2015 Annual Report

DNB Financial Corporation — Selected Financial Data

Results of Operations	2015	2014	2013	2012	2011
Interest income	$24,478	$23,596	$23,212	$25,729	$26,174
Interest expense	2,712	2,311	2,888	3,755	4,644
Net interest income	21,766	21,285	20,324	21,974	21,530
Provision for credit losses	1,105	1,130	2,530	1,455	1,480
Non-interest income	5,009	4,958	4,795	4,528	3,666
Non-interest expense	19,029	18,632	17,450	17,702	16,748
Income before income taxes	6,641	6,481	5,139	7,345	6,968
Income tax expense	1,503	1,677	1,220	2,106	2,066
Net income	5,138	4,804	3,919	5,239	4,902
Preferred stock dividends & accretion of discount	50	135	148	332	779
Net income available to common stockholders	5,088	$4,669	$3,771	$4,907	$4,123

Per Share Data	2015	2014	2013	2012	2011
Basic earnings	$1.82	$1.69	$1.38	$1.81	$1.54
Diluted earnings	1.79	1.66	1.36	1.79	1.53
Cash dividends	0.28	0.28	0.28	0.20	0.12
Book value	19.65	18.33	16.55	16.08	14.14
Weighted average Common shares outstanding — basic	2,801,881	2,766,723	2,742,417	2,710,819	2,674,716

Financial Condition	2015	2014	2013	2012	2011
Total assets	$748,818	$723,330	$661,473	$639,568	$607,099
Loans and leases, gross	481,758	455,603	415,354	396,498	403,684
Allowance for credit losses	4,935	4,906	4,623	6,838	6,164
Deposits	606,275	605,083	558,747	530,424	497,545
Borrowings	81,909	49,005	39,674	46,864	53,647
Stockholders' equity	55,488	63,908	58,583	56,705	51,056

Selected Ratios	2015	2014	2013	2012	2011
Return on average stockholders' equity	8.72%	7.78%	6.75%	9.61%	10.01%
Return on average assets	0.69	0.71	0.60	0.84	0.80
Average equity to average assets	7.95	9.12	8.87	8.75	7.99
Loans to deposits	79.46	75.30	74.34	74.75	81.14
Dividend payout ratio	15.67	16.87	20.65	11.17	7.84

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

Dear Valued Shareholders:

The year 2015 was a successful one for our Company as we demonstrated the ability to execute our strategic plan and drive shareholder value. While we achieved strong earnings, our accomplishment was bittersweet due to the unexpected loss of our leader, colleague, and friend, Chairman and Chief Executive Officer Bill Latoff, in early January 2016. One of Bill's attributes as an executive was to surround himself with talented and seasoned bankers, whose leadership abilities have established a foundation of outstanding culture and teamwork, which will benefit our shareholders, customers, and employees in 2016 and beyond. In tribute to Bill, it is with much sadness, but also with great resolve, that all of us renew our commitment to the Company's strategic vision and corporate values, as well as to the individuals, businesses, and communities that this institution has served for over 150 years.

As the new Chairman and the new CEO of DNB Financial Corporation, we recognize and respect the quality of our team. We have both served the Company for many years and are proud to lead our dedicated employees and outstanding management team with deep experience in the financial services industry.

The Company reached significant milestones in 2015. Our strategic plan to drive shareholder value focuses on: (1) providing high-quality banking products and services for our customers; (2) increasing productivity through prudent growth; (3) preserving credit discipline; (4) controlling overhead costs; and (5) expanding our fee income businesses. The sustained growth of our business lending remains a key initiative, given the need of small to mid-size companies in our region for relationship-based banking and financing. We are also determined to continue the expansion of our wealth management business. Despite an uneven economic environment in 2015, our wealth management assets under care increased 16.9% to $191.5 million as of December 31, 2015.

The Company continues to maintain strong capital ratios and, based on this strength, we redeemed all shares of Non-Cumulative Perpetual Preferred Stock ($1,000 per share) in 2015. These shares were issued to the U.S. Treasury Department in connection with the Small Business Lending Fund (SBLF) program. Our quarterly dividend of $0.07 per share, most recently paid in December 2015, represents 26 consecutive quarters of cash dividend payments. Tangible book value per share rose to $19.58 at December 31, 2015, from $18.26 as of December 31, 2014.

DNB reported strong earnings along with solid asset quality. Net income available to common stockholders was $5.1 million, or $1.79 per diluted share, for fiscal 2015 compared with $4.7 million, or $1.66 per diluted share, for fiscal 2014. Our 2015 earnings reflect the successful implementation of our business plan. Total loans increased 5.7% on a year-over-year basis, and the net interest margin remained fairly steady at 3.14% for fiscal 2015 despite the flattening yield curve. The Company's emphasis on relationship banking is reflected by the enviable core deposit ratio of 86%. Core deposits are prized due to their lower cost of funding and are generally less sensitive to withdrawal when interest rates fluctuate compared with certificate of deposits.

The Company's strong 2015 financial results are reflected in our stock performance. Our one-year appreciation was 36.6%, which far exceeded that for both the KBW Nasdaq Bank Index and the S&P 500 Index.

Although the level of market interest rates and a flattening yield curve have presented challenges, net income available to common stockholders rose in 2015 largely due to increases in net interest income and fee income, stable credit costs, and disciplined expense management. Net interest income, which represents the main source of revenue, was $21.8 million for fiscal 2015 compared with $21.3 million for fiscal 2014. The increase was largely due to loan growth, partially offset by some net interest margin pressure resulting from the low level of interest rates and the flattening yield curve. The Company's strategy has been to seek shorter duration over yield in its lending and investing activities and lengthen duration over rate in its financing activities to reduce interest rate risk.

We remain committed to maintaining a strong capital base in order to support our long-range business plan. The Company and the Bank exceeded all regulatory standards to be considered "well-capitalized." As of December 31, 2015, the Tier 1 leverage ratio was 8.9%, the Tier 1 to risk weighted assets ratio was 12.1%, and total risk-based capital ratio was 14.8%.

Asset Quality Summary

Strong asset quality is critical to our long-term financial success. Our commitment to maintaining prudent underwriting standards is evidenced by the recent trend of declining non-performing assets and lower net charge-offs. Non-performing assets as a percentage of total assets decreased to only 1.02% at December 31, 2015, from 1.07% at December 31, 2014. Net charge-offs were only 0.23% of total average loans for the twelve months ended December 31, 2015, and the allowance for credit losses as a percentage of total loans was 1.02% as of year-end 2015.

Outlook for Fiscal 2016

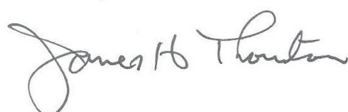
As we look forward to the new fiscal year, we are aware of the challenges that lie ahead for our Company. These include the possibility of a flatter yield curve, increased regulatory, accounting, and technology demands, and an uneven economic recovery across the United States, which is being impacted by the global economy. We have made, and will continue to make, investments in information technology to provide state-of-the-art customer delivery systems and to protect against the threat of cyber-attacks. We will do whatever it takes to ensure the security of our customers' personal information.

Our commitment to our customers and community was illustrated last June, when a fire caused significant damage to our West Chester branch and administrative offices. Employees across DNB immediately pitched in to help relocate team members displaced from their offices, restore documents and equipment recovered from the site, and provide guidance and assistance to customers. Within a short period of time, we established a temporary branch just across the street, enabling us to continue serving customers. As we look forward to opening our renovated branch in West Chester in the coming months, we wish to express our gratitude to the entire community for their support.

We are encouraged by our progress and accomplishments over the past few years and are focused on growth, balance sheet management and revenue enhancement for fiscal 2016. Our customer and community focus provides valuable benefits to everyone we serve and has resulted in deeper customer relationships. We continue to evaluate opportunities to acquire branches or banks that augment our market penetration and enhance long-term strategic value.

On behalf of our Board of Directors, management team, and employees, we thank you for your support. Your investment is important to us, and we appreciate your trust as we look forward to the exciting opportunities ahead of DNB.

Sincerely,



James H. Thornton
Chairman of the Board

William J. Hieb
President and Chief Executive Officer

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended

December 31, 2015

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______. Commission file Number 1-34242

(Exact Name of registrant as specified in its charter)

Pennsylvania	**23-2222567**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4 Brandywine Avenue, Downingtown, Pennsylvania	**19335**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(610) 269-1040**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, par value $1.00 per share	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ☐ Yes ☒ No

The aggregate market value of the shares of common stock of the Registrant issued and outstanding on June 30, 2015, which excludes 484,000 shares held by all directors, officers and affiliates of the Registrant as a group, was approximately $59.9 million. This figure is based on the closing price of $21.25 per share of the Registrant's common stock on June 30, 2015, the last business day of the Registrant's second fiscal quarter.

As of March 15, 2016, the Registrant had outstanding 2,844,973 shares of Common Stock, $1 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement relating to the 2016 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

DNB FINANCIAL CORPORATION

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DNB FINANCIAL CORPORATION
FORM 10-K

Forward-Looking Statements

DNB Financial Corporation (the "Corporation," "Registrant" or "DNB"), may from time to time make written or oral "forward-looking statements," including statements contained in DNB's filings with the Securities and Exchange Commission (including this Annual Report on Form 10-K and the exhibits hereto and thereto), in its reports to stockholders and in other communications by DNB, which are made in good faith by DNB pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended.

These forward-looking statements include statements with respect to the Corporation's beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions, that are subject to significant risks and uncertainties, and are subject to change based on various factors (some of which are beyond the Corporation's control). The words "may," "could," "should," "would," "will," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements. The following factors, among others, could cause the Corporation's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Corporation conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; inflation, interest rate, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Corporation and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services; the willingness of users to substitute competitors' products and services for the Corporation's products and services; the success of the Corporation in gaining regulatory approval of its products and services, when required; the impact of changes in laws and regulations applicable to financial institutions (including laws concerning taxes, banking, securities and insurance); technological changes; acquisitions or investment transactions; including the ability to consummate and integrate any such opportunities that are identified; changes in consumer spending and saving habits; the nature, extent, and timing of governmental actions and reforms, including the rules of participation for the Small Business Lending Fund (SBLF), the implementation of Basel III, which may be changed unilaterally and retroactively by legislative or regulatory actions; and the success of the Corporation at managing the risks involved in the foregoing.

The Corporation cautions that the foregoing list of important factors is not exclusive. Readers are also cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this Form 10-K, even if subsequently made available by the Corporation on its website or otherwise. The Corporation does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Corporation to reflect events or circumstances occurring after the date of this Form 10-K.

For a complete discussion of the assumptions, risks and uncertainties related to our business, you are encouraged to review our filings with the Securities and Exchange Commission, including this Form 10-K, as well as any changes in risk factors that we may identify in our quarterly or other reports filed with the SEC.

Part I

Item 1. Business

General Description of Registrant's Business and Its Development

DNB Financial Corporation (the "Registrant" or "DNB"), a Pennsylvania business corporation, is a bank holding company registered with and supervised by the Board of Governors of the Federal Reserve System (Federal Reserve Board). The Registrant was incorporated on October 28, 1982 and commenced operations on July 1, 1983 upon consummation of the acquisition of all of the outstanding stock of Downingtown National Bank, now known as DNB First, National Association (the "Bank"). Since commencing operations, DNB's business has consisted primarily of managing and supervising the Bank, and its principal source of income has been derived from the Bank. At December 31, 2015, DNB had total consolidated assets, total liabilities and stockholders' equity of $748.8 million, $693.3 million, and $55.5 million, respectively.

