



**FIRST** to support our  
customers and communities

DNB Financial Corporation  
**2014** Annual Report



## **First** then. **First** now.

*As the oldest national bank in the Greater Philadelphia area, DNB First was first to come forward to help local people, families, and businesses reach their financial goals.*

*Though a lot has changed since our founding in 1860, our tradition of making our customers and communities a priority has continued through the years. We are proud to invest in technology, products, and services that respond to the ever-changing needs of our customers. We are pleased to deliver solid returns for the shareholders who put their trust in us, and to support the local community organizations that have come to rely on us to help carry out their missions. And, with our strong and prudent financial management, we are confident we will continue to be here to serve those who depend on us for many years to come.*

*Whether you are a customer, employee, shareholder, or member of the community, your place with DNB First will remain exactly where it began – first.*



## Dear Valued Shareholders, Customers, and Employees:

We are proud to present our 2014 Annual Report, a year in which our ability to deliver a first-class banking experience to a broader and increasingly diversified range of customers supported strong financial performance and built value for our shareholders. Our financial performance in 2014 reflected the transformative initiatives now in place to drive revenue, productivity, and growth throughout DNB Financial Corporation.

Net income available to common shareholders was \$4.67 million or \$1.66 per diluted common share in 2014, up 24% from \$3.77 million or \$1.36 per diluted common share in 2013. Our increased profitability reflected revenue growth, the positive impact of asset quality initiatives in 2013, and disciplined credit and underwriting that drove a 55% year-over-year reduction in the Company's provision for loan losses.

Our earnings demonstrated growth in net interest income, as a result of increased lending and reduced interest expense. Growth in total non-interest income included accelerating income from an expanded range of services, and accelerating fee income from DNB Investment Management as wealth management assets under care rose to a record level in 2014.

Total loans and leases before the allowance for credit losses, which included a balanced mix of commercial loans and growing retail lending, increased 9.69% to \$455.60 million at year-end 2014 from \$415.35 million at year-end 2013. Our growing loan portfolio was the key component in building total assets, which were a Company record \$723.33 million, up 9.4% compared to year-end 2013. We protected our gains with diligent management of asset quality, credit and underwriting. Asset quality measurements at December 31, 2014 were a result of ongoing balance sheet stability and diligent risk management as assets have grown.

Strong deposit growth was the result of successful relationship building that captured a greater share of our clients' banking business. Total deposits increased to \$605.08 million at December 31, 2014, up 8.29% from \$558.75 million at December 31, 2013. Importantly, our



Company added \$54.83 million to core deposits in 2014, reflecting more business banking deposits, which increased 11.84% to \$518.04 million compared with \$463.21 million. The increase in core deposits and attractively priced FHLB borrowings contributed to a cost of funds of 38 basis points for the year ended December 31, 2014.

We are pleased to report that on several fronts, our growth translated into increased value for our shareholders. Total stockholders' equity increased to \$63.91 million at December 31, 2014, up from \$58.58 million at December 31, 2013. Tangible book value per common share rose to \$18.27 at December 31, 2014 compared with \$16.47 at December 31, 2013, and the value of our stock increased from \$20.75 at December 31, 2013 to \$21.60 at December 31, 2014.

We are excited about the prospects for continued growth in 2015 and the opportunity to continue building a franchise that delivers results for all stakeholders. Although the competition for quality business will remain intense, we have set the stage for delivering first-in-class results. We expect no less from DNB, and our commitment to customers, shareholders and the community, as we have for the past 154 years.

A handwritten signature in black ink, appearing to read 'William S. Latoff'. The signature is stylized and written over a white background.

William S. Latoff,  
Chairman and CEO

# Continuing a tradition of putting people **First.**

*First. It means “coming before others in order” or “foremost in position, rank, or importance.” At DNB First, it has always meant putting the needs of the individuals and businesses that rely on us foremost.*

In 2014, we continued this tradition of making our customers a priority in a variety of ways – from helping students build their financial futures, to fueling the growth of small businesses, to providing the technology all our customers need to manage their finances easily, securely, and conveniently.

## **Lending a hand and opening doors.**

Credit has always been a valuable tool to help people achieve their financial dreams. At DNB First, we continued our tradition of providing a range of affordable credit solutions, including home equity borrowing. Our competitive rates on home equity lines and loans, knowledgeable and helpful staff, and convenient application process helped individuals more easily finance home improvements, consolidate higher-interest debt, and finance college expenses. The attractiveness of our



rates, coupled with our extensive marketing initiatives and sales campaigns, contributed to a 20% annual increase in consumer loan sales.

