003

(Dollars in thousands)

| | 2005 | 2004 | 2003 |
|--|------------------|------------------|------------------|
| Cash flows from operating activities | | | |
| Net income | \$ 7,556 | \$ 6,975 | \$ 5,029 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | | | |
| Depreciation | 1,049 | 1,508 | 1,815 |
| Provision for loan losses | 2,000 | 1,696 | 1,418 |
| Deferred income taxes | (2,288) | (80) | 209 |
| (Gains) losses on sales of securities | — | 4 | (51) |
| (Gains) on sales of loans | (407) | (179) | (979) |
| (Gains) losses on sale of assets | 35 | 140 | (649) |
| Gain on sale of unconsolidated affiliate | — | (2,638) | — |
| Net securities amortization | 868 | 1,201 | 1,356 |
| FHLB stock dividends | (153) | (106) | (92) |
| Net change in loans held for sale | (518) | (1,122) | 6,442 |
| Earnings on bank owned life insurance | (441) | (450) | (108) |
| Net changes in other assets and other liabilities | 144 | (5,166) | (149) |
| Net cash provided by operating activities | 7,845 | 1,783 | 14,241 |
| Cash flows used in investing activities | | | |
| Securities available for sale | | | |
| Purchases | (32,413) | (48,051) | (87,391) |
| Maturities, principal payments, and calls | 16,080 | 18,670 | 44,961 |
| Sales | 15,263 | 37,039 | 27,866 |
| Net increase in loans | (70,651) | (79,528) | (33,360) |
| Premises and equipment expenditures | (1,057) | (499) | (281) |
| Proceeds from sale of unconsolidated affiliate | — | 4,394 | — |
| Proceeds from sale of premises and equipment | — | 91 | 575 |
| Investment in unconsolidated affiliates | (319) | (100) | — |
| Net cash used in investing activities | (73,097) | (67,984) | (47,630) |
| Cash flows provided by (used in) financing activities | | | |
| Net change in deposits | 49,332 | 12,222 | 3,729 |
| Net change in federal funds purchased and other short-term borrowings | 20,395 | 596 | 2,619 |
| Proceeds from Federal Home Loan Bank advances | 171,261 | 154,459 | 37,746 |
| Repayment of Federal Home Loan Bank advances | (164,149) | (108,339) | (15,855) |
| Purchase of treasury stock, net | (2,890) | — | (5,464) |
| Cash dividends paid | (1,866) | (1,848) | (1,540) |
| Net cash provided by financing activities | 72,083 | 57,090 | 21,235 |
| Net change in cash and cash equivalents | 6,831 | (9,111) | (12,154) |
| Cash and cash equivalents at beginning of year | 11,238 | 20,349 | 32,503 |
| Cash and cash equivalents at end of year | \$ 18,069 | \$ 11,238 | \$ 20,349 |
| Supplemental cash flow information | | | |
| Interest paid | \$ 12,097 | \$ 7,086 | \$ 7,821 |
| Income taxes paid | 2,950 | 3,625 | 1,137 |
| Supplemental non cash disclosures | | | |
| Unrealized losses on securities designated as available for sale, net of tax benefits | \$ (807) | \$ (515) | \$ (847) |
| Loan to finance sale of premises and equipment | \$ — | \$ — | \$ 1,208 |

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The consolidated financial statements include the accounts of DCB Financial Corp (DCB) and its wholly-owned subsidiary, The Delaware County Bank and Trust Company (Bank), collectively referred to hereinafter as the Corporation. All intercompany transactions and balances have been eliminated in the consolidated financial statements.

Nature of Operations: DCB provides financial services through its sixteen banking locations in Delaware, Franklin and Union Counties, Ohio. Its primary deposit products are checking, savings, and term certificate accounts and its primary lending products are residential mortgage, commercial and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and real estate. Commercial loans are expected to be repaid from cash flow operations of businesses. Real estate loans are secured by both residential and commercial real estate. The Bank also operates a trust department, engages in mortgage banking operations, and supplies data processing and business recovery services to other financial institutions.

Business Segments: While DCB's management monitors the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a corporation-wide basis. Accordingly, all of DCB's operations are considered by management to be aggregated in one operating segment.

Use of Estimates: To prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect amounts reported in the financial statements and disclosures provided, and future results could differ. The allowance for loan losses, fair value of financial instruments and status of contingencies are particularly subject to change.

Cash Flows: Cash and cash equivalents include cash on hand and deposits with other financial institutions. Net cash flows are reported for customer loan and deposit transactions, federal funds purchased and other short-term borrowings.

Securities: Securities may be classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Securities may be classified as available for sale as such securities might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported as a component of other comprehensive income. Realized gains and losses on sale of securities are recognized using the specific identification method. The Corporation does not engage in securities trading activities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Interest income includes premium amortization and accretion of discounts on securities. Gains and losses on sales are based on the net carrying value of the security sold, using the specific identification method. Securities are written down to fair value when a decline in fair value is other than temporary. The Corporation reviews the investment portfolio on a regular basis for other than temporary security impairments. In the event a specific security is determined to be other than temporarily impaired, the Corporation will reduce the carrying value of that security for the amount of the impairment.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs and the allowance for loan losses. Loans held for sale are reported at the lower of cost or market, determined in the aggregate.

Interest income is reported using the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for loans placed on nonaccrual status is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs net of recoveries. Management estimates the required allowance balance based on past loan loss experience, augmented by additional estimates related to the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

A loan is impaired when full payment under the loan terms is not expected. Commercial and industrial loans, commercial real estate, and land development loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future value cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, such loans are not separately identified for impairment disclosures.

Concentrations of Credit Risk: The Bank grants commercial, real estate and consumer loans primarily in Delaware County, and the surrounding counties. Loans for commercial real estate, agricultural, construction and land development purposes comprise 46% of loans at year end 2005. Loans for commercial purposes comprise 9% of loans, and include loans secured by business assets and agricultural loans. Loans for residential real estate purposes, including home equity loans, aggregate 35% of loans. Loans for consumer purposes are primarily secured by consumer assets and represent 10% of total loans.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment in Federal Home Loan Bank Stock: The Corporation is required as a condition of membership in the Federal Home Loan Bank of Cincinnati (FHLB) to maintain an investment in FHLB common stock. The stock is redeemable at par and, therefore, its cost is equivalent to its redemption value. The Corporation's ability to redeem FHLB shares is dependent on the redemption practices of the FHLB of Cincinnati. At December 31, 2005, the FHLB of Cincinnati placed no restrictions on redemption of shares in excess of a member's required investment in the stock.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the assets' useful lives, estimated to be 7 to 39 years for buildings and improvements and 5 years for furniture, fixtures, and equipment, using the straight line method. An accelerated depreciation method is used for tax purposes. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable. Maintenance and repairs are expensed and major improvements are capitalized.