The Bank was organized in 1860. The Bank is a national banking association that is a member of the Federal Reserve System, the deposits of which are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is a full service commercial bank providing a wide range of services to individuals and small to medium sized businesses in the southeastern Pennsylvania market area, including accepting time, demand, and savings deposits and making secured and unsecured commercial, real estate and consumer loans. In addition, the Bank has twelve full service branches and a full-service wealth management group known as "DNB First Wealth Management". The Bank's financial subsidiary, DNB Financial Services, Inc., (also known as "DNB Investments & Insurance") is a Pennsylvania licensed insurance agency, which, through a third party marketing agreement with Cetera Investment Services, LLC, sells a broad variety of insurance and investment products. The Bank's other subsidiaries are Downco, Inc. and DN Acquisition Company, Inc. which were incorporated in December 1995 and December 2008, respectively, for the purpose of acquiring and holding Other Real Estate Owned acquired through foreclosure or deed in-lieu-of foreclosure, as well as Bank-occupied real estate.

The Bank's headquarters is located at 4 Brandywine Avenue, Downingtown, Pennsylvania. As of December 31, 2015, the Bank had total assets of $749.3 million, total deposits of $606.3 million and total stockholders' equity of $74.0 million. The Bank's business is not seasonal in nature. The FDIC, to the extent provided by law, insures its deposits. On December 31, 2015, the Bank had 118 full-time employees and 11 part-time employees.

The Bank derives its income principally from interest charged on loans and, to a lesser extent, interest earned on investments, fees received in connection with the origination of loans, wealth management and other services. The Bank's principal expenses are interest expense on deposits and borrowings and operating expenses. Funds for activities are provided principally by operating revenues, deposit growth and the repayment of outstanding loans and investments.

The Bank encounters vigorous competition from a number of sources, including other commercial banks, thrift institutions, other financial institutions and financial intermediaries. In addition to commercial banks, Federal and state savings and loan associations, savings banks, credit unions and industrial savings banks actively compete in the Bank's market area to provide a wide variety of banking services. Mortgage banking firms, real estate investment trusts, finance companies, insurance companies, leasing companies and brokerage companies, financial affiliates of industrial companies and certain government agencies provide additional competition for loans and for certain financial services. The Bank also competes for interest-bearing funds with a number of other financial intermediaries, which offer a diverse range of investment alternatives, including brokerage firms and mutual fund companies.

Supervision and Regulation — Registrant

Federal Banking Laws

The Registrant is subject to a number of complex Federal banking laws, most notably the provisions of the Bank Holding Company Act of 1956, as amended ("Bank Holding Company Act") and the Change in Bank Control Act of 1978 ("Change in Control Act"), and to supervision by the Federal Reserve Board.

Bank Holding Company Act — Financial Holding Companies

The Bank Holding Company Act requires a "company" (including the Registrant) to secure the prior approval of the Federal Reserve Board before it owns or controls, directly or indirectly, more than five percent (5%) of the voting shares or substantially all of the assets of any bank. It also prohibits acquisition by any "company" (including the Registrant) of more than five percent (5%) of the voting shares of, or interest in, or all or substantially all of the assets of, any bank located outside of the state in which a current bank subsidiary is located unless such acquisition is specifically authorized by laws of the state in which such bank is located. A "bank holding company" (including the Registrant) is prohibited from engaging in or acquiring direct or indirect control of more than five percent (5%) of the voting shares of any company engaged in non-banking activities unless the Federal Reserve Board, by order or regulation, has found such activities to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In making this determination, the Federal Reserve Board considers whether the performance of these activities by a bank holding company would offer benefits to the public that outweigh possible adverse effects. Applications under the Bank Holding Company Act and the Change in Control Act are subject to review, based upon the record of compliance of the applicant with the Community Reinvestment Act of 1977 ("CRA"). See further discussion below.

The Registrant is required to file an annual report with the Federal Reserve Board and any additional information that the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may also make examinations of the Registrant and any or all of its subsidiaries. Further, under Section 106 of the 1970 amendments to the Bank Holding Company Act and the Federal Reserve Board's regulations, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit or provision of credit or provision of any property or services. The so-called "anti-tie-in" provisions state generally that a bank may not extend credit, lease, sell property or furnish any service to a customer on the condition that the customer provide additional credit or service to the bank, to its bank holding company or to any other subsidiary of its bank holding company or on the condition that the customer not obtain other credit or service from a competitor of the bank, its bank holding company or any subsidiary of its bank holding company.

Permitted Non-Banking Activities. The Federal Reserve Board permits bank holding companies to engage in non-banking activities so closely related to banking or managing or controlling banks as to be a proper incident thereto. A number of activities are authorized by Federal Reserve Board regulation, while other activities require prior Federal Reserve Board approval. The types of permissible activities are subject to change by the Federal Reserve Board. Revisions to the Bank Holding Company Act contained in the Gramm-Leach Bliley Act of 1999 permit certain eligible bank holding companies to qualify as "financial holding companies" and thereupon engage in a wider variety of financial services such as securities and insurance activities, and subject such companies to increased competition from a wider variety of non-banking competitors as well as banks.

Gramm-Leach Bliley Act of 1999 ("GLB"). This law repealed certain restrictions on bank and securities firm affiliations, and allows bank holding companies to elect to be treated as a "financial holding company" that can engage in approved "financial activities," including insurance, securities underwriting and merchant banking. Banks without holding companies can engage in many of these financial activities through a "financial subsidiary." The law also mandates functional regulation of bank securities activities. Banks' exemption from broker-dealer regulation is limited to, for example, trust, safekeeping, custodian,

shareholder and employee benefit plans, sweep accounts, private placements (under certain conditions), self-directed IRAs, third party networking arrangements to offer brokerage services to bank customers, and the like. It also requires banks that advise mutual funds to register as investment advisers. The legislation provides for state regulation of insurance, subject to certain specified state preemption standards. It establishes which insurance products banks and bank subsidiaries may provide as principal or underwriter, and prohibits bank underwriting of title insurance, but also preempts state laws interfering with affiliations. GLB prohibits approval of new de novo thrift charter applications by commercial entities and limits sales of existing so-called "unitary" thrifts to commercial entities. The law bars banks, savings and loans, credit unions, securities firms and insurance companies, as well as other "financial institutions," from disclosing customer account numbers or access codes to unaffiliated third parties for telemarketing or other direct marketing purposes, and enables customers of financial institutions to "opt out" of having their personal financial information shared with unaffiliated third parties, subject to exceptions related to the processing of customer transactions and joint financial services marketing arrangements with third parties, as long as the institution discloses the activity to its customers and requires the third party to keep the information confidential. It requires policies on privacy and disclosure of information to be disclosed annually, requires federal regulators to adopt comprehensive regulations for ensuring the security and confidentiality of consumers' personal information, and allows state laws to give consumers greater privacy protections. The GLB has increased the competition the Bank faces from a wider variety of non-banking competitors as well as banks.

Change in Bank Control Act

Under the Change in Control Act, no person, acting directly or indirectly or through or in concert with one or more other persons, may acquire "control" of any Federally insured depository institution unless the appropriate Federal banking agency has been given 60 days prior written notice of the proposed acquisition and within that period has not issued a notice disapproving of the proposed acquisition or has issued written notice of its intent not to disapprove the action. The period for the agency's disapproval may be extended by the agency. Upon receiving such notice, the Federal agency is required to provide a copy to the appropriate state regulatory agency, if the institution of which control is to be acquired is state chartered, and the Federal agency is obligated to give due consideration to the views and recommendations of the state agency. Upon receiving a notice, the Federal agency is also required to conduct an investigation of each person involved in the proposed acquisition. Notice of such proposal is to be published and public comment solicited thereon. A proposal may be disapproved by the Federal agency if the proposal would have anticompetitive effects, if the proposal would jeopardize the financial stability of the institution to be acquired or prejudice the interests of its depositors, if the competence, experience or integrity of any acquiring person or proposed management personnel indicates that it would not be in the interest of depositors or the public to permit such person to control the institution, if any acquiring person fails to furnish the Federal agency with all information required by the agency, or if the Federal agency determines that the proposed transaction would result in an adverse effect on a deposit insurance fund. In addition, the Change in Control Act requires that, whenever any Federally insured depository institution makes a loan or loans secured, or to be secured, by 25% or more of the outstanding voting stock of a Federally insured depository institution, the president or chief executive officer of the lending bank must promptly report such fact to the appropriate Federal banking agency regulating the institution whose stock secures the loan or loans.

Participation in U.S. Treasury Small Business Lending Fund Program. On August 4, 2011, DNB entered into a Securities Purchase Agreement with the Secretary of the Treasury, pursuant to which DNB issued and sold to the Treasury 13,000 shares of its Non-Cumulative Perpetual Preferred Stock, Series 2011A ("Series 2011A Preferred Stock"), having a liquidation preference of $1,000 per share for aggregate proceeds of $13.0 million. The Securities Purchase Agreement was entered into, and the Series 2011A Preferred Stock was issued, pursuant to the Treasury's Small Business Lending Fund program ("SBLF"), a $30 billion fund established under the Small Business Jobs Act of 2010, that encourages

lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. The securities sold in this transaction were exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, as a transaction by DNB not involving a public offering. Of the $13.0 million in aggregate proceeds, $11,879,000 was used on August 4, 2011 to repurchase all shares issued and sold in 2009 to the United States Department of the Treasury in connection with the U. S. Treasury Capital Purchase Program ("CPP Shares") ($11,750,000 was paid in principal and $128,900 in dividends related to the CPP Shares) held by the Treasury as described above. As of December 31, 2015, DNB had redeemed all of the Series 2011A Preferred Stock issued to the U.S. Treasury.

Dodd-Frank Wall Street Reform and Consumer Protection Act. The federal government is considering a variety of reforms related to banking and the financial industry including, without limitation, the Dodd-Frank Act. The Dodd-Frank Act is intended to promote financial stability in the U.S., reduce the risk of bailouts and protect against abusive financial services practices by improving accountability and transparency in the financial system and ending "too big to fail" institutions. It is the broadest overhaul of the U.S. financial system since the Great Depression, and much of its impact will be determined by the scope and substance of many regulations that will need to be adopted by various regulatory agencies to implement its provisions. For these reasons, the overall impact on DNB and its subsidiaries is unknown at this time.

The Dodd-Frank Act delegates to various federal agencies the task of implementing its many provisions through regulation. Hundreds of new federal regulations, studies and reports addressing all of the major areas of the new law, including the regulation of banks and their holding companies, will be required, ensuring that federal rules and policies in this area will be further developing for months and years to come. Based on the provisions of the Dodd-Frank Act and anticipated implementing regulations, it is highly likely that banks and thrifts as well as their holding companies will be subject to significantly increased regulation and compliance obligations.