We also continued to leverage our significant commitment to providing

mortgages to help make home ownership possible and stabilize local communities. Our investment in online advertising and online mortgage applications made it easy for prospective homeowners to access product offerings and information.

## **Investing in technology.**

Our commitment to technology and delivering Internet-based financial solutions allowed all our customers to bank when, where and how they want, monitor finances more easily, and eliminate trips to the bank. It also allowed us to extend our reach to prospects by utilizing electronic media, such as social marketing, email marketing, and online advertising. These efforts resulted in a significant increase in visits to our website. We also experienced solid growth in Online and Mobile Banking, which positions us well for meeting the needs of our customers in the future.



## **Helping students prepare for the future.**

DNB First has always believed that every member of our community should have access to the financial services they need to succeed. That's why, in 2014, we introduced DNB First Student Banking, a unique package of services that combines checking, savings, and convenience services with starter credit to help students begin to build their financial futures.

# Putting the needs of all businesses **First.**

*In recognition of the important role of all businesses, DNB First enhanced the services we provide to smaller firms. One initiative included the appointment of a dedicated Small Business Relationship Manager to help serve the needs of smaller, locally owned and operated businesses.*

DNB First recognizes that these businesses have very unique requirements when it comes to their financial management, including a need for fast and affordable credit. In response, we developed a small business line of credit and equipment loan.

DNB First was proud to continue our support of large, commercial businesses, which create jobs and support the local economy. Our experienced team of knowledgeable lenders are trusted advisors who can connect business owners to the resources they require to grow and manage financial challenges. By offering access to decision makers and rendering fast loan responses, we provide a competitive edge for our customers.

## **Investing in products and services.**

In 2014, we broadened the products and services we provide to help business owners manage their ever-changing business needs and challenges. For example, to alleviate business owners of time-consuming and sometimes complicated payroll responsibilities, we partnered with JetPay Payroll Services to offer a range of payroll solutions, including payroll processing, tax filing, 401(k) services, and more.

Through services such as Payroll, Merchant, Online and Mobile Banking, and Remote Deposit Capture, we are able to give business owners greater access to their most valued and limited resource – time.

## **Planting the seeds of business growth.**

DNB First has been helping generations of people and businesses realize their goals. It is something that the Matthews family of Chester Springs knows all about.



*DNB First was proud to be the first bank to provide financing to help the Matthews family, owners of Milky Way Farm, expand their business to open Chester Springs Creamery (pictured above).*

*“The decision to choose DNB First was so easy; I really like their philosophy. Everything is about character, trust, and building relationships. Al Melfi and his team have been a tremendous help - not only getting me the money I need, but also providing valuable business and personal advice. DNB First isn’t just my bank; they’re like family.”*

*Jalil Bami, Owner, Milanj Diamonds*



*“I’m just so comfortable banking with DNB First; they are true partners. They not only provided commercial mortgages to help me get my businesses to the next level, but also continue to provide the deposit and cash management services I need to maximize cash flow. They are always there for me when I need them. They are easy to work with, accommodating, and creative when they need to be. I could have gone anywhere, but chose to bank with DNB First. They can do everything a big bank can, but the big difference is that DNB First really knows me and I know them.”*

*James Sipala, President, DMS Realty, LP and JAS Automotive, LLC*

*“They were the first bank to give my grandfather a loan when our family got into the farming business in the 1930s. When we sought to expand into other businesses over the years, including robotic milking at the Chester Springs Creamery, the decision to choose DNB First was an easy one. They have helped three generations of our family – from my grandfather to my 13-year-old son. We have all our accounts with them. DNB First is the first place we turn when we need a bank.”*

*Carolyn Matthews Eaglehouse*



*"I have always believed that for a small business to succeed you need two things – an idea and a user-friendly bank. When I wanted to open our second location, DNB First exemplified the kind of relationship I needed from a bank. They took the time to understand my business model and did everything possible to find a financing stream for me."*

*Ty Blocker, Owner, Snap Fitness 24-7*



### **First to support Small Business Saturday.**

To encourage support of local businesses during the all-important retail holiday season, DNB First was proud to host a Small Business Saturday celebration. The event, held primarily at our West Chester branch, featured prize giveaways from local businesses, and an opportunity to support The Salvation Army's holiday tradition of raising funds for those in need.