Foreclosed Assets: Assets acquired through loan foreclosure are initially recorded at the lower of cost or fair value when acquired, establishing a new cost basis. If fair value declines below such amount, a valuation allowance is recorded through expense. Holding costs after acquisition are expensed as incurred.

Servicing Assets: Servicing assets represent the allocated value of retained servicing on loans sold. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using groupings of the underlying loans as to interest rates, and then secondarily as to geographic and prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment of a grouping is reported as a valuation allowance. The Corporation had net servicing assets of \$76 and \$100 at December 31, 2005 and 2004.

Bank Owned Life Insurance: The Corporation has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the lower of its cash surrender value or its net redemption value.

Investment in Unconsolidated Affiliates: The Corporation carries its investment in unconsolidated affiliates at cost.

Income Taxes: Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts of temporary differences between carrying amounts and the tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share is computed including the dilutive effect of additional potential common shares issuable under stock options.

The computation of earnings per share is as follows for the years ended December 31:

| | 2005 | 2004 | 2003 |
|--|-----------|-----------|-----------|
| Weighted-average common shares outstanding (basic) | 3,890,717 | 3,934,760 | 4,000,161 |
| Dilutive effect of assumed exercise of stock options | 2,994 | — | — |
| Weighted-average common shares outstanding (diluted) | 3,893,711 | 3,934,760 | 4,000,161 |

There were no option shares excluded from the diluted weighted-average commons shares calculation in 2005.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Stock Option Plan: The Corporation's shareholders approved an employee share option plan in May 2004. This plan grants certain employees the right to purchase shares at a pre-determined price. The plan is limited to 300,000 shares. The shares granted to employees vest 20% per year over a five year period. The options expire after ten years.

The Corporation accounts for its stock option plan in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", which contains a fair-value based method for valuing stock-based compensation that entities may use, which measures compensation cost at the grant date based on the fair value of the award. Compensation is then recognized over the service period, which is usually the vesting period. Alternatively, SFAS No. 123 permits entities to continue to account for stock options and similar equity instruments under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Entities that continue to account for stock options using APB Opinion No. 25 are required to make pro forma disclosures of earnings per share, as if the fair-value based method of accounting defined in SFAS No. 123 had been applied.

The Corporation utilizes APB Opinion No. 25 and related Interpretations in accounting for its stock option plans. Accordingly, no compensation cost has been recognized for the plan. Had compensation cost for the Corporation's stock option plans been determined based on the fair value at the grant dates for awards under the plans consistent with the accounting method utilized in SFAS No. 123, the Corporation's net income and earnings per share would have been reported as the pro forma amounts indicated below:

| | | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---------------------------------------|--------------------------------------|----------------|----------------|----------------|
| (In thousands, except per share data) | | | | |
| NET INCOME | As reported | \$7,556 | \$6,975 | \$5,029 |
| | Stock-based compensation, net of tax | <u>(16)</u> | <u>(6)</u> | <u>—</u> |
| | Pro-forma | <u>\$7,540</u> | <u>\$6,969</u> | <u>\$5,029</u> |
| EARNINGS PER SHARE BASIC | As reported | \$1.94 | \$1.77 | \$1.26 |
| | Stock-based compensation, net of tax | <u>—</u> | <u>—</u> | <u>—</u> |
| | Pro-forma | <u>\$1.94</u> | <u>\$1.77</u> | <u>\$1.26</u> |
| DILUTED | As reported | \$1.94 | \$1.77 | \$1.26 |
| | Stock-based compensation, net of tax | <u>—</u> | <u>—</u> | <u>—</u> |
| | Pro-forma | <u>\$1.94</u> | <u>\$1.77</u> | <u>\$1.26</u> |

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fair value of each option granted is estimated on the date of grant using the modified Black-Scholes options pricing model with the following weighted-average assumptions used for grants in 2005 and 2004: dividend yield of 2.00% and 1.75%, respectively; expected volatility of 14.00% for 2005 and 2004, respectively; risk-free interest rates with 4.75% and 4.25% for 2005 and 2004, respectively; and expected lives of 10 years for each grant.

A summary of the status of the Corporation's stock option plan as of December 31, 2005, and changes during the year is presented below:

| | <u>SHARES</u> | 2005 WEIGHTED AVERAGE EXERCISE PRICE |
|--|---------------|--|
| Outstanding at beginning of year | 15,105 | \$23.40 |
| Granted | 26,219 | \$25.74 |
| Exercised | — | — |
| Forfeited | <u>(637)</u> | <u>\$23.40</u> |
| Outstanding at end of year | <u>40,687</u> | <u>\$25.31</u> |
| Options exercisable at year-end | 2,894 | \$23.40 |
| Weighted-average fair value of options granted during the year | | <u>\$4.68</u> |

A summary of the status of the Corporation's stock option plan as of December 31, 2004, and changes during the year is presented below:

| | <u>SHARES</u> | 2004 WEIGHTED AVERAGE EXERCISE PRICE |
|--|---------------|--|
| Outstanding at beginning of year | — | — |
| Granted | 15,105 | \$23.40 |
| Exercised | — | — |
| Forfeited | <u>—</u> | <u>—</u> |
| Outstanding at end of year | <u>15,105</u> | <u>\$23.40</u> |
| Options exercisable at year-end | — | — |
| Weighted-average fair value of options granted during the year | | <u>\$3.44</u> |

The following information applies to options outstanding at December 31, 2005:

| | |
|--------------------|--------------------------|
| NUMBER OUTSTANDING | RANGE OF EXERCISE PRICES |
| 40,687 | \$23.40 - \$27.50 |

The aggregate unrecognized compensation expense for nonvested options totaled approximately \$145,000 at December 31, 2005. The Corporation will recognize this amount over the proximate service period of 3.5 years upon adoption of SFAS No. 123 (R) in 2006.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) consists solely of net unrealized gains (losses) on securities available for sale, which is recognized as a separate component of shareholders' equity.

Recent Accounting Standards: In December 2004, the Financial Accounting Standards Board (the "FASB") issued a revision to Statement of Financial Accounting Standards ("SFAS") No. 123 which establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services, primarily on accounting for transactions in which an entity obtains employee services in share-based transactions. This Statement, SFAS No. 123 (R), requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award, with limited exceptions. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award – the requisite service period. No compensation cost is recognized for equity instruments for which employees do not render the requisite service. Employee share purchase plans will not result in recognition of compensation cost if certain conditions are met.

The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted for the unique characteristics of those instruments (unless observable market prices for the same or similar instruments are available). If an equity award is modified after the grant date, incremental compensation cost will be recognized in an amount equal to the excess of the fair value of the modified award over the fair value of the original award immediately before the modification.