The Dodd-Frank Act could require us to make material expenditures, in particular personnel training costs and additional compliance expenses, or otherwise adversely affect our business or financial results. It could also require us to change certain of our business practices, adversely affect our ability to pursue business opportunities we might otherwise consider engaging in, cause business disruptions and/or have other impacts that are as-of-yet unknown to DNB and the Bank. Failure to comply with these laws or regulations, even if inadvertent, could result in negative publicity, fines or additional licensing expenses, any of which could have an adverse effect on our cash flow and results of operations. For example, a provision of the Dodd-Frank Act is intended to preclude bank holding companies from treating future trust preferred securities issuances as Tier 1 capital for regulatory capital adequacy purposes. This provision may narrow the number of possible capital raising opportunities DNB and other bank holding companies might have in the future. As another example, the new law establishes the Consumer Financial Protection Bureau, which has been given substantive rule-making authority under most of the consumer protection regulations affecting the Bank and its customers. The Bureau and new rules it will issue may materially affect the methods and costs of compliance by the Bank in connection with future consumer related transactions.

Pennsylvania Banking Laws

Under the Pennsylvania Banking Code of 1965, as amended ("PA Code"), the Registrant is permitted to control an unlimited number of banks, subject to prior approval of the Federal Reserve Board as more fully described above. The PA Code authorizes reciprocal interstate banking without any geographic limitation. Reciprocity between states exists when a foreign state's law authorizes Pennsylvania bank holding companies to acquire banks or bank holding companies located in that state on terms and conditions substantially no more restrictive than those applicable to such an acquisition by a bank holding company located in that state. Interstate ownership of banks in Pennsylvania with banks in Delaware, Maryland, New Jersey, Ohio, New York and other states is currently authorized. Some state laws still

restrict de novo formations of branches in other states, but restrictions on interstate de novo banking have been relaxed by the Dodd-Frank Act. Pennsylvania law also provides Pennsylvania state chartered institutions elective parity with the power of national banks, federal thrifts, and state-chartered institutions in other states as authorized by the Federal Deposit Insurance Corporation ("Competing Institutions"). In some cases, this may give state chartered institutions broader powers than national banks such as the Bank, and may increase competition the Bank faces from other banking institutions.

Supervision and Regulation — Bank

The operations of the Bank are subject to Federal and State statutes applicable to banks chartered under the banking laws of the United States, to members of the Federal Reserve System and to banks whose deposits are insured by the FDIC. Bank operations are also subject to regulations of the Office of the Comptroller of the Currency ("OCC"), the Federal Reserve Board and the FDIC.

The primary supervisory authority of the Bank is the OCC, who regularly examines the Bank. The OCC has the authority to prevent a national bank from engaging in an unsafe or unsound practice in conducting its business.

Federal and state banking laws and regulations govern, among other things, the scope of a bank's business, the investments a bank may make, the reserves against deposits a bank must maintain, loans a bank makes and collateral it takes, the activities of a bank with respect to mergers and consolidations and the establishment of branches. All nationally and state-chartered banks in Pennsylvania are permitted to maintain branch offices in any county of the state. National bank branches may be established only after approval by the OCC. It is the general policy of the OCC to approve applications to establish and operate domestic branches, including ATMs and other automated devices that take deposits, provided that approval would not violate applicable Federal or state laws regarding the establishment of such branches. The OCC reserves the right to deny an application or grant approval subject to conditions if (1) there are significant supervisory concerns with respect to the applicant or affiliated organizations, (2) in accordance with CRA, the applicant's record of helping meet the credit needs of its entire community, including low and moderate income neighborhoods, consistent with safe and sound operation, is less than satisfactory, or (3) any financial or other business arrangement, direct or indirect, involving the proposed branch or device and bank "insiders" (directors, officers, employees and 10% or greater shareholders) involves terms and conditions more favorable to the insiders than would be available in a comparable transaction with unrelated parties.

The Bank, as a subsidiary of a bank holding company, is subject to certain restrictions imposed by the Federal Reserve Act on any extensions of credit to the bank holding company or its subsidiaries, on investments in the stock or other securities of the bank holding company or its subsidiaries and on taking such stock or securities as collateral for loans. The Federal Reserve Act and Federal Reserve Board regulations also place certain limitations and reporting requirements on extensions of credit by a bank to principal shareholders of its parent holding company, among others, and to related interests of such principal shareholders. In addition, such legislation and regulations may affect the terms upon which any person becoming a principal shareholder of a holding company may obtain credit from banks with which the subsidiary bank maintains a correspondent relationship.

Capital Adequacy

Federal banking laws impose on banks certain minimum requirements for capital adequacy. Federal banking agencies have issued certain "risk-based capital" guidelines, and certain "leverage" requirements on member banks such as the Bank. Banking regulators have authority to require higher minimum capital ratios for an individual bank or bank holding company in view of its circumstances.

New Capital Rules. On July 2, 2013, the Federal Reserve approved final rules that substantially amended the regulatory risk-based capital rules applicable to the Corporation and the Bank. The FDIC and the OCC subsequently approved these rules. The final rules were adopted following the issuance of proposed rules by the Federal Reserve in June 2012, and implement the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act. "Basel III" refers to two consultative documents released by the Basel Committee on Banking Supervision in December 2009, the rules text released in December 2010, and loss absorbency rules issued in January 2011, which include significant changes to bank capital, leverage and liquidity requirements.

The rules include new risk-based capital and leverage ratios, which will be phased in from 2015 to 2019, and will refine the definition of what constitutes "capital" for purposes of calculating those ratios. The new minimum capital level requirements applicable to the Corporation and the Bank under the final rules are: (i) a new common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a "capital conservation buffer" above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The capital conservation buffer will be phased-in over four years beginning on January 1, 2016, as follows: the maximum buffer will be 0.625% of risk-weighted assets for 2016, 1.25% for 2017, 1.875% for 2018, and 2.5% for 2019 and thereafter. This will result in the following minimum ratios beginning in 2019: (i) a common equity Tier 1 capital ratio of 7.0%, (ii) a Tier 1 capital ratio of 8.5%, and (iii) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

The final rules implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that will no longer qualify as Tier 1 capital, some of which will be phased out over time. However, the final rules provide that small depository institution holding companies with less than $15 billion in total assets as of December 31, 2009 (which includes the Corporation) will be able to permanently include non-qualifying instruments that were issued and included in Tier 1 or Tier 2 capital prior to May 19, 2010 in additional Tier 1 or Tier 2 capital until they redeem such instruments or until the instruments mature.

The final rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including the Bank, if their capital levels begin to show signs of weakness. These revisions took effect January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions are required to meet the following increased capital level requirements in order to qualify as "well capitalized:" (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The final rules set forth certain changes for the calculation of risk-weighted assets, which have been required to utilize since January 1, 2015. The standardized approach final rule utilizes an increased number of credit risk exposure categories and risk weights, and also addresses: (i) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (ii) revisions to recognition of

credit risk mitigation; (iii) rules for risk weighting of equity exposures and past due loans; (iv) revised capital treatment for derivatives and repo-style transactions; and (v) disclosure requirements for top-tier banking organizations with $50 billion or more in total assets that are not subject to the "advance approach rules" that apply to banks with greater than $250 billion in consolidated assets. Based on our current capital composition and levels, we believe that we are in compliance with the requirements.

Minimum Capital Ratios. The risk-based guidelines require all banks to maintain two "risk-weighted assets" ratios. The first is a minimum ratio of total capital ("Tier 1" and "Tier 2" capital) to risk-weighted assets equal to 8.00%; the second is a minimum ratio of "Tier 1" capital to risk-weighted assets equal to 4.00%. Assets are assigned to five risk categories, with higher levels of capital being required for the categories perceived as representing greater risk. In making the calculation, certain intangible assets must be deducted from the capital base. The risk-based capital rules are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies and to minimize disincentives for holding liquid assets.

The risk-based capital rules also account for interest rate risk. Institutions with interest rate risk exposure above a normal level would be required to hold extra capital in proportion to that risk. A bank's exposure to declines in the economic value of its capital due to changes in interest rates is a factor that the banking agencies will consider in evaluating a bank's capital adequacy. The rule does not codify an explicit minimum capital charge for interest rate risk. The Bank currently monitors and manages its assets and liabilities for interest rate risk, and management believes that the interest rate risk rules which have been implemented and proposed will not materially adversely affect our operations.

The "leverage" ratio rules require banks which are rated the highest in the composite areas of capital, asset quality, management, earnings, liquidity and sensitivity to market risk to maintain a ratio of "Tier 1" capital to "adjusted total assets" (equal to the bank's average total assets as stated in its most recent quarterly Call Report filed with its primary federal banking regulator, minus end-of-quarter intangible assets that are deducted from Tier 1 capital) of not less than 3.00%. For banks which are not the most highly rated, the minimum "leverage" ratio will range from 4.00% to 5.00%, or higher at the discretion of the bank's primary federal regulator, and is required to be at a level commensurate with the nature of the level of risk of the bank's condition and activities.

For purposes of the capital requirements, "Tier 1" or "core" capital is defined to include common stockholders' equity and certain non-cumulative perpetual preferred stock and related surplus. "Tier 2" or "qualifying supplementary" capital is defined to include a bank's allowance for loan and lease losses up to 1.25% of risk-weighted assets, plus certain types of preferred stock and related surplus, certain "hybrid capital instruments" and certain term subordinated debt instruments.

Prompt Corrective Action. Federal banking law mandates certain "prompt corrective actions," which Federal banking agencies are required to take, and certain actions which they have discretion to take, based upon the capital category into which a Federally regulated depository institution falls. Regulations have been adopted by the Federal bank regulatory agencies setting forth detailed procedures and criteria for implementing prompt corrective action in the case of any institution that is not adequately capitalized. Under the rules, an institution will be deemed to be "adequately capitalized" or better if it exceeds the minimum Federal regulatory capital requirements. However, it will be deemed "undercapitalized" if it fails to meet the minimum capital requirements, "significantly undercapitalized" if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0%, or a leverage ratio that is less than 3.0%, and "critically undercapitalized" if the institution has a ratio of tangible equity to total assets that is equal to or less than 2.0%. The rules require an undercapitalized institution to file a written capital restoration plan, along with a performance guaranty by its holding company or a third party. In addition, an undercapitalized institution becomes subject to certain automatic restrictions including a prohibition on the payment of dividends, a limitation on asset growth and expansion, and in certain cases, a limitation on the payment of bonuses or raises to senior executive officers, and a prohibition on the

payment of certain "management fees" to any "controlling person". Institutions that are classified as undercapitalized are also subject to certain additional supervisory actions, including increased reporting burdens and regulatory monitoring, a limitation on the institution's ability to make acquisitions, open new branch offices, or engage in new lines of business, obligations to raise additional capital, restrictions on transactions with affiliates, and restrictions on interest rates paid by the institution on deposits. In certain cases, bank regulatory agencies may require replacement of senior executive officers or directors, or sale of the institution to a willing purchaser. If an institution is deemed to be "critically undercapitalized" and continues in that category for four quarters, the statute requires, with certain narrowly limited exceptions, that the institution be placed in receivership.

DNB's management believes that the Bank is "well capitalized" for regulatory capital purposes. Please see the table detailing the Bank's compliance with minimum capital ratios, in Note 16 ("Regulatory Matters") to DNB's audited financial statements in this Form 10-K.

Under the Federal Deposit Insurance Act, the OCC possesses the power to prohibit institutions regulated by it, such as the Bank, from engaging in any activity that would be an unsafe and unsound banking practice and in violation of the law. Moreover, Federal law enactments have expanded the circumstances under which officers or directors of a bank may be removed by the institution's Federal supervisory agency; unvested and further regulated lending by a bank to its executive officers, directors, principal shareholders or related interests thereof; and unvested management personnel of a bank from serving as directors or in other management positions with certain depository institutions whose assets exceed a specified amount or which have an office within a specified geographic area; and unvested management personnel from borrowing from another institution that has a correspondent relationship with their bank.

