



2012 Annual Report
Growing
**Stronger for our Customers
and Communities**

Branching Out for Greater Convenience

To remain a strong community financial institution in challenging economic times, DNB First must continually look for new ways to increase value to our customers and to the shareholders who fuel our success. In 2012, we continued to leverage strong core earnings and capital growth and further expanded into Delaware County with the purchase of a branch in Boothwyn. This strategic acquisition helped boost low-cost core deposits for our shareholders, while expanding our footprint in Delaware County to offer our customers a higher level of convenience. Additionally, with the area's strong business presence and influx of upper middle class and high-net-worth individuals, the expansion in this area will pave the way for additional sources of revenue in business lending and wealth management.



Dear Valued Shareholders, Customers, and Employees:

We are especially proud of our success in achieving record growth and earnings in 2012, despite a difficult ongoing environment in which banks had to operate. However, the most pleasing aspect of our success has been our continued ability to give back to the communities we serve through scholarships, educational programs, and the sponsorship of local community events.

Our commitment to the communities we serve is not a motto or cliché. When DNB First succeeds, so too do the very stakeholders we serve — our shareholders, customers, and employees. Despite being a publicly traded company, many of these individuals reside in the banking markets we serve, and we are proud to have them as our neighbors.

It is with great pleasure that we present the 2012 Annual Report for DNB Financial Corporation. Our company has achieved many successes and experienced many milestones throughout our 153-year history.

Despite record low interest rates, increased regulatory constraints, and slow economic expansion, DNB First delivered steady growth and record earnings in 2012. Highlights of the year include:

- Net income of \$5.2 million, up 6.87 % from \$4.9 million in 2011.
- Return on assets of .84% and a return on equity of 9.61%.
- Total stockholders' equity increased 11.06% from \$51.1 million in 2011 to \$56.7 million.
- Book value per share climbed 13.72% to \$16.08 compared with \$14.14 in 2011.
- Total assets increased \$32.5 million or 5.35% to \$639.6 million, up from \$607.1 million in 2011.
- Tier 1 leverage ratio at 10.50% and Tier 1 risk-based capital ratio at 14.60% exceeded regulatory definitions for a well-capitalized institution.

Our path to success in 2012 was not an easy or unique one. Through it all, we continued to follow the same guiding principles that have served us well in both challenging and prosperous economic times: making prudent decisions to preserve our capital and control our expenses.

Though our financial performance was strong in 2012, significant challenges still remain. National and global economic uncertainty coupled with low interest rates will require us to continue to control expenses and manage liquidity. To navigate these challenges, we will continue to build upon the strategies that have served us well in the past. While we cannot control these outside influences, there are ways we can innovate and diversify our revenue mix. For example, our increase in fee-based income in 2012 provides a glimpse of what we can do with a sound strategy and the right personnel.



We will continue to look for ways to increase value for customers by investing in products and services, infrastructure, and technology as we did during the past year. In 2012, we purchased a new branch in Boothwyn to further expand our footprint in Delaware County, and to offer our customers greater convenience. We also employed new measures to deepen customer relationships by investing in innovative technologies and enhancing our product offerings. Our wealth management growth initiatives are ongoing, as we added staff and enhanced these services to give customers the distinct advantage of managing their wealth where they bank.

Our ability to achieve success and growth is not only important for our business customers, but also for the individuals, families, and employees who have put their trust in us, and the non-profit organizations that have relied on us to help them carry out their missions.

We thank you for the trust you have placed in us and the integral role you have played in our success. Growing the value of our franchise is our utmost focus and we look forward to continuing to serve you for many years to come.

Sincerely,

A handwritten signature in black ink, appearing to read "William S. Latoff".

William S. Latoff
Chairman and CEO

A handwritten signature in black ink, appearing to read "William J. Hieb".

William J. Hieb
President and Chief Risk &
Credit Officer

Strengthening Businesses

As DNB First grew in 2012, so too did our commitment to serving the needs of businesses of all sizes. We continued to provide the lending solutions, support, and personal attention these businesses need to manage cash flow and expand for the future. Highlighting our commitment to business is our support of events at Chambers of Commerce throughout Chester and Delaware Counties. Our ongoing presence at these events allows us to not only connect with business owners across a wide range of industries, but also to show them that as a community bank, DNB First is committed to, and invested in, their success.