Excess tax benefits, as defined by SFAS No. 123(R) will be recognized as an addition to additional paid in capital. Cash retained as a result of those excess tax benefits will be presented in the statement of cash flows as financing cash inflows. The write-off of deferred tax assets relating to unrealized tax benefits associated with recognized compensation cost will be recognized as income tax expense unless there are excess tax benefits from previous awards remaining in additional paid in capital to which it can be offset.

Compensation cost is required to be recognized in the beginning of the first annual period that begins after June 15, 2005, or January 1, 2006 as to the Corporation. Based on existing option grants, management believes the annual effect on operations will approximate the economic effects set forth in the pro-forma stock option disclosure set forth above.

Restrictions on Cash: Cash on hand or on deposit with the Federal Reserve Bank of \$3,143 and \$2,717 was required to meet regulatory reserve and clearing balance requirements at year-end 2005 and 2004. These balances do not earn interest.

Dividend Restrictions: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to DCB or by DCB to shareholders. These restrictions pose no practical limit on the ability of the Bank or DCB to pay dividends at historical levels.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or market conditions could significantly affect the estimates.

Reclassification: Certain amounts in the prior consolidated financial statements have been reclassified to conform to the current year presentation.

NOTE 2 - SECURITIES

The fair value of securities available for sale and the related unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

| | Fair Value | Gross Unrealized Gains | Gross Unrealized Losses |
|--|----------------------|------------------------------|-------------------------------|
| <u>2005</u> | | | |
| U.S. Government and agency obligations | \$ 24,732 | \$ 9 | \$ (351) |
| States and municipal obligations | 25,723 | 141 | (225) |
| Corporate bonds | 8,025 | 18 | (1) |
| Mortgage-backed securities | 38,016 | 109 | (598) |
| Total debt securities | 96,496 | 277 | (1,175) |
| Other securities | 84 | 38 | (7) |
| Total | <u>\$ 96,580</u> | <u>\$ 315</u> | <u>\$ (1,182)</u> |

| | | | |
|--|----------------------|-------------------|---------------------|
| <u>2004</u> | | | |
| U.S. Government and agency obligations | \$ 26,787 | \$ 50 | \$ (143) |
| States and municipal obligations | 19,710 | 380 | (80) |
| Corporate bonds | 8,073 | 3 | (72) |
| Mortgage-backed securities | 41,470 | 374 | (187) |
| Total debt securities | 96,040 | 807 | (482) |
| Other securities | 83 | 30 | — |
| Total | <u>\$ 96,123</u> | <u>\$ 837</u> | <u>\$ (482)</u> |

The tables below indicate the length of time individual securities have been in a continuous unrealized loss position at December 31, 2005 and 2004:

| Description of Securities | (Less than 12 months) | | | (12 months or longer) | | | Total | | |
|--|-----------------------|-----------------|-------------------|-----------------------|------------------|-------------------|-----------------------|-----------------|-------------------|
| | Number of investments | Fair value | Unrealized losses | Number of investments | Fair value | Unrealized losses | Number of investments | Fair value | Unrealized losses |
| (Dollars in thousands) | | | | | | | | | |
| U.S. Government and agency obligations | 12 | \$ 10,805 | \$ (87) | 17 | \$ 13,008 | \$ (264) | 29 | \$ 23,813 | \$ (351) |
| State and municipal obligations | 23 | 9,851 | (149) | 14 | 5,824 | (76) | 37 | 15,675 | (225) |
| Corporate bonds | — | — | — | 2 | 3,008 | (1) | 2 | 3,008 | (1) |
| Mortgage-backed securities and other | 65 | 17,582 | (240) | 40 | 13,936 | (365) | 105 | 31,518 | (605) |
| Total temporarily impaired securities | <u>100</u> | <u>\$38,238</u> | <u>\$(476)</u> | <u>73</u> | <u>\$ 35,776</u> | <u>\$ (706)</u> | <u>173</u> | <u>\$74,014</u> | <u>\$(1,182)</u> |

| Description of Securities | (Less than 12 months) | | | (12 months or longer) | | | Total | | |
|--|-----------------------|------------------|-------------------|-----------------------|------------------|-------------------|-----------------------|------------------|-------------------|
| | Number of investments | Fair value | Unrealized losses | Number of investments | Fair value | Unrealized losses | Number of investments | Fair value | Unrealized losses |
| (Dollars in thousands) | | | | | | | | | |
| U.S. Government agencies obligations | 23 | \$ 19,299 | \$ (134) | 1 | \$ 491 | \$ (9) | 24 | \$ 19,790 | \$ (143) |
| State and political subdivisions | 13 | 5,452 | (44) | 3 | 1,654 | (36) | 16 | 7,106 | (80) |
| Corporate bonds | 1 | 4,962 | (37) | 1 | 2,978 | (35) | 2 | 7,940 | (72) |
| Mortgage-backed securities and related | 46 | 12,896 | (78) | 13 | 5,492 | (109) | 59 | 18,388 | (187) |
| Total temporarily impaired securities | <u>83</u> | <u>\$ 42,609</u> | <u>\$(293)</u> | <u>18</u> | <u>\$ 10,615</u> | <u>\$ (189)</u> | <u>101</u> | <u>\$ 53,224</u> | <u>\$(482)</u> |

NOTE 2 - SECURITIES (CONTINUED)

Management has the intent and ability to hold these securities for the foreseeable future and the decline in the fair value is primarily due to an increase in market interest rates. Management is of the opinion that all unrealized losses are temporary as the fair values are expected to increase as the securities approach maturity.

The fair value of debt securities at year-end 2005 by contractual maturity was as follows. Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

| | <u>Fair Value</u> |
|----------------------------|-------------------|
| Due in one year or less | \$ 6,733 |
| Due from one to five years | 14,182 |
| Due from five to ten years | 15,379 |
| Due after ten years | 22,186 |
| Mortgage-backed securities | <u>38,016</u> |
| | <u>\$ 96,496</u> |

Sales of securities were as follows.

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--------------|-------------|-------------|-------------|
| Proceeds | \$ 15,263 | \$ 37,039 | \$ 27,866 |
| Gross gains | 1 | — | 53 |
| Gross losses | (1) | (4) | (2) |

At year-end 2005 and 2004, there were no holdings of securities of any one issuer, other than the U.S. government and agencies thereof, in an amount greater than 10% of shareholders' equity.

Securities with a carrying amount of \$96,156 and \$86,204 at year-end 2005 and 2004 were pledged to secure public deposits and other obligations.

NOTE 3 - LOANS

At December 31, 2005 and 2004, loans were comprised of the following:

| | <u>2005</u> | <u>2004</u> |
|---|-------------------|-------------------|
| Commercial and industrial | \$ 47,498 | \$ 49,184 |
| Commercial real estate | 202,649 | 175,796 |
| Residential real estate and home equity | 193,787 | 170,010 |
| Real estate construction and land development | 49,553 | 34,199 |
| Consumer and credit card | <u>58,653</u> | <u>53,156</u> |
| | 552,140 | 482,345 |
| Add: Net deferred loan origination costs | <u>905</u> | <u>960</u> |
| Total loans receivable | <u>\$ 553,045</u> | <u>\$ 483,305</u> |

Loans with a carrying amount of \$14,115 at year-end 2005 were pledged to secure public deposits and other obligations.