Interstate Banking. Federal law permits interstate bank mergers and acquisitions. Limited branch purchases are still subject to state laws. Pennsylvania law permits out-of-state banking institutions to establish branches in Pennsylvania with the approval of the Pennsylvania Department of Banking and Securities, provided the law of the state where the banking institution is located would permit a Pennsylvania banking institution to establish and maintain a branch in that state on substantially similar terms and conditions. It also permits Pennsylvania banking institutions to maintain branches in other states. The Dodd-Frank Act created a more permissive interstate branching regime by permitting banks to establish branches de novo in any state if a bank chartered by such state would have been permitted to establish the branch. Bank management anticipates that interstate banking will continue to increase competitive pressures in the Bank's market by permitting entry of additional competitors, but management is of the opinion that this will not have a material impact upon the anticipated results of operations of the Bank.

Bank Secrecy Act and OFAC. Under the Bank Secrecy Act ("BSA"), the Bank is required to report to the Internal Revenue Service, currency transactions of more than $10,000 or multiple transactions of which the Bank is aware in any one day that aggregate in excess of $10,000. Civil and criminal penalties are provided under the BSA for failure to file a required report, for failure to supply information required by the BSA or for filing a false or fraudulent report. The Department of the Treasury's Office of Foreign Asset Control ("OFAC") administers and enforces economic and trade sanctions against targeted foreign countries, terrorism-sponsoring jurisdictions and organizations, and international narcotics traffickers based on U.S. foreign policy and national security goals. OFAC acts under presidential wartime and national emergency powers and authority granted by specific legislation to impose controls on transactions and freeze foreign assets under U.S. jurisdiction. Acting under authority delegated from the Secretary of the Treasury, OFAC promulgates, develops, and administers the sanctions under its statutes and executive orders. OFAC requirements are separate and distinct from the BSA, but both OFAC requirements and the BSA share a common national security goal. Because institutions and regulators view compliance with OFAC sanctions as related to BSA compliance obligations, supervisory examination for OFAC compliance is typically connected to examination of an institution's BSA compliance. Examiners focus on a banking

organization's compliance processes and evaluate the sufficiency of a banking organization's implementation of policies, procedures and systems to ensure compliance with OFAC regulations.

USA PATRIOT Act. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (together with its implementing regulations, the "Patriot Act"), designed to deny terrorists and others the ability to obtain access to the United States financial system, has significant implications for banks and other financial institutions. It required DNB and its subsidiary to implement new policies and procedures or amend existing policies and procedures with respect to, anti-money laundering, compliance, suspicious activity and currency transaction reporting and due diligence on customers, as well as related matters. The Patriot Act permits and in some cases requires information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, and it requires federal banking agencies to evaluate the effectiveness of an institution in combating money laundering activities, both in ongoing examinations and in connection with applications for regulatory approval.

FDIC Insurance and Assessments. The Bank's deposits are insured to applicable limits by the FDIC. Under the Dodd-Frank Act, the maximum deposit insurance amount was permanently increased from $100,000 to $250,000.

The FDIC has adopted a risk-based premium system that provides for quarterly assessments based on an insured institution's ranking in one of four risk categories based on their examination ratings and capital ratios. Within its risk category, an institution is assigned an initial base assessment which is then adjusted to determine its final assessment rate based on its level of brokered deposits, secured liabilities and unsecured debt.

The Dodd-Frank Act required the FDIC to take such steps as necessary to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020. In setting the assessments, the FDIC is required to offset the effect of the higher reserve ratio against insured depository institutions with total consolidated assets of less than $10 billion. The Dodd-Frank Act also broadened the base for FDIC insurance assessments so that assessments will be based on the average consolidated total assets less average tangible equity capital of a financial institution rather than on its insured deposits. The FDIC has adopted a restoration plan to increase the reserve ratio to 1.15% by September 30, 2020 with additional rulemaking scheduled regarding the method to be used to achieve a 1.35% reserve ratio by that date and offset the effect on institutions with less than $10 billion in assets.

Pursuant to these requirements, the FDIC adopted new assessment regulations effective April 1, 2011 that redefined the assessment base as average consolidated assets less average tangible equity. Insured banks with more than $1.0 billion in assets must calculate quarterly average assets based on daily balances while smaller banks and newly chartered banks may use weekly averages. Average assets would be reduced by goodwill and other intangibles. Average tangible equity equals Tier 1 capital. For institutions with more than $1.0 billion in assets, average tangible equity is calculated on a weekly basis while smaller institutions may use the quarter-end balance. The base assessment rate for insured institutions in Risk Category I will range between 5 to 9 basis points and for institutions in Risk Categories II, III, and IV will be 14, 23 and 35 basis points. An institution's assessment rate will be reduced based on the amount of its outstanding unsecured long-term debt and for institutions in Risk Categories II, III and IV may be increased based on their brokered deposits.

In addition to deposit insurance assessments, banks are subject to assessments to pay the interest on Financing Corporation bonds. The Financing Corporation was created by Congress to issue bonds to finance the resolution of failed thrift institutions. The FDIC sets the Financing Corporation assessment rate every quarter. The current annual Financing Corporation assessment rate is 58 basis points on the deposit insurance assessment base, as defined above, which we anticipate will result in an aggregate estimated FICO assessment payment by the Bank of $39,000 in 2016.

Other Laws and Regulations. The Bank is subject to a variety of consumer protection laws, including the Truth in Lending Act, the Truth in Savings Act adopted as part of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the Electronic Funds Transfer Act, the Real Estate Settlement Procedures Act and the regulations adopted thereunder. In the aggregate, compliance with these consumer protection laws and regulations involves substantial expense and administrative time on the part of the Bank and DNB.

Legislation and Regulatory Changes. From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities and/or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, and before various bank regulatory agencies. No prediction can be made as to the likelihood of any major changes or the impact such changes might have on DNB and its subsidiary Bank.

Effect of Government Monetary Policies. The earnings of DNB are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States Government and its agencies (particularly the Federal Reserve Board). The monetary policies of the Federal Reserve Board have had and will likely continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The Federal Reserve Board has a major effect upon the levels of bank loans, investments and deposits through its open market operations in United States Government securities and through its regulation of, among other things, the discount rate on borrowing of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies.

All of DNB's revenues are attributable to customers located in the United States, and primarily from customers located in Southeastern Pennsylvania. All of Registrant's assets are located in the United States and in Southeastern Pennsylvania. Registrant has no activities in foreign countries and hence no risks attendant to foreign operations.

DNB files reports with the Securities and Exchange Commission ("SEC"). The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 450 fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC Internet site's address is http://www.sec.gov. DNB maintains a corporate website at www.dnbfirst.com. We will provide printed copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports at no charge upon written request. Requests should be made to DNB Financial Corporation, 4 Brandywine Avenue, Downingtown, PA 19335, Attention: Gerald F. Sopp, Chief Financial Officer.

Item 1A. Risk Factors

Not applicable.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The main office of the Bank, which the Bank owns, is located at 4 Brandywine Avenue, Downingtown, Pennsylvania 19335. DNB's registered office is also at this location, and DNB pays no rent or other form of

consideration for the use of the Bank's main office as its principal executive office. The Bank leases its operations centers located at 104 Brandywine Avenue, Downingtown, PA and 801 Springdale Drive, Exton, PA. The Bank had a net book value of $5.5 million for all branches owned plus leasehold improvements on offices leased at December 31, 2015. The Bank's DNB Investments & Insurance and DNB First Investment Management & Trust units, operating under the name, "DNB First Wealth Management," have offices adjacent to the Bank's Exton Office.

The bank has twelve branch offices located in Chester and Delaware Counties, Pennsylvania. In addition to the main office discussed above, they are:

Office	Office Location	Owned/Leased
Boothwyn	3915 Chichester Avenue, Boothwyn	Owned
Caln	1835 East Lincoln Highway, Coatesville	Owned
Chadds Ford	300 Oakland Road, West Chester	Leased
East End	701 East Lancaster Avenue, Downingtown	Owned
Exton	410 Exton Square Parkway, Exton	Leased
Kennett Square	215 East Cypress Street, Kennett Square	Owned
Lionville	891 Pottstown Pike, Exton	Owned
Little Washington	104 Culbertson Run Road, Downingtown	Owned
Ludwig's Corner	1030 North Pottstown Pike, Chester Springs	Owned
West Chester	124 West Market Street, West Chester	Leased
West Goshen	1115 West Chester Pike, West Chester	Leased

Item 3. Legal Proceedings

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Price of and Dividends on Registrant's Common Equity

DNB Financial Corporation's common stock, par value $1.00 per share, is listed for trading on Nasdaq's Capital Market under the symbol DNBF. Current price information is available from account executives at most brokerage firms as well as the firms listed at the back of this report who are market makers of DNB's common stock. There were approximately 900 shareholders who owned 2.8 million shares of common stock outstanding at March 15, 2016. Quarterly high and low sales prices are set forth in the following table:

	2015			2014		
	High	**Low**	**Dividend**	**High**	**Low**	**Dividend**
First quarter	**$28.67**	**$21.13**	**$0.07**	$20.48	$18.60	$0.07
Second quarter	**26.93**	**24.44**	**0.07**	22.75	19.33	0.07
Third quarter	**27.85**	**25.10**	**0.07**	21.93	20.63	0.07
Fourth quarter	**29.87**	**26.07**	**0.07**	22.07	20.93	0.07

The information required with respect to the frequency and amount of DNB's cash dividends declared on each class of its common equity for the two most recent fiscal years is set forth in the section of this report titled, "Item 6 — Selected Financial Data" on page 15, and incorporated herein by reference.

See also the discussion under "5. Certain Regulatory Matters" at page 42 of "Management's Discussion and Analysis of Results of Operations" for further information regarding limitations on our ability to pay dividends.

The information required with respect to securities authorized for issuance under DNB's equity compensation plans is set forth in "Item 12 — Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" on page 97, and incorporated herein by reference.

(b) Recent Sales of Unregistered Securities

None.

(c) Purchases of Equity Securities by DNB and Affiliated Purchasers

The following table provides information on repurchases by or on behalf of DNB or any "affiliated purchaser" (as defined in Regulation 10b-18(a)(3)) of its common stock in each month of the quarter ended December 31, 2015.