All Riders Up is a non-profit organization dedicated to providing riding instructions to those with special needs. "I came to DNB First when I started my business. At the time, I had very little experience running a business or a non-profit and not only needed a loan, but also needed some professional advice and guidance. DNB First was so supportive on both fronts. In addition, they've helped me network with other business owners in the community and even got us a donation from the Rotary Club that allowed us to get a ramp to help our clients."
Marcia Laver, Executive Director, All Riders Up (pictured left, with Donna Reeves, branch manager)



"We used to bank with a large bank where personnel was constantly changing. We felt like no one really understood our business. With DNB First, we work with people we know, get things done faster, and deal with a lot less bureaucracy. I would highly recommend DNB First to other business owners."
Robert P. Barker, President, Penflex



"Making the change to DNB First was one of the best decisions we've made for our company. While our relationship with them is relatively new, we've had a tremendously positive experience thus far. Our team at DNB First is always accessible and resourceful in adapting to our unique needs. We could not be happier with the services they've provided."
Jerry Lee, President/Owner, B101 Radio Station



"I'm old fashioned in that I like to bank in person. I see the branch staff every few days and they are always so friendly and easy to do business with. They really know you and care about your business. That's why I do all of my business and personal banking with DNB First."
Bruce Taylor, Owner and CEO, Whitford Land Transfer Company (pictured with his team)



"We were introduced to DNB First at a time when the lending market was very difficult. They really stepped up and provided the loan we needed. They offer competitive rates and excellent service, and most importantly, they have confidence in our practice."
Dr. Peter Schatzberg, Owner, Philadelphia Pain Management



"We used to bank with a community bank that was purchased twice. We needed a bank that cared about us and knew who we were. That's DNB First. They are so easy to deal with and they have all the services we need. They are not just a bank in the community; they are the community."
Michael Rubinstein, Owner, Rubinstein's Office Supplies and Furniture (pictured left with his son, Marc, the fourth generation to run the business)

Extending our Reach Through Technology

Growth cannot be achieved without progress. In 2012, DNB First continued to invest in progressive systems to improve service, increase efficiency, enhance security, and deepen relationships with our valued customers to ensure they stay with us. One key initiative involved investing in a new telecommunications infrastructure that will allow us to cost effectively manage our data needs as we grow.

Enhancing Online and Mobile Banking

In 2012, we built on our commitment to offer our customers greater online banking convenience. As part of these efforts, we created new screens designed to facilitate navigation. We also enhanced bill payment by migrating to a new system that allows customers to pay bills on the date they are due and receive bills electronically, thereby eliminating the need for paper bills.

We also laid the groundwork to upgrade our mobile banking service to include an application that will make it easier for our customers to get balances, make transfers, pay bills, and perform their everyday banking from their smart phones or tablets. Lastly, we installed Popmoney,[®] a payment platform similar to PayPal,[®] that offers our customers greater flexibility when paying individuals.

Understanding the needs of our customers

To deepen relationships with our valued customers, we upgraded our core processing system in order to gain a complete view of customer relationships. This enhancement will help frontline staff better understand the needs of our customers, and deliver a higher level of service and value.

Strengthening relationships with our existing customers

With a lower rate environment and increased competition, it's critical that financial institutions look for new ways to build revenue. At DNB First, we sought to generate revenue by deepening relationships with our valued customers by offering relationship-driven checking products that allow our customers to experience value-added benefits, including discounts on loans.

Additionally, in 2012, we utilized technology to reach out to customers to determine our performance in meeting their goals and expectations. This valuable feedback allowed us to enhance our products, further train our employees, and continually improve upon the service we deliver. This focus on improvement will allow us to increase profitability for our stockholders and provide better service to our valued customers — key strategic initiatives to help us grow in the years ahead.

“Without continual growth and progress, such words as improvement, achievement, and success have no meaning.”

~ Benjamin Franklin



Expanding our Wealth Management Capabilities

DNB First recognizes that with increased uncertainty in the financial marketplace, individuals, businesses, and institutions need a financial services provider on which they can rely. This is especially important when it comes to managing wealth, and why in 2012, the Corporation continued to make significant investments in our wealth management personnel and service programs. Additionally, we continued our commitment to use state-of-the-art technology to further enhance our investment management process and provide technical training for our advisors in order to deliver a better overall experience to our valued clients.