Loans to principal officers, directors, and their related affiliates in 2005 in the normal course of business were as follows.

| | |
|-------------------|------------------|
| Beginning balance | \$ 12,406 |
| New loans | 4,069 |
| Repayments | <u>(3,497)</u> |
| Ending balance | <u>\$ 12,978</u> |

NOTE 4 - ALLOWANCE FOR LOAN LOSSES

| Activity in the allowance for loan losses was as follows. | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|-----------------|-----------------|-----------------|
| Beginning balance of year | \$ 4,818 | \$ 4,331 | \$ 4,094 |
| Provision for loan losses | 2,000 | 1,696 | 1,418 |
| Loans charged off | (1,457) | (1,385) | (1,345) |
| Recoveries | <u>174</u> | <u>176</u> | <u>164</u> |
| Balance at end of year | <u>\$ 5,535</u> | <u>\$ 4,818</u> | <u>\$ 4,331</u> |

| Impaired loans were as follows at year-end. | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|-----------------|---------------|-----------------|
| Year-end loans with no allocated allowance for loan losses | \$ 1,845 | \$ — | \$ — |
| Year-end loans with allocated allowance for loan losses | <u>2,185</u> | <u>601</u> | <u>1,813</u> |
| Total | <u>\$ 4,030</u> | <u>\$ 601</u> | <u>\$ 1,813</u> |
| Amount of the allowance for loan losses allocated | <u>\$ 1,060</u> | <u>\$ 360</u> | <u>\$ 580</u> |

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|--|-------------|-------------|-------------|
| Average of impaired loans during the year | \$ 1,807 | \$ 709 | \$ 2,731 |
| Interest income recognized during impairment | — | — | — |
| Cash basis interest income recognized | 101 | — | — |

| Allowance on impaired loans was as follows at year-end. | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|-----------------|---------------|---------------|
| Beginning balance | \$ 360 | \$ 580 | \$ 1,088 |
| Provision related to impaired loans | 940 | 535 | 158 |
| Loans charge-offs (net of recoveries) | <u>(240)</u> | <u>(756)</u> | <u>(665)</u> |
| Ending balance | <u>\$ 1,060</u> | <u>\$ 360</u> | <u>\$ 580</u> |

The allowance for impaired loans is included in the Corporation's overall allowance for credit losses. The provision necessary to increase this allowance is included in the Corporation's overall provision for losses on loans.

| Nonperforming loans were as follows at year-end. | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---|-----------------|-----------------|-----------------|
| Loans past due over 90 days still accruing interest | \$ 2,648 | \$ 1,544 | \$ 1,252 |
| Nonaccrual loans | <u>2,185</u> | <u>1,879</u> | <u>1,813</u> |
| Total | <u>\$ 4,833</u> | <u>\$ 3,423</u> | <u>\$ 3,065</u> |

Nonperforming loans include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Interest income that would have been recognized had nonperforming loans performed in accordance with contractual terms totaled \$127, \$128, and \$163, for years ended December 31, 2005, 2004 and 2003, respectively.

NOTE 5 - PREMISES AND EQUIPMENT

| Year-end premises and equipment were as follows: | 2005 | 2004 |
|--|----------|----------|
| Land | \$ 1,266 | \$ 667 |
| Buildings | 8,403 | 8,427 |
| Furniture and equipment | 8,542 | 8,118 |
| | 18,211 | 17,212 |
| Accumulated depreciation | (9,357) | (8,366) |
| | \$ 8,854 | \$ 8,846 |

DCB has entered into operating lease agreements for branch offices and equipment, which expire at various dates through 2023, and provide options for renewals. Rental expense on lease commitments for 2005, 2004 and 2003 amounted to \$821, \$914 and \$834. At December 31, 2005, the total future minimum lease commitments under these leases are summarized as follows.

| | |
|------------|----------|
| 2006 | \$ 858 |
| 2007 | 788 |
| 2008 | 586 |
| 2009 | 524 |
| 2010 | 521 |
| Thereafter | 4,181 |
| | \$ 7,458 |

NOTE 6 - INTEREST-BEARING DEPOSITS

| Year-end interest-bearing deposits were as follows. | 2005 | 2004 |
|---|------------|------------|
| Interest-bearing demand | \$ 84,194 | \$ 105,635 |
| Money market | 132,025 | 86,248 |
| Savings deposits | 46,159 | 58,527 |
| Time deposits | | |
| In denominations under \$100,000 | 74,377 | 71,198 |
| In denominations of \$100,000 or more | 98,174 | 67,818 |
| | \$ 434,929 | \$ 389,426 |

Scheduled maturities of time deposits for the next five years were as follows:

| | |
|------|------------|
| 2006 | \$ 127,203 |
| 2007 | 34,859 |
| 2008 | 4,868 |
| 2009 | 5,182 |
| 2010 | 439 |
| | \$ 172,551 |

At December 31, 2005 and 2004 deposits received from officers, directors and their related affiliates totaled \$2,405 and \$2,005, respectively.

NOTE 7 - BORROWED FUNDS

Federal funds purchased and other short-term borrowings at December 31, 2005 were comprised of a demand note to the U.S. Treasury totaling \$1,681 and federal funds purchased totaling \$6,870 and \$14.0 million of short-term borrowings from the Federal Reserve Board. At December 31, 2004, short-term borrowings were comprised of a demand note to the U.S. Treasury totaling \$1,515 and federal funds purchased totaling \$3,700.

Advances from the Federal Home Loan Bank (FHLB) at year-end were as follows.

| Interest rate range | Maturing year ending December 31, | 2005 | 2004 |
|--------------------------------|--------------------------------------|------------------------|-----------|
| | | (Dollars in Thousands) | |
| 2.38% | 2005 | \$ — | \$ 25,775 |
| 2.76% - 4.33% | 2006 | 11,985 | 3,000 |
| 3.84% - 4.84% | 2007 | 14,000 | — |
| 3.01% - 3.98% | 2008 | 2,964 | 4,107 |
| 3.01% - 3.98% | 2009 | 5,585 | — |
| 2.59% - 5.72% | Thereafter | 68,391 | 62,931 |
| | | \$ 102,925 | \$ 95,813 |
| Weighted average interest rate | | 4.08% | 3.56% |

As a member of the FHLB of Cincinnati, the Bank has the ability to obtain additional borrowings based on DCB Financial's investment in FHLB stock and other qualified collateral. FHLB advances are collateralized by a blanket pledge of the Bank's qualifying 1-4 family, multi-family, farm real estate, commercial real estate loan portfolios, and all shares of FHLB stock totaling \$172,352 and \$3,327, respectively, at December 31, 2005 and \$139,963 and \$2,856, respectively, at December 31, 2004.