## Providing wealth management solutions that put our clients **First.**

*One of the benefits of being a local and financially sound institution is that we are able to provide our clients and members of the community with access to a full range of services – right in their backyards.*

Through DNB First Wealth Management, our clients can access all the financial solutions available on Wall Street, but with personalized attention, accessibility, and assurance that can only come from a local provider they know and trust, delivered on Main Street.

In 2014, we enhanced our wealth management capabilities by leveraging our investments in people and technology. Our revenues and assets under care increased significantly in 2014, proving that our commitment to providing outstanding client service and sound investment management continue to resonate with both new and existing clients.



*Jim and Joan Aberts*

*"We moved to DNB Wealth Management after our bank went through another merger. We noticed a difference with DNB First immediately. The service they provide is fantastic. They listen to what we need and educate us on financial issues. Recently, we also got a home equity loan so our daughter could purchase a home. We can't believe how quickly they delivered the loan. Honestly, we could not ask for anything more. We have such a high level of trust in DNB First."*

# Putting the needs of our communities **First.**

*As the oldest national bank in the Greater Philadelphia region, DNB First was founded to not only help support the needs of individuals and businesses, but also to support local events and organizations that strengthen our communities.*

We were proud to give more than \$600,000 to a variety of local causes and programs as well as to non-profit organizations in Chester and Delaware Counties, including food pantries, education, youth sports organizations, and the arts.

## **Leaders in supporting businesses.**

Our commitment to making a difference in our communities would not be possible without the support of our employees. In 2014, the Pennsylvania Bankers Association honored our own Albert Melfi, Executive Vice President and Chief Lending Officer; and Thomas Cozza, Senior Vice President and Commercial Lender in Downingtown, for dedicating 40 years to helping local businesses grow and prosper.



*Our West Chester branch hosted Chester County's first-ever kettle kickoff to help bolster donations for The Salvation Army. Pictured from left to right: Vince Liuzzi, DNB First; Carolyn Comitta, Mayor of West Chester; and Lieutenant Maria Corraliza, The Salvation Army.*

## **Preserving our planet.**

In recognition of Earth Day and to increase awareness about the importance of preserving our planet's resources, we introduced the "Make a Green Statement" campaign, which included educational and promotional activities to promote energy conservation and sustainability. DNB First provided free energy-saving light bulbs, sponsored two community-based shredding/

recycling events, and promoted the benefits of electronic banking services. These efforts resulted in a 27% increase in e-Statement enrollment, as well as significant savings in statement processing costs.



## **Making homeownership possible.**

For more than a decade, DNB First has been proud to partner with Habitat for Humanity in Chester County to help low income families realize their dream of homeownership.

*"DNB First has been so attentive to our needs. Because they are local, they really care about our community. They not only provide financial support, but also help us with our banking."*

*Chip Huston, Executive Director/Chief Operating Officer, Habitat for Humanity of Chester County*



*Employees of DNB First joined together once again to support the March of Dimes walk in West Chester. Employees and their families came out to make strides in support of healthy babies.*

## DNB Financial Corporation — Selected Financial Data

<b>Results of Operations</b>	2014	2013	2012	2011	2010
Interest income	\$23,596	\$23,212	\$25,729	\$26,174	\$26,050
Interest expense	2,311	2,888	3,755	4,644	7,062
Net interest income	21,285	20,324	21,974	21,530	18,988
Provision for credit losses	1,130	2,530	1,455	1,480	2,216
Non-interest income	4,958	4,795	4,528	3,666	5,430
Non-interest expense	18,632	17,450	17,702	16,748	16,903
Income before income taxes	6,481	5,139	7,345	6,968	5,299
Income tax expense	1,677	1,220	2,106	2,066	1,629
Net income	4,804	3,919	5,239	4,902	3,670
Preferred stock dividends & accretion of discount	135	148	332	779	618
Net income available to common stockholders	\$4,669	\$3,771	\$4,907	\$4,123	\$3,052

<b>Per Share Data</b>	2014	2013	2012	2011	2010
Basic earnings	\$1.69	\$1.38	\$1.81	\$1.54	\$1.16
Diluted earnings	1.66	1.36	1.79	1.53	1.16
Cash dividends	0.28	0.28	0.20	0.12	0.12
Book value	18.32	16.55	16.08	14.14	12.55
Weighted average Common shares outstanding — basic	2,766,723	2,742,417	2,710,819	2,674,716	2,635,549