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2015 – October 31, 2015	—	$—	—	63,016
November 1, 2015 – November 30, 2015	—	—	—	63,016
December 1, 2015 – December 31, 2015	—	—	—	63,016
Total	**—**	**$—**	**—**	**63,016**

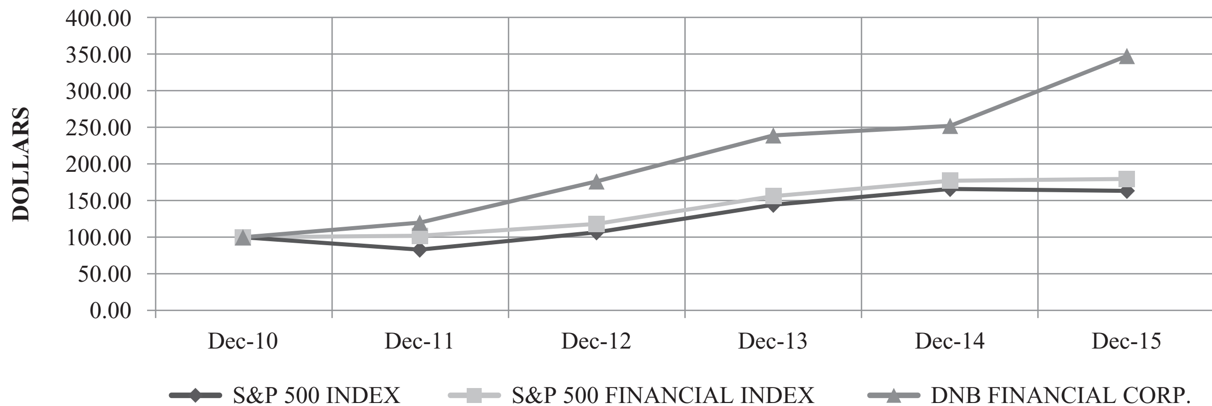
On July 25, 2001, DNB authorized the buyback of up to 175,000 shares of its common stock over an indefinite period. On August 27, 2004, DNB increased the buyback from 175,000 to 325,000 shares of its common stock over an indefinite period.

As more fully discussed beginning on page 6 in the "Supervision and Regulation" section of Item 1. "Business" of this Annual Report on Form 10-K, DNB's ability to repurchase its common stock was limited by the terms of the Securities Purchase Agreement between DNB and the U.S. Treasury regarding its participation in the Treasury's Small Business Lending Fund (SBLF). Under the SBLF, effective August 4, 2011, so long as any share of Series 2011A Preferred Stock remained outstanding, DNB was permitted to repurchase or redeem any shares of Capital Stock, only if, after giving effect to such dividend, repurchase or redemption, DNB's Tier 1 capital would be at least equal to the Tier 1 Dividend Threshold, as specified in the agreement and that the dividends on such stock have all been contemporaneously declared and paid. During 2015, DNB redeemed all remaining shares issued to the U.S. Treasury.

(d) Corporation Performance Graph

The following graph presents the 5 year cumulative total return on DNB Financial Corporation's common stock, compared to the S&P 500 Index and the S&P 500 Financial Index for the 5 year period ended December 31, 2015. The comparison assumes that $100 was invested in DNB's common stock and each of the foregoing indices and that all dividends have been reinvested.

CORPORATION PERFORMANCE
COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN
AMONG DNB FINANCIAL CORP., the S&P 500 INDEX and the S&P 500 FINANCIAL INDEX



Item 6. Selected Financial Data

The selected financial data set forth below is derived in part from, and should be read in conjunction with, the Consolidated Financial Statements and Notes thereto, contained elsewhere herein.

	At or For the Year Ended December 31 (Dollars in thousands, except share data)				
	2015	**2014**	**2013**	**2012**	**2011**
RESULTS OF OPERATIONS					
Interest income	**$ 24,478**	$ 23,596	$ 23,212	$ 25,729	$ 26,174
Interest expense	**2,712**	2,311	2,888	3,755	4,644
Net interest income	**21,766**	21,285	20,324	21,974	21,530
Provision for credit losses	**1,105**	1,130	2,530	1,455	1,480
Non-interest income	**5,009**	4,958	4,795	4,528	3,666
Non-interest expense	**19,029**	18,632	17,450	17,702	16,748
Income before income taxes	**6,641**	6,481	5,139	7,345	6,968
Income tax expense	**1,503**	1,677	1,220	2,106	2,066
Net income	**$ 5,138**	$ 4,804	$ 3,919	$ 5,239	$ 4,902
Preferred stock dividends & accretion of discount	**50**	135	148	332	779
Net income available to common stockholders	**$ 5,088**	$ 4,669	$ 3,771	$ 4,907	$ 4,123
PER SHARE DATA					
Basic earnings	**$ 1.82**	$ 1.69	$ 1.38	$ 1.81	$ 1.54
Diluted earnings	**1.79**	1.66	1.36	1.79	1.53
Cash dividends	**0.28**	0.28	0.28	0.20	0.12
Book value	**19.65**	18.33	16.55	16.08	14.14
Weighted average Common shares outstanding — basic	**2,801,881**	2,766,723	2,742,417	2,710,819	2,674,716
FINANCIAL CONDITION					
Total assets	**$ 748,818**	$ 723,330	$ 661,473	$ 639,568	$ 607,099
Loans, gross	**481,758**	455,603	415,354	396,498	403,684
Allowance for credit losses	**4,935**	4,906	4,623	6,838	6,164
Deposits	**606,275**	605,083	558,747	530,424	497,545
Borrowings	**81,909**	49,005	39,674	46,864	53,647
Stockholders' equity	**55,488**	63,908	58,583	56,705	51,056
SELECTED RATIOS					
Return on average stockholders' equity	**8.72%**	7.78%	6.75%	9.61%	10.01%
Return on average assets	**0.69**	0.71	0.60	0.84	0.80
Average equity to average assets	**7.95**	9.12	8.87	8.75	7.99
Loans to deposits	**79.46**	75.30	74.34	74.75	81.14
Dividend payout ratio	**15.67**	16.87	20.65	11.17	7.84

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

I. Introductory Overview

DNB is a bank holding company whose bank subsidiary the Bank is a nationally chartered commercial bank with trust powers, and a member of the FDIC. DNB provides a broad range of banking services to individual and corporate customers through its twelve community offices located throughout Chester and Delaware Counties, Pennsylvania. DNB is a community banking organization that focuses its lending and other services on businesses and consumers in the local market area. DNB funds all these activities with retail and business deposits and borrowings. Through its Wealth Management Group, the Bank provides wealth management and trust services to individuals, businesses and non-profit organizations. The Bank and its subsidiary, DNB Investments and Insurance, make available certain non-depository products and services, such as securities brokerage, mutual funds, life insurance and annuities.

DNB earns revenues and generates cash flows by lending funds to commercial and consumer customers in its marketplace. DNB generates its largest source of interest income through its lending function. A secondary source of interest income is DNB's investment portfolio, which provides liquidity and cash flows for future lending needs.

In addition to interest earned on loans and investments, DNB earns revenues from fees it charges customers for non-lending services. These services include wealth management and trust services; brokerage and investment services; cash management services; banking and ATM services; as well as safekeeping and other depository services.

To ensure we remain well positioned to meet the growing needs of our customers and communities and to meet the challenges of the 21st century, we've worked to build awareness of our full-service capabilities and ability to meet the needs of a wide range of customers. This served to not only retain our existing customer base, but to position ourselves as an attractive financial institution on which younger individuals and families can build their dreams. To that end, DNB continues to make appropriate investments in all areas of our business, including people, technology, facilities and marketing.

Highlights of DNB's results for the year-end December 31, 2015 include:

- Earnings increased $419,000 or 9.0% — Net income available to common shareholders for the year ending December 31, 2015 was $5.1 million, or $1.79 per diluted share, compared with $4.7 million or $1.66 per diluted share, for 2014.
- Strong loan growth and stable asset quality — Total loans grew $26.2 million or 5.7% to $481.8 million as of December 31, 2015, from $455.6 million as of December 31, 2014. Non-performing assets to total assets was 1.02% at December 31, 2015, compared to 1.07% at December 31, 2014.
- Continued focus on growing fee-based income — Wealth Management continued to record strong growth in total assets under care, which increased 16.9% to $191.5 million at December 31, 2015 compared with $163.8 million at December 31, 2014. This growth contributed to a $171,000 or 13.0% increase in Wealth Management fee income. In addition, mortgage banking revenue increased $79,000 or 85.9% to $171,000 in 2015.
- Full redemption of SBLF Preferred Shares — During 2015, DNB redeemed $13.0 million or 100% of the Series 2011A Preferred Stock which DNB had issued and sold to the Treasury. Capital ratios continue to exceed minimum regulatory standards for well capitalized institutions. At December 31, 2015, the Tier 1 leverage ratio was 8.94%, Tier 1 risk-based capital was 12.08%, and total risk based capital ratio was 14.79%. As of the same date, the tangible common equity-to-tangible assets ratio was 7.40%, and the common equity tier 1 capital ratio was 10.44%.

DNB is particularly exposed to downturns in the greater Philadelphia region as well as the global and U.S. economies. Starting in the 2007-2008 time period, a weak economy, coupled with declines in the housing market and elevated unemployment negatively impacted the credit performance of mortgage, construction and other loans and resulted in significant write-downs by many financial institutions across the U.S. In addition, the values of real estate collateral supporting many loans declined. While certain economic conditions in the U.S. have shown some improvement, economic growth has been slow and uneven as consumers continue to recover from previously high unemployment rates and lower housing valuations. In addition, high levels of U.S. government debt, as well as economic and political conditions in the global markets may impact DNB's borrowers negatively. Unfavorable general economic trends, reduced availability of commercial credit and sustained high unemployment coupled with a low participation rate, can negatively impact the credit performance of both consumer and commercial credits, resulting in increased write-downs. A worsening of these conditions, such as an economic slowdown or recession, would likely worsen the adverse effects of these difficult market conditions on DNB and other financial institutions. As a result of strong loan growth in 2015, as well as these negative trends in the economy, and their impact on our borrowers' ability to repay their loans, DNB made a $1,105,000 provision for credit losses in 2015, compared to a $1,130,000 provision in 2014.

In addition, DNB's net interest margin has been impacted by these changes in the economy. Management has been aggressive in managing DNB's cost of funds during the year by implementing carefully planned pricing strategies, designed to offset the decline in rates on earning assets, while matching liquidity needs. Our composite cost of funds for 2015 was 0.45%, compared to 0.45% in 2014. DNB's net interest margin decreased to 3.19% in 2015 from 3.36% in 2014.

Earnings. For the year ended December 31, 2015, DNB reported net income available to common shareholders of $5.1 million, an increase of $419,000 from $4.7 million reported for the year ended December 31, 2014, or $1.79 per share versus $1.66 per share, respectively, on a fully diluted basis. DNB's earnings were favorably impacted by higher net interest income, lower income tax expense, and a lower provision for credit losses. Although DNB reported an increase in earnings in 2015 over 2014, our operations and earnings are subject to the same negative economic conditions facing all financial institutions.

Asset Quality. Non-performing assets were $7.7 million at December 31, 2015 compared to $7.8 million at December 31, 2014. Non-performing assets as of December 31, 2015 were comprised of $4.6 million of non-accrual loans, $457,000 of loans delinquent over ninety days and still accruing, as well as $2.4 million of Other Real Estate Owned ("OREO") and $165,000 in other repossessed property. As of December 31, 2015, the non-performing loans to total loans ratio decreased to 1.06% compared to 1.50% at December 31, 2014. The non-performing assets to total assets ratio decreased to 1.02% at December 31, 2015, compared to 1.07% at December 31, 2014. The allowance for credit losses was $4.9 million at December 31, 2015, compared to $4.9 million at December 31, 2014. The allowance to total loans was 1.02% at December 31, 2015 compared to 1.08% at December 31, 2014. DNB's delinquency ratio (the total of all delinquent loans plus loans greater than 90 days and still accruing, divided by total loans) was 1.32% at December 31, 2015, down from 1.87% at December 31, 2014.