At year-end 2005, required annual principal payments on FHLB advances were as follows:

| | |
|------------|-----------|
| 2006 | \$11,985 |
| 2007 | 14,000 |
| 2008 | 2,964 |
| 2009 | 5,585 |
| 2010 | 1,617 |
| Thereafter | 66,774 |
| | \$102,925 |

NOTE 8 - RETIREMENT PLANS

The Corporation provides a 401(k) savings plan for all eligible employees. To be eligible, an individual must complete six months of employment and be 20 or more years of age. Under provisions of the Plan, a participant can contribute a certain percentage of their compensation to the Plan up to the maximum allowed by the IRS. The Corporation also matches a certain percentage of those contributions up to a maximum match of up to 3% of the participant's compensation. The Corporation may also provide additional discretionary contributions. Employee voluntary contributions are vested at all times and Corporation contributions are fully vested after three years. The 2005, 2004 and 2003 expense related to this plan were \$139, \$128 and \$118.

The Corporation maintains a deferred compensation plan for the benefit of certain officers. The plan is designed to provide post-retirement benefits to supplement other sources of retirement income such as social security and 401(k) benefits. The amount of each officer's benefit will generally depend on their salary, and their length of employment. The Corporation accrues the cost of this deferred compensation plan during the working careers of the officers. Expense under this plan totaled \$77 in 2005 and \$90 in 2004. The total accrued liability under this plan was \$307 and \$366 at year end 2005 and 2004, respectively.

The Corporation has purchased insurance contracts on the lives of the participants in the supplemental post-retirement benefit plan and has named the Corporation as the beneficiary. While no direct connection exists between the deferred compensation plan and the life insurance contracts, it is management's current intent that the earnings on the insurance contracts be used as a funding source for the plan.

NOTE 9 - INCOME TAXES

| | | | |
|------------------------------------|-----------------|-----------------|-----------------|
| Income tax expense was as follows. | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Current | \$ 5,537 | \$ 3,053 | \$ 2,078 |
| Deferred | <u>(2,288)</u> | <u>(80)</u> | <u>209</u> |
| | <u>\$ 3,249</u> | <u>\$ 2,973</u> | <u>\$ 2,287</u> |

The difference between financial statement tax provision and amounts computed by applying the statutory federal income tax rate to income before income taxes was as follows.

| | | | |
|--|-----------------|-----------------|-----------------|
| Income taxes computed at the statutory federal | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| income tax rate | \$ 3,674 | \$ 3,382 | \$ 2,487 |
| Tax exempt income | (486) | (468) | (195) |
| Other | <u>61</u> | <u>59</u> | <u>(5)</u> |
| | <u>\$ 3,249</u> | <u>\$ 2,973</u> | <u>\$ 2,287</u> |
| Effective tax rate | <u>30.1%</u> | <u>29.9%</u> | <u>31.3%</u> |

NOTE 9 - INCOME TAXES (CONTINUED)

Year-end deferred tax assets and liabilities were comprised of the following.

| | 2005 | 2004 |
|--|----------|----------|
| Deferred tax assets | | |
| Allowance for loan losses | \$ 1,882 | \$ 1,638 |
| Deferred compensation | 130 | 74 |
| Unrealized losses on securities available for sale | 296 | — |
| | 2,308 | 1,712 |
| Deferred tax liabilities | | |
| FHLB stock dividends | (334) | (282) |
| Unrealized gains on securities available for sale | — | (121) |
| Deferred loan origination fees and costs | (97) | (102) |
| Leases | (234) | (935) |
| Depreciation | (304) | (1,208) |
| Mortgage servicing rights | (26) | (34) |
| Other | (4) | (10) |
| | (999) | (2,692) |
| Net deferred tax asset (liability) | \$ 1,309 | \$ (980) |

NOTE 10 - COMMITMENTS, CONTINGENCIES AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

Some financial instruments such as loan commitments, credit lines, letters of credit and overdraft protection are issued to meet customer financing needs. These financing arrangements to provide credit typically have predetermined expiration dates, but can be withdrawn if certain conditions are not met. The commitments may expire without ever having been drawn on by the customer; therefore the total commitment amount does not necessarily represent future cash requirements. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used for loans, including obtaining various forms of collateral, such as real estate or securities at exercise of the commitment or letter of credit.

DCB grants retail, commercial and commercial real estate loans in central Ohio. DCB evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by DCB upon extension of credit, is based upon management's credit evaluation of each customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income producing commercial properties.

The contractual amount of financing instruments with off-balance-sheet risk was as follows at year-end.

| | 2005 | | 2004 | |
|--|------------|---------------|------------|---------------|
| | Fixed Rate | Variable Rate | Fixed Rate | Variable Rate |
| Commitments to extend credit | \$ 8,552 | \$ 51,490 | \$ 4,978 | \$ 51,787 |
| Unused lines of credit and letters of credit | — | 73,887 | — | 57,792 |

Commitments to make loans are generally made for periods of 30 days or less. The fixed rate loan commitments have interest rates ranging from 4.75% to 7.99% for 2005 and 4.75% to 7.00% in 2004. Maturities for these fixed rate commitments range from up to 1 to 30 years.

Legal Proceedings

There is no pending litigation, other than routine litigation incidental to the business of the Corporation and Bank. Further, there are no material legal proceedings in which any director, executive officer, principal shareholder or affiliate of the Corporation is a party or has a material interest, which is adverse to the Corporation or Bank. Finally, there is no litigation in which the Corporation or Bank is involved which is expected to have a material adverse impact on the financial position or results of operations of the Corporation or Bank.

NOTE 11 - REGULATORY CAPITAL

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective-action regulations involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet various capital requirements can initiate regulatory action.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

The Corporation and the Bank met the well-capitalized requirements, as previously defined, at December 31, 2005. The classification as well capitalized is made periodically by regulators and is subject to change over time. Management does not believe any condition or events have occurred since the latest notification by regulators in 2005 that would have changed the classification.

Actual and required capital ratios are presented below at year-end.

