

**Report of Organizational Actions
 Affecting Basis of Securities**

▶ See separate instructions.

Part I Reporting Issuer

1 Issuer's name Norwood Financial Corp.		2 Issuer's employer identification number (EIN) 23-2828306	
3 Name of contact for additional information William S. Lance	4 Telephone No. of contact 570-253-8505	5 Email address of contact william.lance@waynebank.com	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact 717 Main Street		7 City, town, or post office, state, and Zip code of contact Honesdale, PA 18431	
8 Date of action 7/31/2016		9 Classification and description See Attachment	
10 CUSIP number 669549107	11 Serial number(s)	12 Ticker symbol NWFL	13 Account number(s)

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ▶ See Attachment

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ▶ See Attachment

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ▶ Refer to the attached description of the basis calculation in Part II, Box 15 above. The closing price of one share of Norwood Financial Corp's common stock was \$28.15 on July 31, 2016.

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ Internal Revenue Code Sections 354, 356, 358 and 1001

18 Can any resulting loss be recognized? ▶ Refer to the attached description of the basis calculation in Part II, Box 15 above.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ The transaction was consummated on July 31, 2016. The reportable tax year of the DBI shareholders for reporting the tax effect of the share exchange is the tax year that includes July 31, 2016. For shareholders who report taxable income on the calendar year basis, 2016 is the taxable year.

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature ▶ *William S. Lance* Date ▶ 9/8/16

Print your name ▶ William S. Lance Title ▶ Exec VP/CFO

Paid Preparer Use Only

Print/Type preparer's name Charles E. Marston, CPA, MST	Preparer's signature <i>Charles E. Marston</i>	Date 9/8/16	Check <input type="checkbox"/> if self-employed	PTIN P00535523
Firm's name ▶ S.R. Snodgrass, PC	Firm's EIN ▶ 25-1616561		Phone no. (724) 934-0344	
Firm's address ▶ 2009 Mackenzie Way, Suite 340, Cranberry Township, PA 16066				

Norwood Financial Corp
23-2828306
Attachment to Form 8937

REPORT OF ORGANIZATIONAL ACTIONS AFFECTING BASIS OF SECURITIES

Form 8937 Part I, Box 9:

The securities subject to reporting include all shares of Norwood Financial Corp ("Norwood") common stock issued in exchange for the outstanding common stock of Delaware Bancshares, Inc. ("DBI") as a result of the merger which closed July 31, 2016.

Form 8937 Part II, Box 14:

On July 31, 2016 Norwood completed its acquisition of DBI with Norwood as the surviving corporation.

As a result of the Merger, DBI shareholders exchanged their common stock into a right to receive either 0.6221 shares of Norwood common stock, \$16.68 in cash, or a combination of cash and common stock of Norwood, subject to proration and allocation to ensure that 75% of the total number of shares of DBI common stock being exchanged for Norwood common stock and 25% exchanged for cash. To the extent that the exchange would have resulted in the issuance of a fractional share of Norwood common stock to a DBI shareholder, a cash payment equal to the market value equivalent of the fractional share was paid in lieu of issuing a fractional share of Norwood common stock.

Form 8937 Part II, Box 15:

The Merger of DBI with and into Norwood qualifies as a tax-free exchange within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. As a result, each DBI shareholder's tax consequences are as follows:

- DBI shareholders who receive solely cash in exchange for all of his or her DBI common stock as a result of the Merger will be treated as having received full payment for his or her DBI common stock. Consequently, since the shareholder did not receive any Norwood common stock, there will be no new basis to compute. Gain or loss will be recognized by those holders receiving solely cash for DBI common stock pursuant to the Merger equal to the difference in the amount of cash received by a holder of DBI common stock and such holder's cost basis in such shares of DBI common stock. If the DBI common stock was held as a capital asset, any gain or loss will be a short-term or long-term capital gain or loss depending on the time the shareholder held the DBI common stock;
- No gain or loss will be recognized by those holders receiving solely shares of Norwood common stock in exchange for shares of DBI common stock pursuant to the Merger (except with respect to any cash received in lieu of fractional shares). The aggregate basis of the Norwood common stock received in the Merger will be the same as the aggregate basis of the DBI common stock for which it was exchanged (decreased by any cash received instead of fractional share interests in Norwood common stock);

- In general, a gain (but not loss) may be recognized by DBI shareholders who receive shares of Norwood common stock and cash in exchange for shares of DBI common stock pursuant to the Merger. Such shareholders will recognize gain, if any, equal to the lesser of (1) the amount of cash received or (2) the amount of gain “realized” in the transaction (i.e., the amount by which (i) the cash plus fair market value of the Norwood common stock received in the merger exceeds (ii) the shareholder’s basis in the DBI common stock surrendered in exchange for the cash and Norwood common stock. The aggregate basis of the Norwood common stock received in the Merger by a DBI shareholder who receives a combination of Norwood common stock and cash in exchange for his or her DBI common stock will be the same as the aggregate basis of the DBI common stock for which it was exchanged, decreased by the amount of cash received in the Merger (except with respect to any cash received instead of fractional share interests in Norwood common stock), decreased by any basis attributable to fractional share interests in Norwood common stock for which cash is received, and increased by the amount of gain recognized on the exchange, but excluding any gain or loss recognized with respect to fractional share interests in Norwood common stock for which cash is received;
- A holder of DBI common stock who receives cash instead of a fractional share of Norwood common stock will generally be treated as having received the fractional share pursuant to the Merger and then as having exchanged the fractional share for cash in a redemption by Norwood. As a result, a holder of DBI common stock will generally recognize a gain or loss equal to the difference between the amount of cash received and the basis in his or her fractional share interest as set forth above. The gain or loss will generally be a capital gain or loss, and will be a long-term capital gain or loss if, as of the effective date of the Merger, the holding period for such shares is greater than one year; and
- The holding period of Norwood common stock received in exchange for shares of DBI common stock will include the holding period of the DBI common stock for which it is exchanged.

If holders of DBI common stock acquired different blocks of DBI common stock at different times or at different prices, any gain or loss will be determined separately with respect to each block of DBI common stock and such holder’s basis and holding period in their shares of Norwood common stock may be determined with reference to each block of DBI common stock. Any such holders should consult their tax advisors regarding the manner in which cash and Norwood common stock received in the exchange should be allocated among different blocks of DBI common stock and with respect to identifying the basis or holding periods of the particular shares of Norwood stock received in the Merger.