II. Overview of Financial Condition — Major Changes and Trends

At December 31, 2015, DNB had consolidated assets of $748.8 million and a Tier I/Leverage Capital Ratio of 8.94%. Loans comprise 66.3% of earning assets, while investments and overnight funds constitute the remainder. During 2015, assets increased $25.5 million to $748.8 million at December 31, 2015, compared to $723.3 million at December 31, 2014. During the same period, investment securities decreased $11.4 million to $220.2 million, while the loan portfolio increased $26.2 million, or 5.74%, to $481.8 million. Deposits increased $1.2 million to $606.3 million at December 31, 2015. DNB's liabilities are comprised of a high level of core deposits with a low cost of funds in addition to a moderate level of borrowings with costs that are more volatile than core deposits.

Comprehensive 5-Year Plan. During the third quarter of 2015, management updated the 5-year strategic plan that was designed to reposition its balance sheet and improve core earnings. Through the plan, management will endeavor to expand its loan portfolio through new originations, increased loan participations, as well as strategic loan and lease purchases. Management also plans to reduce the absolute level of borrowings with cash flows from existing loans and investments as well as from new deposit growth. A discussion on DNB's Key Strategies follows below:

- Focus on penetrating existing markets to maximize profitability;
- Grow loans and diversify the mix;
- Improve asset quality;
- Focus on profitable customer segments;
- Grow and diversify non-interest income, primarily wealth management and mortgage banking;
- Continue to grow core deposits to maintain low funding costs;
- Focus on cost containment and improving operational efficiencies; and
- Continue to engage employees to help them become more effective and successful.

Strategic Plan Update. During the year ended December 31, 2015, management focused on controlling our composite cost of funds as well as maintaining strong asset quality. The composite cost of funds for the year ended December 31, 2015 was 0.45% compared to 0.45% for 2014. As a major component, DNB's cost of interest bearing deposits declined from 0.27% in 2014 to 0.20% in 2015. This decrease was offset in large part, due to DNB's issuance of $9,750,000 of subordinated debt during the first quarter of 2015 at 4.25% per annum. DNB issued the subordinated debt to redeem 75% of the outstanding Series 2011A Perpetual Preferred Stock that had been issued to the United States Department of the Treasury in conjunction with DNB's participation in the Small Business Lending Fund program. DNB redeemed this Preferred Stock because the dividend yield was scheduled to increase from 1% per annum to 9% per annum in the first quarter of 2016. Total non-performing assets, including loans and other real estate property, were $7.7 million as of December 31, 2015 compared with $7.8 million for December 31, 2014. The ratio of non-performing assets to total assets was 1.02% and non-performing loans were 1.06% of total loans as of December 31, 2015. Positive trends were observed for the year ended December 31, 2015 from the sale of investments and insurance products through our third-party broker-dealer, Cetera Financial Services, Inc. and ongoing trust administration and direct management of investment assets for clients which increased fees 13.01% or $171,000 when compared to 2014. In addition, mortgage banking revenue increased $79,000 or 85.9% to $171,000 in 2015. Non-interest expense for the year ended December 31, 2015 increased slightly by 2.13% or $397,000, compared to 2014, reflecting management's disciplined expense controls.

DNB's most significant revenue source continues to be net interest income, defined as total interest income less total interest expense, which in 2015 accounted for approximately 81.3% of total revenue. To produce net interest income and consistent earnings growth over the long-term, DNB must generate loan and deposit growth at acceptable economic spreads within its market area. To generate and grow loans and deposits, DNB must focus on a number of areas including, but not limited to, the economy, branch expansion, sales practices, customer satisfaction and retention, competition, customer behavior, technology, product innovation and credit performance of its customers.

Management has made a concerted effort to improve the measurement and tracking of business lines and overall corporate performance levels. Improved information systems have increased DNB's ability to track key indicators and enhance corporate performance levels. Better measurement against goals and objectives and increased accountability will be integral in attaining desired loan, deposit and fee income production.

III. DNB's Principal Products and Services

Loans and Lending Services. DNB's primary source of earnings and cash flows is derived from its lending function. The commercial loan and lease portfolios amounted to $396.7 million or 82.3% of total loans as of December 31, 2015. DNB focuses on providing these products to small to mid-size businesses throughout Chester and Delaware Counties. In keeping with DNB's goal to match customer business initiatives with products designed to meet their needs, DNB offers a wide variety of fixed and variable rate loans that are priced competitively. DNB serves this market by providing funds for the purchase of business property or ventures, working capital lines, Small Business Administration loans, lease financing for equipment and for a variety of other purposes.

As a community bank, DNB also serves consumers by providing home equity and home mortgages, as well as term loans for the purchase of consumer goods. Residential mortgage and consumer loans increased $3.1 million in 2015 compared to 2014, primarily in the residential mortgage portfolio. In addition to providing funds to customers, DNB also provides a variety of services to its commercial customers. These services, such as cash management, remote capture, commercial sweep accounts, internet banking, letters of credit and other lending services are designed to meet our customer needs and help them become successful. DNB provides these services to assist its customers in obtaining financing, securing business opportunities, providing access to new resources and managing cash flows.

Deposit Products and Services. DNB's primary source of funds is derived from customer deposits, which are typically generated by DNB's twelve branch offices. DNB's deposit base, while highly concentrated in central Chester County, extends to southern Chester County and into parts of Delaware and Lancaster Counties. In addition, a growing amount of new deposits are being generated through expanded government service offerings and as a part of comprehensive loan or wealth management relationships. DNB also has access to wholesale brokered deposits which amounted to $18.5 million at December 31, 2015.

The majority of DNB's deposit mix consists of low costing core deposits, (demand, NOW and savings accounts). The remaining deposits are comprised of rate-sensitive money market and time products. DNB offers tiered savings and money market accounts, designed to attract high dollar, less volatile funds. Certificates of deposit and IRAs are traditionally offered with interest rates commensurate with their terms.

Non-Deposit Products and Services. DNB offers non-deposit products and services under the names "DNB Investments & Insurance" and "DNB First Investment Management & Trust." Revenues under these entities were $1.5 million and $1.3 million for 2015 and 2014, respectively.

DNB Investments & Insurance. Through a third party marketing agreement with Cetera Investment Services, LLC, DNB Investments & Insurance offers a complete line of investment and insurance products, which include the following:

- Fixed & Variable Annuities
- 401(k) Rollovers
- Self-Directed and Managed IRAs
- Mutual Funds
- Long Term Care Insurance
- Life Insurance
- Disability Insurance
- 401(k) plans
- Stocks
- Bonds
- Full Services Brokerage/Cash Management
- 529 College Savings Plans
- Separately Managed Investment Accounts (SMA)
- Self Employed Pension (SEP)

DNB First Investment Management & Trust. DNB First Investment Management & Trust offers a full line of investment and fiduciary services, which includes the following:

- Investment Management
- Estate Settlement
- Custody Services
- Corporate Trustee / Trust Administration
- Investment Advisory
- Client Bill Paying
- Financial Planning
- Power of Attorney and Guardian of the Estate Capacities

IV. Material Challenges, Risks and Opportunities

A. Interest Rate Risk Management.

Interest rate risk is the exposure to adverse changes in net interest income due to changes in interest rates. DNB considers interest rate risk a predominant risk in terms of its potential impact on earnings. Interest rate risk can occur for any one or more of the following reasons: (a) assets and liabilities may mature or re-price at different times; (b) short-term or long-term market rates may change by different amounts; or (c) the remaining maturity of various assets or liabilities may shorten or lengthen as interest rates change.

The principal objective of DNB's interest rate risk management is to evaluate the interest rate risk included in certain on and off balance sheet accounts, determine the level of risk appropriate given DNB's business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with approved guidelines. Through such management, DNB seeks to reduce the vulnerability of its operations to changes in interest rates. DNB's Asset Liability Committee (the "ALCO") is responsible for reviewing DNB's asset/liability policies and interest rate risk position and making decisions involving asset liability considerations. The ALCO meets on a monthly basis and reports trends and DNB's interest rate risk position to the Board of Directors on a quarterly basis. The extent of the movement of interest rates is an uncertainty that could have a negative impact on DNB's earnings. (See additional discussion in Item 7a. Quantitative and Qualitative Disclosures About Market Risk on page 44 of this Form 10-K.)

1. Net Interest Margin

DNB's net interest margin is the ratio of net interest income to average interest-earning assets. Unlike the interest rate spread, which measures the difference between the rates on earning assets and interest paying liabilities, the net interest margin measures that spread plus the effect of net free funding sources. This is a more meaningful measure of profitability because a bank can have a narrow spread but a high level of equity and non-interest-bearing deposits, resulting in a higher net interest margin. One of the most critical challenges DNB faced over the last several years was the impact of historically low interest rates and a narrower spread between short-term rates and long-term rates as noted in the following tables.

	December 31					
	2015	**2014**	**2013**	**2012**	**2011**	**2010**
Prime	**3.50%**	3.25%	3.25%	3.25%	3.25%	3.25%
Federal Funds Sold ("FFS")	**0.50**	0.25	0.25	0.25	0.25	0.25
6 month US Treasury	**0.48**	0.11	0.10	0.12	0.05	0.19

	Historical Yield Spread December 31					
	2015	**2014**	**2013**	**2012**	**2011**	**2010**
FFS to 5 year US Treasury	**1.21%**	1.64%	1.58%	0.70%	0.64%	1.68%
FFS to 10 year US Treasury	**1.75**	2.21	2.90	1.72	1.73	3.04

In general, financial institutions price their fixed rate loans off of 5 and 10 year treasuries and price their deposits off of shorter indices, like the Federal Funds Sold rate. As you can see in the table above, the spread between the Federal Funds Sold rate and the 5 year treasury has ranged from 1.68% to 0.64% during the last 6 years. The spread between the Federal Funds Sold rate and the 10 year treasury has ranged from 3.04% to 1.72% during the last 6 years. As a result of the compression between long and short term rates, many banks, including DNB, have seen their net interest margin fluctuate during the last 6 years.

The following table provides, for the periods indicated, information regarding: (i) DNB's average balance sheet; (ii) the total dollar amounts of interest income from interest-earning assets and the resulting average yields (tax-exempt yields have been adjusted to a tax equivalent basis using a 34% tax rate); (iii) the total dollar amounts of interest expense on interest-bearing liabilities and the resulting average costs; (iv) net interest income; (v) net interest rate spread; and (vi) net interest margin. Average balances were calculated based on daily balances. Non-accrual loan balances are included in total loans. Loan fees and costs are included in interest on total loans.