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|-----------|-------|-------------------------------|-------|--|-------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| <u>2005</u> | | | | | | |
| Total capital to risk-weighted assets | | | | | | |
| Consolidated | \$ 62,353 | 11.5% | \$ 43,331 | 8.0% | \$ 54,163 | 10.0% |
| Bank | 60,422 | 11.2 | 43,237 | 8.0 | 54,046 | 10.0 |
| Tier 1 (core) capital to risk weighted assets | | | | | | |
| Consolidated | 56,818 | 10.5 | 21,665 | 4.0 | 32,498 | 6.0 |
| Bank | 39,887 | 7.4 | 21,618 | 4.0 | 32,427 | 6.0 |
| Tier 1 (core) capital to average assets | | | | | | |
| Consolidated | 56,818 | 8.3 | 27,263 | 4.0 | 34,079 | 5.0 |
| Bank | 39,887 | 5.9 | 27,263 | 4.0 | 34,079 | 5.0 |
| <u>2004</u> | | | | | | |
| Total capital to risk-weighted assets | | | | | | |
| Consolidated | \$ 58,834 | 11.6% | \$ 40,760 | 8.0% | \$ 50,950 | 10.0% |
| Bank | 55,563 | 10.9 | 40,727 | 8.0 | 50,909 | 10.0 |
| Tier 1 (core) capital to risk weighted assets | | | | | | |
| Consolidated | 54,016 | 10.6 | 20,380 | 4.0 | 30,570 | 6.0 |
| Bank | 35,745 | 7.0 | 20,364 | 4.0 | 30,545 | 6.0 |
| Tier 1 (core) capital to average assets | | | | | | |
| Consolidated | 54,016 | 8.8 | 24,690 | 4.0 | 30,863 | 5.0 |
| Bank | 35,745 | 5.8 | 24,690 | 4.0 | 30,863 | 5.0 |

Banking regulations limit capital distributions by the Bank. Generally, capital distributions are limited to undistributed net income for the current and prior two years. In addition, dividends may not reduce capital levels below the minimum regulatory requirements disclosed above.

NOTE 12 - DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS

Carrying amount and estimated fair values of financial instruments were as follows at year-end.

| | <u>2005</u> | | <u>2004</u> | |
|---|----------------------------|-----------------------|----------------------------|-----------------------|
| | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Carrying Amount</u> | <u>Fair Value</u> |
| Financial assets | | | | |
| Cash and cash equivalents | \$ 18,069 | \$ 18,069 | \$ 11,238 | \$ 11,238 |
| Securities available for sale | 96,580 | 96,580 | 96,123 | 96,123 |
| Loans held for sale | 1,640 | 1,640 | 1,122 | 1,122 |
| Loans | 553,045 | 552,973 | 483,305 | 480,637 |
| FHLB stock | 3,327 | 3,327 | 2,856 | 2,856 |
| Financial liabilities | | | | |
| Noninterest-bearing deposits | \$ (68,977) | \$ (68,977) | \$ (65,148) | \$ (65,148) |
| Interest-bearing deposits | (434,929) | (437,234) | (389,426) | (391,490) |
| Federal funds purchased and other short-term borrowings | (25,610) | (25,610) | (5,215) | (5,215) |
| FHLB advances | (102,925) | (106,249) | (95,813) | (98,908) |

The estimated fair value of cash and cash equivalents, loans held for sale, FHLB stock, noninterest bearing deposits, fed funds purchased and other short-term borrowings approximates the related carrying amounts. Estimated fair value for securities is based on quoted market values for individual securities or for equivalent securities. For fixed rate loans or deposits and for variable rate loans or deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values. Fair value of loans held for sale is based on market quotes. Fair values of long-term FHLB advances are based on current rates for similar financing. Fair values of off-balance-sheet items are based on the current fee or cost that would be charged to enter into or terminate such agreements, which are not material.

NOTE 13 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial information of DCB Financial Corp was as follows.

| | CONDENSED BALANCE SHEETS | |
|--|---------------------------------|------------------|
| | December 31, 2005 and 2004 | |
| | <u>2005</u> | <u>2004</u> |
| Assets | | |
| Cash and cash equivalents | \$ 41 | \$ 67 |
| Investment in Bank | 39,302 | 35,970 |
| Subordinated note from Bank | 16,902 | 16,152 |
| Investment in unconsolidated affiliates | 614 | 295 |
| Other assets | <u>1,746</u> | <u>1,972</u> |
| Total assets | <u>\$ 58,605</u> | <u>\$ 54,456</u> |
| Liabilities | | |
| Other liabilities | \$ 2,351 | \$ 195 |
| Shareholders' Equity | | |
| Total liabilities and shareholders' equity | <u>\$ 58,605</u> | <u>\$ 54,456</u> |

NOTE 13 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (CONTINUED)

Condensed financial information of DCB Financial Corp was as follows.

| CONDENSED STATEMENTS OF INCOME | | | |
|--|----------|----------|----------|
| December 31, 2005, 2004 and 2003 | | | |
| | 2005 | 2004 | 2003 |
| Income | | | |
| Equity in earnings of Bank | \$ 7,548 | \$ 5,411 | \$ 5,586 |
| Gain on sale of ProCentury Corporation | — | 2,638 | — |
| Other | 276 | 46 | 68 |
| Total income | 7,824 | 8,095 | 5,654 |
| Operating expenses | 268 | 323 | 625 |
| Income before income taxes | 7,556 | 7,772 | 5,029 |
| Federal income tax expense | — | 797 | — |
| Net income | \$ 7,556 | \$ 6,975 | \$ 5,029 |

NOTE 14 – PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

| CONDENSED STATEMENTS OF CASH FLOWS | | | |
|--|----------|----------|----------|
| Years ended December 31, 2005, 2004 and 2003 | | | |
| | 2005 | 2004 | 2003 |
| Cash flows from operating activities | | | |
| Net income | \$ 7,556 | \$ 6,975 | \$ 5,029 |
| Adjustments to reconcile net income to cash provided by operations: | | | |
| (Undistributed earnings of) excess distributions | | | |
| from Bank | (808) | 452 | 1,102 |
| Net change in other assets and liabilities | (949) | (3,330) | 4,885 |
| Net cash from operating activities | 5,799 | 4,097 | 11,016 |
| Cash flows used in investing activities | | | |
| Investment in unconsolidated affiliates | (319) | (100) | — |
| Issuance of subordinated note to Bank | (750) | (2,652) | (3,500) |
| Net cash used in investing activities | (1,069) | (2,752) | (3,500) |
| Cash flows from financing activities | | | |
| Cash dividends paid | (1,866) | (1,848) | (1,540) |
| Purchase of treasury stock, net | (2,890) | — | (5,464) |
| Net cash from financing activities | (4,756) | (1,848) | (7,004) |
| Net change in cash and cash equivalents | (26) | (503) | 512 |
| Cash and cash equivalents at beginning of year | 67 | 570 | 58 |
| Cash and cash equivalents at end of year | \$ 41 | \$ 67 | \$ 570 |

The Corporation sold its investment of 450,000 shares in ProCentury Corporation, a specialty property and casualty insurance holding company based in Westerville, Ohio, as a part of ProCentury's initial public offering (IPO) in April 2004. DCB Financial Corp recognized a pre-tax gain of approximately \$2.6 million on the sale. The Corporation retained a \$359,000 investment in ProAlliance at December 31, 2005, a specialty line insurance company, which was spun-off from ProCentury in the IPO. The Corporation carries its investment in ProAlliance at cost. In addition to its investments in ProAlliance, the Corporation invested immaterial amounts in real estate developments during 2005.