"Over the years, I've referred many clients to DNB First Wealth Management. I've never been disappointed. They provide a level of personal service and attention that is so hard to find today. They truly care about their clients and the community, and have made some dramatic upgrades that have allowed them to provide expert service to people from a wide range of financial backgrounds."

Jerry L. Johnson, Esquire (center) pictured with Cheryl Burkey and Richard Weber of DNB First Wealth Management

A wealth of knowledge from local advisors

To provide a higher level of service and expertise, we made significant investments in our Wealth Management team.



left: Jennifer Calabro, Financial Advisor - qualified for the Cetera Investment Services, LLC, President's Club for 2012

right: Steve McGann, Wealth Management Advisor - became President of the Chester County Planning Council



Wealth Management Advisory Board

Top row, left to right:

Jay G. Fischer, Esq., Partner, Valocchi & Fischer
 Frank Hayes, Esq., Partner, Hayes & Romero
 Suzanne R. Jackson, CPA, Owner, SR Jackson, LLC
 Jerry L. Johnson, Esq., Attorney at Law
 Donald B. Lynn, Jr., Esq., Partner, Larmore Scarlett, LLP

Bottom row, left to right:

John McKenna, Esq., Shareholder/Director, MacElree Harvey, Ltd.
 Anthony Morris, Esq., Partner, Buckley, Brion, McGuire, Morris & Sommer, LLP
 Stephen J. Olsen, Esq., Gawthrop Greenwood, PC
 Richard C. Weber, Board Chair, Managing Director Wealth Management, DNB First
 Stacey Willits-McConnell, Esq., Partner, Lamb McErlane, PC

Rising Up to Meet the Needs of the Community

DNB First's growth in 2012 is reflected not just by impressive numbers on our financial statements, but also by the marked impact our success has had in our local communities. Our strong financial performance allowed us to continue our more than 150-year tradition of giving back to the communities we serve. In 2012, we were proud to support education through our participation in Pennsylvania's Educational Tax Credit program, providing \$400,000 to fund museums, schools, and other educational institutions.

Additionally, we provided charitable donations, sponsorships, scholarships, and employee volunteers at events that bring our communities together. Some of the organizations and initiatives we were proud to support in 2012 include:

- Alex's Lemonade Stand
- Armand Taraschi Scholarship
- BLOCS (Business Leadership Organized for Catholic Schools)
- Boy Scouts of America
- Caln Athletic Association Camps
- Chambers of Commerce
- Chester County Economic Development Council
- Chester County Food Bank
- Chester County Historical Society
- Delaware County Family Services
- Delaware County Historical Society
- Disabled Veterans
- Downingtown Senior Center
- Friends Association
- Good Neighbor Day
- Habitat for Humanity
- Handi-Crafters
- Historic Yellow Springs Art Show
- Housing Partnership of Chester County
- Lions Club
- Little League
- Main Line Animal Rescue
- March of Dimes
- Pathways
- Police/Fire/Ambulance companies
- Rotary Clubs
- SPCA
- SCORE (Society Corps of Retired Executives)
- West Chester University



In 2012, DNB First was proud to support local events that bring our communities together. **(top left)** We built upon our long-standing tradition of supporting West Chester Chamber's Old Fashioned Christmas by co-sponsoring the "Welcome Home Vets" float with the West Chester Rotary Club. Riding on the float were local veterans and their families. **(top right)** We also reached out to the community to support Downingtown's Good Neighbor Day, an annual event that raises funds for local ambulance and rescue companies. **(bottom left)** As part of our commitment to creating healthier communities, we were proud to be the lead sponsor of the March of Dimes' March for Babies walk. **(bottom middle)** To help fight hunger, employees volunteered to pick tomatoes during an evening gleaning event for the Chester County Food Bank. **(bottom right)** To help prevent identity theft, we were once again the sole sponsor of a shredding event across five municipalities.