Average Balances, Rates, and Interest Income and Expense
(Dollars in thousands)

	Year Ended December 31								
	2015			2014			2013		
	Average Balance	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**	**Average Balance**	**Interest**	**Yield/ Rate**
ASSETS									
Interest-earning assets:									
Investment securities:									
Taxable	**$177,213**	**$ 2,955**	**1.67%**	$156,402	$ 2,850	1.82%	$155,725	$ 2,861	1.84%
Tax-exempt	**54,578**	**2,112**	**3.87**	41,934	1,685	4.02	43,495	1,657	3.81
Total securities	**231,791**	**5,067**	**2.19**	198,336	4,535	2.29	199,220	4,518	2.27
Cash and cash equivalents	**21,075**	**42**	**0.20**	21,247	42	0.20	34,379	70	0.20
Total loans	**465,944**	**20,348**	**4.37**	435,816	19,733	4.53	396,997	19,340	4.87
Total interest-earning assets	**718,810**	**25,457**	**3.54**	655,399	24,310	3.71	630,596	23,928	3.79
Non-interest-earning assets	**22,542**			21,457			23,440		
Total assets	**$741,352**			$676,856			$654,036		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing liabilities:									
Savings deposits	**$414,920**	**$ 590**	**0.14%**	$376,568	$ 541	0.14%	$362,985	$ 740	0.20%
Time deposits	**67,487**	**396**	**0.59**	81,546	697	0.85	95,356	1,071	1.12
Brokered deposits	**14,803**	**179**	**1.21**	5,590	53	0.95	—	—	—
Total interest-bearing deposits	**497,210**	**1,165**	**0.23**	463,704	1,291	0.28	458,341	1,811	0.40
Federal funds purchased	**204**	**1**	**0.51**	276	2	0.64	17	—	0.47
Repurchase agreements	**25,574**	**51**	**0.20**	19,531	39	0.20	20,590	45	0.22
Subordinated debt	**8,067**	**341**	**4.22**	—	—	—	—	—	—
FHLBP advances	**20,603**	**787**	**3.82**	10,986	613	5.58	12,356	653	5.29
Other interest bearing accounts	**9,765**	**367**	**3.76**	9,802	366	3.73	9,836	379	3.85
Total interest-bearing liabilities	**561,423**	**2,712**	**0.48**	504,299	2,311	0.46	501,140	2,888	0.58
Demand deposits	**115,901**			106,604			89,696		
Other liabilities	**5,115**			4,190			5,167		
Stockholders' equity	**58,913**			61,763			58,033		
Total liabilities and stockholders' equity	**$741,352**			$676,856			$654,036		
Net interest income		**$22,745**			$21,999			$21,040	
Interest rate spread			**3.09%**			3.25%			3.22%
Net interest margin			**3.16%**			3.36%			3.34%

2. Rate / Volume Analysis

During 2015, net interest income increased $746,000 or 3.39% on a tax equivalent basis. As shown in the following Rate/Volume Analysis table, $1.3 million favorable volume changes were offset by $603,000 unfavorable rate changes. The favorable change in net interest income due to volume changes is mostly attributable to increased average balances of loans of $30.1 million (affecting net interest income favorably by $1.3 million), increased average balances of investment securities of $33.5 million (favorable change $836,000), and decreased average balances of time deposits of $14.1 million (favorable change $82,000), offset by increased average balances of FHLBP advances of $9.6 million (unfavorable change $367,000) and increased average balances of subordinated debt of $8.1 million (unfavorable change $341,000). The unfavorable impact of decreased yields on interest-earning assets outweighed the favorable impact of decreased rates on interest-bearing liabilities, resulting in a $603,000 unfavorable difference. The unfavorable change due to rate earned on loans was $701,000 (an average rate earned of 4.37% in 2015, compared to 4.53% in 2014). The unfavorable change due to rate earned on investments was $304,000 (an

average rate earned of 2.19% in 2015, compared to 2.29% in 2014). These unfavorable changes due to decreased yields on loans and investments was partially offset by lower rates paid on FHLBP advances and time deposits. The favorable change due to rate on FHLBP advances was $193,000 (an average rate paid of 3.82% in 2015, compared to 5.58% in 2014). The favorable change due to rate on time deposits was $219,000 (an average rate paid of 0.59% in 2015, compared to 0.85% in 2014. DNB's composite cost of funds remained at 0.45% in 2015, compared to the same rate in 2014.

The following table sets forth, among other things, the extent to which changes in interest rates and changes in the average balances of interest-earning assets and interest-bearing liabilities have affected interest income and expense for the periods noted (tax-exempt yields have been adjusted to a tax equivalent basis using a 34% tax rate). For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to (i) changes in rate (change in rate multiplied by old volume) and (ii) changes in volume (change in volume multiplied by new rate). The net change attributable to the combined impact of rate and volume has been allocated proportionately to the change due to rate and the change due to volume.

Rate / Volume Analysis
(Dollars in thousands)

	2015 Versus 2014 Change Due To			2014 Versus 2013 Change Due To		
	Rate	**Volume**	**Total**	**Rate**	**Volume**	**Total**
Interest-earning assets:						
Loans	**$ (701)**	**$1,316**	**$ 615**	$(1,364)	$1,757	$ 393
Investment securities:						
Taxable	**(242)**	**347**	**105**	(23)	12	(11)
Tax-exempt	**(62)**	**489**	**427**	90	(62)	28
Cash and cash equivalents	**1**	**(1)**	**—**	(2)	(26)	(28)
Total	**(1,004)**	**2,151**	**1,147**	(1,299)	1,681	382
Interest-bearing liabilities:						
Savings deposits	**(5)**	**54**	**49**	(219)	20	(199)
Time deposits	**(219)**	**(82)**	**(301)**	(256)	(118)	(374)
Brokered deposits	**14**	**112**	**126**	—	53	53
Federal funds purchased	**—**	**(1)**	**(1)**	—	2	2
Repurchase agreements	**—**	**12**	**12**	(4)	(2)	(6)
Subordinated notes	**—**	**341**	**341**	—	—	—
FHLBP advances	**(193)**	**367**	**174**	36	(76)	(40)
Other borrowings	**2**	**(1)**	**1**	(12)	(1)	(13)
Total	**(401)**	**802**	**401**	(455)	(122)	(577)
Net interest income	**$ (603)**	**$1,349**	**$ 746**	$ (844)	$1,803	$ 959

3. Interest Rate Sensitivity Analysis

The largest component of DNB's total income is net interest income, and the majority of DNB's financial instruments are comprised of interest rate-sensitive assets and liabilities with various terms and maturities. The primary objective of management is to maximize net interest income while minimizing interest rate risk. Interest rate risk is derived from timing differences in the re-pricing of assets and liabilities, loan prepayments, deposit withdrawals, and differences in lending and funding rates. The Asset/ Liability Committee ("ALCO") actively seeks to monitor and control the mix of interest rate-sensitive assets and interest rate-sensitive liabilities.

ALCO continually evaluates interest rate risk management opportunities, including the use of derivative financial instruments. Management believes that hedging instruments currently available are not cost-effective, and therefore, has focused its efforts on increasing DNB's spread by attracting lower-costing retail deposits and in some instances, borrowing from the FHLB of Pittsburgh.

DNB reports its callable agency investments ($39.2 million at December 31, 2015) at their Option Adjusted Spread ("OAS") effective duration date, as opposed to the call or maturity date. In management's opinion, using effective duration dates on callable securities and advances provides a better estimate of the option exercise date under any interest rate environment. The OAS methodology is an approach whereby the likelihood of option exercise takes into account the coupon on the security, the distance to the call date, the maturity date and current interest rate volatility. In addition, prepayment assumptions derived from historical data have been applied to mortgage-related securities, which are included in investments. (See additional discussion in Item 7a. Quantitative and Qualitative Disclosures About Market Risk on page 44 of this Form 10-K.)

B. Liquidity and Market Risk Management

Liquidity is the ability to meet current and future financial obligations. The Bank further defines liquidity as the ability to respond to deposit outflows as well as maintain flexibility to take advantage of lending and investment opportunities. The Bank's primary sources of funds are operating earnings, deposits, repurchase agreements, principal and interest payments on loans, proceeds from loan sales, sales and maturities of mortgage backed and investment securities, and FHLBP advances. The Bank uses the funds generated to support its lending and investment activities as well as any other demands for liquidity such as deposit outflows. While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows, mortgage prepayments, loan and security sales and the exercise of call features are greatly influenced by general interest rates, economic conditions and competition.

The objective of DNB's asset/liability management function is to maintain consistent growth in net interest income within DNB's policy limits. This objective is accomplished through the management of liquidity and interest rate risk, as well as customer offerings of various loan and deposit products. DNB maintains adequate liquidity to meet daily funding requirements, anticipated deposit withdrawals, or asset opportunities in a timely manner. Liquidity is also necessary to meet obligations during unusual, extraordinary or adverse operating circumstances, while avoiding a significant loss or cost. DNB's foundation for liquidity is a stable deposit base as well as a marketable investment portfolio that provides cash flow through regular maturities or that can be used for collateral to secure funding in an emergency. As part of its liquidity management, DNB maintains assets, which comprise its primary liquidity (Federal funds sold, investments and interest-bearing cash balances, less pledged securities).

C. Credit Risk Management

DNB defines credit risk as the risk of default by a customer or counter-party. The objective of DNB's credit risk management strategy is to quantify and manage credit risk on an aggregate portfolio basis as well as to limit the risk of loss resulting from an individual customer default. Credit risk is managed through a combination of underwriting, documentation and collection standards. DNB's credit risk management strategy calls for regular credit examinations and quarterly management reviews of large credit exposures and credits experiencing credit quality deterioration. DNB's loan review procedures provide objective assessments of the quality of underwriting, documentation, risk grading and charge-off procedures, as well as an assessment of the allowance for credit loss reserve analysis process. As the U.S. economy moves through a period of recession, it is possible that delinquencies and non-performing assets may rise as the value of homes decline and DNB's borrowers experience financial difficulty due to corporate downsizing, reduced sales and income levels, or other negative events which will impact their ability to meet their contractual loan payments. To minimize the impact on DNB's earnings and maintain

sound credit quality, management continues to aggressively monitor credit and credit relationships that may be impacted by such adverse factors.

D. Competition

In addition to the challenges related to the interest rate environment, community banks in Chester and Delaware Counties have been experiencing increased competition from large regional and international banks entering DNB's marketplace through mergers and acquisitions. Competition for loans and deposits has negatively affected DNB's net interest margin. To compensate for the increased competition, DNB, along with other area community banks, has aggressively sought and marketed customers who have been disenfranchised by these mergers.

To attract these customers, DNB offers deposit products and services, such as Choice Checking with ATM surcharge rebates, Mobile Banking, Popmoney® and expanded bill payment functionality with CheckFree®. DNB also offers a complete package of cash management services including remote deposit, ARP services, JetPay Payroll Services®, ACH, government account services and more. In addition, our broad range of Business Checking products provides significant advantages to our customers when compared to those offered by our competitors.

V. Critical Accounting Policies and Estimates

The following discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. Generally accepted accounting principles are complex and require management to apply significant judgment to various accounting, reporting and disclosure matters. Management must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. Actual results may differ from these estimates under different assumptions or conditions.

In management's opinion, the most critical accounting policies and estimates impacting DNB's consolidated financial statements are in Note 1. These policies are critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. For a complete discussion of DNB's significant accounting policies, see the notes to the Consolidated Financial Statements and discussion throughout this Form 10-K.

VI. 2015 Financial Results

A. Liquidity

Management maintains liquidity to meet depositors' needs for funds, to satisfy or fund loan commitments, and for other operating purposes. DNB's foundation for liquidity is a stable and loyal customer deposit base, cash and cash equivalents, and a marketable investment portfolio that provides periodic cash flow through regular maturities and amortization, or that can be used as collateral to secure funding. Primary liquidity includes investments, Federal funds sold, and interest-bearing cash balances, less pledged securities. DNB also anticipates scheduled payments and prepayments on its loan and mortgage-backed securities portfolios. In addition, DNB maintains borrowing arrangements with various correspondent banks, the Federal Home Loan Bank of Pittsburgh and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. Through these relationships, DNB has available credit of approximately $303.2 million at December 31, 2015. Management believes that DNB has adequate resources to meet its short-term and long-term funding requirements.