NOTE 15 – CONCENTRATIONS

At December 31, 2005, approximately 19% of the Bank's deposits were received from public institutions. These concentration pose possible liquidity and earnings risk to the Corporation. However, in the opinion of management, the potential risks associated with such deposit concentration is more than offset at December 31, 2005 by the Corporation's available lending and borrowing capacity.

NOTE 16 – DETAILS OF OPERATING EXPENSES

The following table details the composition of occupancy and equipment expenses for the years ended December 31, 2005, 2004, and 2003.

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---------------------------|-----------------|-----------------|-----------------|
| Bank premises rent | \$ 482 | \$ 477 | \$ 463 |
| Bank premises maintenance | 415 | 380 | 304 |
| Bank depreciation | 279 | 286 | 221 |
| Equipment lease | 339 | 437 | 371 |
| Equipment maintenance | — | — | 361 |
| Equipment depreciation | 453 | 629 | 665 |
| Software maintenance | 507 | 498 | 532 |
| Other | 769 | 1,095 | 1,113 |
| Total | <u>\$ 3,244</u> | <u>\$ 3,802</u> | <u>\$ 4,030</u> |

The following table details the composition of other operating expenses for the years ended December 31, 2005, 2004, and 2003.

| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
|---------------------|-----------------|-----------------|-----------------|
| ATM and debit cards | \$ 342 | \$ 472 | \$ 420 |
| Telephone | 338 | 1,323 | 422 |
| Other | <u>1,574</u> | <u>358</u> | <u>1,487</u> |
| Total | <u>\$ 2,003</u> | <u>\$ 2,468</u> | <u>\$ 2,265</u> |

NOTE 17 – QUARTERLY FINANCIAL DATA (UNAUDITED)

The following tables summarizes the Corporation's quarterly results for the years ended December 31, 2005 and 2004.

| | THREE MONTHS ENDED | | | |
|-------------------------------|---------------------------------------|-----------------------|-----------------------|-----------------------|
| | <u>December 31,</u> | <u>September 30,</u> | <u>June 30,</u> | <u>March 31,</u> |
| <u>2005:</u> | (In thousands, except per share data) | | | |
| Total interest income | \$10,055 | \$9,559 | \$8,846 | \$8,106 |
| Total interest expense | <u>4,231</u> | <u>3,700</u> | <u>3,152</u> | <u>2,667</u> |
| Net interest income | \$5,824 | \$5,859 | \$5,694 | \$5,439 |
| Provision for losses on loans | 465 | 545 | 520 | 470 |
| Noninterest income | 1,435 | 1,350 | 1,397 | 1,472 |
| Noninterest expense | <u>3,861</u> | <u>3,805</u> | <u>3,901</u> | <u>4,098</u> |
| Income before income taxes | \$2,933 | \$2,859 | \$2,670 | \$2,343 |
| Federal income tax expense | <u>878</u> | <u>877</u> | <u>786</u> | <u>708</u> |
| Net income | <u><u>\$2,055</u></u> | <u><u>\$1,982</u></u> | <u><u>\$1,884</u></u> | <u><u>\$1,635</u></u> |
| Earnings per share: | | | | |
| Basic | \$0.54 | \$0.51 | \$0.48 | \$0.41 |
| Diluted | \$0.54 | \$0.51 | \$0.48 | \$0.41 |

| | THREE MONTHS ENDED | | | |
|-------------------------------|---------------------------------------|-----------------------|-----------------------|-----------------------|
| | <u>December 31,</u> | <u>September 30,</u> | <u>June 30,</u> | <u>March 31,</u> |
| <u>2004:</u> | (In thousands, except per share data) | | | |
| Total interest income | \$7,660 | \$7,071 | \$6,385 | \$6,697 |
| Total interest expense | <u>2,258</u> | <u>1,946</u> | <u>1,799</u> | <u>1,799</u> |
| Net interest income | \$5,402 | \$5,125 | \$4,586 | \$4,898 |
| Provision for losses on loans | 378 | 497 | 443 | 378 |
| Noninterest income | 1,267 | 1,316 | 3,874 | 1,161 |
| Noninterest expense | <u>4,007</u> | <u>3,828</u> | <u>4,328</u> | <u>3,822</u> |
| Income before income taxes | \$ 2,284 | \$ 2,116 | \$ 3,689 | \$ 1,859 |
| Federal income tax expense | <u>680</u> | <u>609</u> | <u>1,131</u> | <u>553</u> |
| Net income | <u><u>\$1,604</u></u> | <u><u>\$1,507</u></u> | <u><u>\$2,558</u></u> | <u><u>\$1,306</u></u> |
| Earnings per share: | | | | |
| Basic | \$ 0.41 | \$ 0.38 | \$ 0.65 | \$ 0.33 |
| Diluted | \$ 0.41 | \$ 0.38 | \$ 0.65 | \$ 0.33 |

AUDI- TORS



REPORT OF REGISTERED INDEPENDENT PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
DCB Financial Corp
Lewis Center, Ohio

We have audited the accompanying consolidated balance sheets of DCB Financial Corp as of December 31, 2005, and 2004, and the related consolidated statements of income, changes in shareholders' equity, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2005. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DCB Financial Corp as of December 31, 2005, and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) the effectiveness of DCB Financial Corp's internal control over financial reporting as of December 31, 2005, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2006 expressed an unqualified opinion on management's assessment of the effectiveness of DCB Financial Corp's internal control over financial reporting and an unqualified opinion on the effectiveness of DCB Financial Corp's internal control over financial reporting.



Grant Thornton, LLP
Cincinnati, Ohio
March 7, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Board of Directors and Shareholders of DCB Financial Corp:

We have audited management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that DCB Financial Corp (DCB) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). DCB Financial Corp's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of DCB's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management's assessment that DCB Financial Corp maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the control criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, DCB Financial Corp has maintained effective internal control over financial reporting as of December 31, 2005, based on *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), DCB Financial Corp's consolidated balance sheets as of December 31, 2005 and 2004, and the related statements of income, shareholders' equity, comprehensive income and cash flows for each of the three years in the period ended December 31, 2005, and our report dated March 7, 2006, expressed an unqualified opinion on those financial statements.



GRANT THORNTON LLP
Cincinnati, Ohio
March 7, 2006

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 7, 2006, accompanying the consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting in the Annual Report of DCB Financial Corp (the Company) on Form 10-K for the year ended December 31, 2005. We hereby consent to the incorporation by reference of said report in the Registration Statements of DCB Financial Corp on Form S-3, filed with the Securities and Exchange Commission (the Commission) on March 30, 1999, the Company's Form S-8, filed with the Commission on November 17, 1999, the Company's Form S-8, filed with the Commission on May 9, 2002, and the Company's Form S-8, filed with the Commission on June 18, 2004.