Developing Employees – and Stronger Communities

One of the ways we continue to support our community is through our dedicated and talented workforce. We understand how valuable our employees are in helping us carry out our mission to serve our customers and communities, and we are dedicated to investing in their success. In 2012, we were proud to have an employee participate in Leadership Chester County, a partnership of United Way of Chester County, West Chester University, and the Chester County Chamber of Business and Industry designed to help train people to serve on non-profit boards.



"The Chester County Leadership Council really helped me see the community from a different perspective – from the perspective of those in need and the non-profits that struggle to help them. The experience provided through the program is almost like a toolbox for making a difference in the community. It's exciting to me that so many people will be given these tools. It can only mean good things for Chester County."

Katie Decker, Events/Sponsorship Manager, program participant



DNB Financial Corporation — Selected Financial Data

Results of Operations	2012	2011	2010	2009	2008
Interest income	\$25,729	\$26,174	\$26,050	\$25,948	\$28,262
Interest expense	3,755	4,644	7,062	10,629	13,048
Net interest income	21,974	21,530	18,988	15,319	15,214
Provision for credit losses	1,455	1,480	2,216	1,325	2,018
Non-interest income	4,088	3,643	5,430	4,507	4,408
Non-interest expense	17,262	16,725	16,903	16,590	16,731
Income before income taxes	7,345	6,968	5,299	1,911	873
Income tax expense	2,106	2,066	1,629	362	64
Net income	\$5,239	\$4,902	\$3,670	\$1,549	\$809
Preferred stock dividends & accretion of discount	332	779	618	567	—
Net income available to common stockholders	\$4,907	\$4,123	\$3,052	\$982	\$809

Per Share Data	2012	2011	2010	2009	2008
Basic earnings	\$1.81	\$1.54	\$1.16	\$0.38	\$0.31
Diluted earnings	1.79	1.53	1.16	0.38	0.31
Cash dividends	0.20	0.12	0.12	0.23	0.46
Book value	16.08	14.14	12.55	11.88	11.53
Weighted average Common shares outstanding — basic	2,710,819	2,674,716	2,635,549	2,606,596	2,602,902

Financial Condition	2012	2011	2010	2009	2008
Total assets	\$639,568	\$607,099	\$602,332	\$634,248	\$533,447
Loans and leases, gross	396,498	403,684	396,171	359,427	336,454
Allowance for credit losses	6,838	6,164	5,884	5,477	4,586
Deposits	530,424	497,545	492,746	507,347	408,470
Borrowings	46,864	53,647	60,230	79,450	90,123
Stockholders' equity	56,705	51,056	45,208	42,876	30,058

Selected Ratios	2012	2011	2010	2009	2008
Return on average stockholders' equity	9.61%	10.01%	8.03%	3.76%	2.51%
Return on average assets	0.84	0.80	0.59	0.26	0.15
Average equity to average assets	8.98	7.99	7.40	6.87	5.98
Loans to deposits	74.75	81.14	80.40	70.84	82.37
Dividend payout ratio	11.17	7.84	10.37	59.68	146.56

At or for the year ended December 31 (Dollars in thousands, except share data)

DNB Financial Corporation shares are traded on the Nasdaq Capital Market under the symbol: DNB



Board of Directors **DNB Financial Corporation**

Standing, left to right:

Thomas A. Fillippo, Director; President, Devault Foods
 Gerard F. Griesser, Director; Principal, Prudential Fox & Roach/Trident
 William J. Hieb, Director; President, Chief Risk & Credit Officer
 James J. Koegel, Director; President, Jones Motor Group, Inc.

Sitting, left to right:

James H. Thornton, Director; President, Thornton Consulting
 William S. Latoff, Chairman and Chief Executive Officer
 Mildred C. Joyner, Director; President of the Council on Social
 Work Education



Advisory Board Members **DNB Financial Corporation**

Top row, left to right:

Eli Silberman, Board Chair; President, TSG, Inc.
 Peter R. Barsz, CPA, Partner, Merves, Amon & Barsz, LLC
 Joseph E. Brion, Esq., Partner, Buckley, Brion, McGuire, Morris & Sommer LLP
 Jeffrey P. Brown, President, General InsurCorp, Inc.
 Joseph J. DellaVecchia, III, President, DellaVecchia, Reilly, Smith & Boyd Funeral Home
 Vincent T. Donohue, Esq., Shareholder, Lamb McErlane PC
 Charles A. Hackett, CPA, President, Bliss & Co., Ltd.
 Rosaria Hawkins, PhD, President, Take Charge Consultants, Inc.