<b>Financial Condition</b>	2014	2013	2012	2011	2010
Total assets	\$723,330	\$661,473	\$639,568	\$607,099	\$602,332
Loans and leases, gross	455,603	415,354	396,498	403,684	396,171
Allowance for credit losses	4,906	4,623	6,838	6,164	5,884
Deposits	605,083	558,747	530,424	497,545	492,746
Borrowings	49,005	39,674	46,864	53,647	60,230
Stockholders' equity	63,908	58,583	56,705	51,056	45,208

<b>Selected Ratios</b>	2014	2013	2012	2011	2010
Return on average stockholders' equity	7.78%	6.75%	9.61%	10.01%	8.03%
Return on average assets	0.71	0.60	0.84	0.80	0.59
Average equity to average assets	9.12	8.87	8.75	7.99	7.40
Loans to deposits	75.30	74.34	74.75	81.14	80.40
Dividend payout ratio	16.87	20.65	11.17	7.84	10.37

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



## 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., Chairman, Buckley, Brion, McGuire & Morris LLP

Jeffrey P. Brown, Partner, KMRD Partners, Inc.

Joseph J. DellaVecchia, III, President, DellaVecchia, Reilly, Smith and Boyd Funeral Home

Vincent T. Donohue, Esq., Shareholder, Lamb McErlane PC

*Second row, left to right:*

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Rosaria Hawkins, PhD, President, Take Charge Consultants, Inc.

Matthew D. Kelly, Partner, Carnegie Wealth Management

James A. Mellon, Jr., President, Mellon Certified Restoration

Margarita Q. Mirkil, President, Coloma Consulting

A. Joseph Rubino, General Partner, Rubino Holdings LP

*Third row, left to right:*

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Cuyler H. Walker, Esq., President & CEO of Chantilly Development Corporation

Joan Walsh, Co-Owner, Kashbox Consulting

Greg R. Weisenstein, Ed.D., President, West Chester University

George C. Zumbano, Esq., Shareholder, Gawthrop Greenwood, PC

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Frank Hayes, Esq., Partner, Hayes & Romero

Suzanne R. Jackson, CPA, Owner, SR Jackson, LLC

Jerry L. Johnson, Esq., Attorney at Law

*Second row, left to right:*

Donald B. Lynn, Jr., Esq., Partner, Larmore Scarlett, LLP

Stacey Willits McConnell, Esq., Partner, Lamb McErlane, PC

John McKenna, Esq., Shareholder/Director, MacElree Harvey, Ltd.

Anthony Morris, Esq., Partner, Buckley, Brion, McGuire & Morris LLP

*Third row, left to right:*

Stephen J. Olsen, Esq., Gawthrop Greenwood, PC

Robert S. Supplee, Esq., Robert S. Supplee, PC

Richard C. Weber, Board Chair, Managing Director, DNB First Wealth Management

**Board of Directors** DNB Financial Corporation



*Seated, left to right:*

- James Biery, Director; (Retired) President, Pennsylvania Bankers Association; Commissioner, Pennsylvania Banking and Securities Commission
- William S. Latoff, Chairman and Chief Executive Officer
- William J. Hieb, Director; President and Chief Risk and Credit Officer

*Standing, left to right:*

- James J. Koegel, Director; President, Jones Motor Group, Inc.
- Gerard F. Griesser, Director; President, Fox & Roach/Trident
- James H. Thornton, Director; President, Thornton Consulting
- Thomas A. Fillippo, Director; President, Devault Foods
- Mildred C. Joyner, Director; President of the Council on Social Work Education

**Executive Management** Team and Officers



*Seated, left to right:*

- James F. Gagliano, Managing Director, Retail and Business Banking Services
- Catherine H. Hall, Senior Vice President, Director of Sales and Marketing
- Vince Liuzzi, Executive Vice President, Chief Banking Officer
- William S. Latoff, Chairman and Chief Executive Officer
- William J. Hieb, President and Chief Risk and Credit Officer
- Richard C. Weber, Senior Vice President, Managing Director of Wealth Management
- Albert J. Melfi, Jr., Executive Vice President, Chief Lending Officer

*Standing, left to right:*

- Bruce E. Moroney, Executive Vice President, Chief Accounting Officer
- Gerald F. Sopp, Executive Vice President, Chief Financial Officer and Corporate Secretary
- Frank S. Monterosso, Senior Vice President, Director of Operations

## **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**