GRANT THORNTON LLP
Cincinnati, Ohio
March 15, 2006

EXHIBIT 31.1 CERTIFICATIONS

I, Jeffrey T. Benton, President and Chief Executive Officer of DCB Financial Corp, certify that:

1. I have reviewed this annual report on Form 10-K of DCB Financial Corp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [This paragraph intentionally left blank.]
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.



Jeffrey Benton
President and Chief Executive Officer
March 15, 2006

EXHIBIT 31.2 CERTIFICATIONS

I, John A. Ustaszewski, Chief Financial Officer of DCB Financial Corp, certify that:

1. I have reviewed this annual report on Form 10-K of DCB Financial Corp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) [This paragraph intentionally left blank.]
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.



John A. Ustaszewski
Senior Vice President and Chief Financial Officer
March 15, 2006

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of DCB Financial Corp (the "Company") on Form 10-K for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jeffrey T. Benton, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.



Jeffrey Benton
President and Chief Executive Officer
March 15, 2006

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of DCB Financial Corp (the "Company") on Form 10-K for the period ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John A. Ustaszewski, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as enacted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(3) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(4) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.



John A. Ustaszewski
Senior Vice-President and Chief Financial Officer
March 15, 2006

PEO-
PLE



**BOARD OF
DIRECTORS**



Jeffrey T. Benton



Terry M. Kramer



Phillip Connolly



Jerome J. Harmeyer



Vicki J. Lewis



William R. Oberfield



Edward A. Powers



Gary M. Skinner



Adam Stevenson



Donald J. Wolf

Jeffrey T. Benton

President and Chief Executive Officer, The Delaware County Bank & Trust Company

Terry M. Kramer

Chairman of the Board
Owner, Kramer Exploration Co.

Phillip Connolly

President, Connolly Construction Co.

Jerome J. Harmeyer

CEO, Fisher Cast Steel Products

Vicki J. Lewis

Vice President, Ohio Health - Grady Memorial Hospital

William R. Oberfield

President, Oberfield's Concrete Products

Edward A. Powers

President, R.B. Powers Co.

Gary M. Skinner

President, Hardscrabble Farms

Adam Stevenson

Plant Manager, P.P.G. Industries (Retired)

Donald J. Wolf

President, Wolf, Rogers, Dickey & Company

Donald R. Blackburn

Secretary to the Board

HONORARY DIRECTORS

Joseph W. Conklin

Richard L. Firestone

George G. Hoffman

R. Dwight Humes

Harry A. Humes

Rodney B. Hurl

F. Francis Hutchinson

Merrill Kaufman

Robert B. Morris

G. William Parker

Thomas T. Porter

Eldon T. Smith

Dr. David L. Warren

Donald W. Wilson

Alfred B. Wise

OFFICERS & DIVISIONS



Jeffrey T.
Benton



Jerry S.
Whittington



John A.
Ustaszewski



Barbara S.
Walters



Thomas R.
Whitney



Brian E.
Stanfill



Jay D.
Wolf

ADMINISTRATIVE DIVISION

Jeffrey T. Benton
President & Chief Executive Officer

CORPORATE BANKING DIVISION

Jerry S. Whittington
Senior Vice President

James L. Bandeen
Vice President - Corporate Lending

George J. Fedeczko
Vice President - Corporate Lending

Betsy Lloyd
Vice President - Corporate Lending

David P. Noll
Vice President - Corporate Lending

Frank J. Reinhard
Vice President - Corporate Lending &
Treasury Management

Gregory D. Sirc
Vice President - Residential Lending

Charles D. Bridge
Asst. Vice President - Corporate Lending

Kent L. Kramer
Asst. Vice President - Corporate Lending

Renée Wulf
Asst. Vice President - Treasury
Management

Lynn Cooperider
Mortgage Lending Officer

Donna Coyan
Lending Administration Officer

Kristopher J. Thomas
Treasury Management Officer

FINANCE DIVISION

John A. Ustaszewski
Senior Vice President &
Chief Financial Officer

Kathy A. King
Finance Operations Officer

Geraldene Brown
Finance Operations Manager

George Klepec
Accounting Manager

RETAIL BANKING DIVISION

Barbara S. Walters
Senior Vice President

Kathryn L. Fitzcharles
Asst. Vice President - Direct Retail Lending

Kathleen M. Jacobsen
Asst. Vice President - Indirect Lending

Marguerite E. Russell
Asst. Vice President -
Customer Care Center

Rhonda S. Sheely
Asst. Vice President - Retail Administration

Norreen Biggs
Banking Center Officer
Marysville Plaza Office

Jackie Braglin
Banking Center Officer
Ostrander Office

Karl Caldwell
Banking Center Officer
Downtown Delaware & William Street
Offices

Charles Copley
Banking Center Officer
Delaware Center Office

Susan L. Dulin
Banking Center Officer
Sunbury & Galena Offices

Molly Jones
Banking Center Officer
Green Meadows Office

Chris L. Nelson
Banking Center Officer
Buehler's Office

Danielle Plank
Banking Center Officer
Marysville Downtown Office

Amy Pinnick
Banking Center Officer
Avery Road Office

Gail A. Ruff
Banking Center Officer
Sawmill Parkway Office

Jane E. Rutan
Banking Center Officer
Ashley Office

Pamela Wolfe
Banking Center Officer
Highland Lakes Office

WEALTH MANAGEMENT DIVISION

Thomas R. Whitney
Senior Vice President & Senior Trust Officer
In-House Legal Counsel

Susan M. Wolf
Vice President - Trust Investment Officer

Terry L. Hill
Financial Advisor - Raymond James
Financial Services

Dori J. McLean
Trust Administration Officer

Tammy Snedden
Trust Operations Officer

REGULATORY & CREDIT ADMINISTRATION DIVISION

Steven M. Jolliff
Vice President - Credit Administration &
Compliance Officer

Paul T. Burnside
Collections Officer

David R. Holstein
Collections Officer

OPERATIONS, TECHNOLOGY & HUMAN RESOURCE DIVISION

Brian E. Stanfill
Senior Vice President

Ken D. Blevins
Vice President - Information Technology

Nanette Dwenger
Asst. Vice President - Human Resource

David A. McKenzie
Asst. Vice President - Item Processing

Douglas A. Lockwood
Operations Officer

James L. Nelson
Security & Facilities Officer

Sue E. Roberts
Operations Officer

MARKETING & CUSTOMER RELATIONS DIVISION

Jay D. Wolf
Vice President - Marketing &
Customer Relations



DCB
FINANCIAL
CORP

The Annual Report Form 10-K, as filed with The Security and Exchange Commission, is available to shareholders without cost by contacting: Corporate Secretary of The Delaware County Bank & Trust Company, P.O. Box 1001, Lewis Center, Ohio 43035.

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Lewis Center, OH
43035

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