Bottom row, left to right:

Matthew D. Kelly, Partner, Carnegie Wealth Management
 James A. Mellon, Jr., President, Mellon Certified Restoration
 A. Joseph Rubino, President, KSL Corporation
 Charles E. Swope, Jr., Swope Lees Commercial Real Estate, LLC
 Cuyler H. Walker, Esq., Partner, Pepper Hamilton, LLP
 Joan Walsh, Co-Owner, Kashbox Consulting
 Greg R. Weisenstein, Ed.D., President, West Chester University
 George C. Zumbano, Esq., Shareholder, Gawthorp Greenwood, PC



Executive Management Team and Officers

Left to right:

Frank S. Monterosso, Senior Vice President, Director of Operations
Gerald F. Sopp, Executive Vice President, Chief Financial Officer &
Corporate Secretary
Catherine H. Hall, Senior Vice President, Director of Marketing
Christopher M. Breslin, Director of Retail Services

William S. Latoff, Chairman and Chief Executive Officer
Richard C. Weber, Managing Director of Wealth Management
William J. Hieb, President and Chief Risk & Credit Officer
Albert J. Melfi, Jr., Executive Vice President, Chief Lending Officer
Bruce E. Moroney, Executive Vice President, Chief Accounting Officer

Building Employment Opportunities for All



“From what we get, we can make a living; what we give, however, makes a life.”

~ Arthur Ashe

“We are very grateful for the long and rewarding relationship we’ve had with DNB First. They manage our Foundation’s assets and are a generous sponsor of our annual fundraising event, which we greatly appreciate, especially in these challenging economic times. The money we raise helps us provide services to people who have no governmental funding. It’s also allowed us to extend our programs to serve those with other disabilities, including mental illness. In addition to providing employment opportunities, we also offer retirement programs and independent housing solutions. To understand fully what we do, you have to come in for a tour. You’ll see workers who are not only happy to be at work, but also having a good time.”
Amy Rice, Executive Director, Handi-Crafters (left) Robert Spatola, Trustee (right)

At DNB First, we have always strived to not only serve our customers, but also to serve a greater good by helping advance the missions of the non-profit organizations that work to help make life better for all of us. To build employment opportunities, we were pleased to support Handi-Crafters, one of the largest employment and support service programs in southeast Pennsylvania. Through meaningful work, independent living, and retirement opportunities, Handi-Crafters empowers individuals with disabilities to realize their true potential and experience personal fulfillment.

In addition to providing financial contributions and participating in fundraising and community events, DNB First Wealth Management has been managing the Foundation endowment funds since 2006. Matt Kelly, Chairman of the Foundation, also recently joined the DNB First Advisory Board.

“DNB First understands how important employment is to helping those with differences live successful and independent lives and is proud to support the work of Handi-Crafters, which helps remove the barriers to employment,” said William S. Latoff, DNB First Chairman and CEO.



DNB First Branch locations

Boothwyn

3915 Chichester Avenue
Boothwyn, PA 19061

Caln

1835 East Lincoln Highway
Coatesville, PA 19320

Chadds Ford

300 Oakland Road
West Chester, PA 19382

Downingtown/East End

701 East Lancaster Avenue
Downingtown, PA 19335

Downingtown/Main

4 Brandywine Avenue
Downingtown, PA 19335

Exton

410 Exton Square Parkway
Exton, PA 19341

Kennett Square

215 East Cypress Street
Kennett Square, PA 19348

Lionville

891 North Pottstown Pike
Exton, PA 19341

Little Washington

104 Culbertson Run Road
Downingtown, PA 19335

Ludwig's Corner

1030 North Pottstown Pike
Chester Springs, PA 19425

Media

323 West State Street
Media, PA 19063

West Chester

2 North Church Street
West Chester, PA 19380

West Goshen

1115 West Chester Pike
West Chester, PA 19380



DNB First ■ 4 Brandywine Avenue ■ Downingtown, PA 19335