As of December 31, 2015, deposits totaled $606.3 million, up $1.2 million from $605.1 million at December 31, 2014. There are $52.8 million in certificates of deposit (including IRAs) scheduled to mature

during 2016. Management believes that the majority of such deposits will be reinvested with DNB and that certificates that are not renewed will be funded by a reduction in cash and cash equivalents or by pay-downs and maturities of loans and investments. At December 31, 2015, DNB had $116.4 million in un-funded loan commitments. In addition, there were $3.2 million in un-funded letters of credit. Management anticipates the majority of these commitments will be funded by means of normal cash flows. Included in interest bearing time deposits are time and brokered deposits issued in amounts of $100,000 or more and their remaining maturities at December 31, 2015 were as follows:

(Dollars in thousands)

	December 31, 2015		
	Time Deposits	**Brokered Deposits**	**Total**
Three months or less	**$14,225**	**$ —**	**$14,225**
Over three through six months	**17,432**	**3,858**	**21,290**
Over six through twelve months	**2,602**	**—**	**2,602**
Over one year through two years	**4,359**	**5,420**	**9,779**
Over two years	**2,916**	**—**	**2,916**
Total	**$41,534**	**$9,278**	**$50,812**

The following table sets forth the composition of DNB's deposits at the dates indicated.

Deposits By Major Classification
(Dollars in thousands)

	December 31				
	2015	**2014**	**2013**	**2012**	**2011**
Non-interest-bearing deposits	**$125,581**	$102,107	$101,853	$ 85,055	$ 68,371
Interest-bearing deposits:					
NOW	**185,973**	205,816	170,427	161,844	171,321
Money market	**137,555**	143,483	130,835	122,953	107,368
Savings	**72,660**	66,634	60,090	58,256	45,250
Certificates	**55,180**	62,747	75,856	81,637	83,260
IRA	**10,838**	14,058	19,686	20,679	21,975
Brokered deposits	**18,488**	10,238	—	—	—
Total deposits	**$606,275**	$605,083	$558,747	$530,424	$497,545

For detailed information regarding the maturity of our time deposits and certificates of deposit, see Note 6 to our Consolidated Financial Statements beginning at page 72.

Capital Resources and Adequacy

Stockholders' equity was $55.5 million at December 31, 2015 compared to $63.9 million at December 31, 2014. The decrease in stockholders' equity was primarily a result of the redemption of $13.0 million of Preferred Stock issued to the U.S. Treasury in conjunction with DNB's participation in the Small Business Lending Fund Program, as well as $784,000 of dividends paid on DNB's common stock, a $386,000 net-of tax other comprehensive loss, and $50,000 of dividends paid on Series 2011A Preferred Stock. These decreases were partially offset by 2015 earnings of $5.1 million. We have modeled our ratios under the finalized Basel III rules and we do not expect that we will be required to raise additional capital as a result of these rules.

On August 4, 2011, DNB entered into a Securities Purchase Agreement with the Secretary of the Treasury, pursuant to which DNB issued and sold to the Treasury 13,000 shares of its Series 2011A

Preferred Stock, having a liquidation preference of $1,000 per share for aggregate proceeds of $13,000,000. The Securities Purchase Agreement was entered into, and the Series 2011A Preferred Stock was issued, pursuant to the Treasury's SBLF, a $30 billion fund established under the Small Business Jobs Act of 2010, that encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. Of the $13 million in aggregate proceeds, $11,879,000 was used to repurchase all CPP Shares ($11,750,000 was paid in principal and $128,900 in accrued, unpaid dividends related to the CPP Shares) previously held by the Treasury. The securities sold in this transaction were exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, as a transaction by DNB not involving a public offering.

On March 6, 2015, DNB redeemed 9,750 of the 13,000 shares of the Corporation's Series 2011A Preferred Stock that had been issued to the United States Department of the Treasury in connection with the Corporation's participation in the SBLF program. The shares were redeemed at their liquidation value of $1,000 per share plus accrued dividends for a total redemption price of $9,767,604. DNB redeemed the remaining 3,250 shares on December 31, 2015. The shares were redeemed at their liquidation value of $1,000 per share plus accrued dividends for a total redemption price of $3,258,125.

Management believes that DNB and the Bank have each met the definition of "well capitalized" for regulatory purposes on December 31, 2015. The Bank's capital category is determined for the purposes of applying the bank regulators' "prompt corrective action" regulations and for determining levels of deposit insurance assessments and may not constitute an accurate representation of DNB's or the Bank's overall financial condition or prospects. DNB's capital exceeds the Federal Reserve Bank's ("FRB's") minimum leverage ratio requirements for bank holding companies (see additional discussion in Regulatory Matters — Note 16 to DNB's Consolidated Financial Statements).

Under federal banking laws and regulations, DNB and the Bank are required to maintain minimum capital as determined by certain regulatory ratios. Capital adequacy for regulatory purposes, and the capital category assigned to an institution by its regulators, may be determinative of an institution's overall financial condition.

B. Results of Operations

1. Summary of Performance

(a) Summary of Results

For the year ended December 31, 2015, DNB reported net income available to common shareholders of $5.1 million, versus $4.7 million in 2014. Per share earnings on a fully diluted basis were $1.79, up from $1.66 in the prior year. Even though DNB's annual earnings have increased, there are many aspects of the economy and the Federal Reserve's monetary policy that hinder DNB's ability to grow revenues and net income. One of the most significant factors is that the global and U.S. economies have experienced reduced business activity as a result of disruptions in the financial system during the past seven years. The United States, Europe, China and many other countries across the globe are struggling with too much debt and weaker streams of revenues as a result of recessionary pressures, falling oil prices and high unemployment. Overall economic growth continues to be slow at a time when national and regional unemployment rates have improved, however participation rates remain at historically low levels. The risks associated with our business remain acute in periods of slow economic growth. Moreover, financial institutions continue to be affected by a sluggish real estate market. While we are continuing to take steps to decrease and limit our exposure to problem loans, we nonetheless retain direct exposure to the residential and commercial real estate markets, and we are affected by these events.

The January 13, 2016 Beige Book indicated that aggregate business activity in the Third District continued to grow at a modest pace. Overall, firms hired additional employees at a similarly slow, cautious pace; however, the Federal Reserve's service-sector contacts, especially from staffing firms, reported

stronger hiring rates. On balance, only slight increases were reported in wages and prices, including home prices. Firms tended to report less ambitious growth expectations than in prior periods — generally stating that the current modest trends would continue.

Overall, Third District homebuilders have appeared to sustain a moderate growth rate since the December 2, 2015 Beige Book. A nationwide firm reported strong increases in contract signings for its markets covering Third District states. Reports from smaller builders were mixed. Moreover, most builders reported that large backlogs and unseasonably warm weather had kept construction crews more active than usual. Builders did note that the time required to deliver a new house has lengthened, as labor shortages continued to hamper their ability to secure subcontracting services on a timely basis.

The Federal Reserve's nonresidential real estate contacts continued to report modest growth in construction and leasing activity. Contacts representing architects, engineers, and developers continued to report the strongest activity in Center City Philadelphia and other smaller urban cores. They attributed some of the increasing demand to employers choosing to relocate jobs to the urban cores to attract younger workers. The Federal Reserve's contacts remained optimistic for continued growth of both new construction and leasing activity through 2016.

Third District financial firms have continued to report moderate overall increases in total loan volumes since the December 2, 2015 Beige Book. Auto loans exhibited the greatest percentage gains during the period, while commercial and industrial (C&I) deals and commercial real estate activity continued to generate strong loan growth. Auto loans and C&I loans have been the strongest categories over the year as well. Mortgages, home equity loans, and other consumer loans have been flat to down over the period as well as over the year. The Federal Reserve's banking contacts continued to note a competitive lending environment, a greater demand for new mortgages than for refinances, and improving credit quality. The Federal Reserve's contacts remained optimistic for continued slow, steady growth in 2016.

Third District manufacturers reported that overall activity continued to decline slightly during the December 2, 2015 Beige Book period. New orders also declined further; however, shipments appeared to rebound a bit. Despite the general declines, firms reported slight overall increases in the number of employees and in the average employee workweek. Although the year end is typically slow for most industrial firms, activity appeared to be weak for most major industrial sectors even after adjusting for seasonal factors. Weak global demand coupled with the strong dollar are generally cited as major contributors to the current declines; some firms also continued to cite weak demand from customers that supply Pennsylvania's energy extraction sector. Expectations of growth during the next six months have remained positive but have significantly weakened since the December 2, 2015 Beige Book report, as have firms' plans for future capital expenditures and future employment. Substantial layoffs were recently announced for Delaware's pharmaceutical industry in advance of a proposed merger of two large firms and its subsequent spin-off into three smaller entities.

Although DNB's earnings have been impacted by the general economic conditions, the impact has not been as severe as it has been in many parts of the nation, largely due to a relatively healthier economic climate in the Third Federal Reserve District and specifically Chester County. DNB's franchise spans both Chester and Delaware counties in southeastern Pennsylvania. The majority of loans have been made to businesses and individuals in Chester County and the majority of deposits are from businesses and individuals within the County. According to census data, Chester County's population has grown at approximately 15%, compared to 13% for the nation and 3% for the Commonwealth of Pennsylvania. The median household income in Chester County is $85,373 and the County ranks 14th nationally in disposable income. The unemployment rate for Chester County stood at 3.6% as of September 2015, compared to a Pennsylvania unemployment rate of 5.3% and a national unemployment rate of 4.9%. Traditionally, the unemployment rate has been the lowest in the surrounding five-county area and it ranks among the lowest unemployment rates in the Commonwealth. Chester County has a civilian labor force of 266,900, with

manufacturing jobs representing 23.1% of the workforce and retail shopping comprising 13.8% of the total employment. During the last few years, the County has been able to keep most of its major employers; however some of them have downsized in order to remain competitive. Chester County is home to several Fortune 500 companies. Thirteen Chester County employers have 1,000 employees or more. Of these 13 companies, two companies have more than 5,000 employees.

These and other factors have impacted our operations. We continue to focus on the consistency and stability of core earnings and balance sheet strength which are critical success factors in today's challenging economic environment.

(b) Significant Events, Transactions and Economic Changes Affecting Results

Some of DNB's significant events during 2015 include:

- Total loans were $481.8 million at December 31, 2015, up $26.2 million or 5.7% from 2014. Gross loans funded during 2015 were $145.9 million, compared to $129.6 million in 2014. Paydowns on loans were $119.7 million, up 33.9% from $89.4 million in 2014. Commercial loans grew by $6.2 million or 5.3% to $122.5 million, commercial mortgage loans grew $16.8 million or 6.5%, consumer loans grew $486,000 or 0.9% to $56.4 million, and residential loans grew $2.7 million or 10.2% to $28.7 million.
- During 2015, DNB redeemed $13.0 million or 100% of the Series 2011A Preferred Stock which DNB had issued and sold to the Treasury. Capital ratios continue to exceed minimum regulatory standards for well capitalized institutions. At December 31, 2015, the Tier 1 leverage ratio was 8.94%, Tier 1 risk-based capital was 12.08%, and total risk based capital ratio was 14.79%. As of the same date, the tangible common equity-to-tangible assets ratio was 7.40%, and the common equity tier 1 capital ratio was 10.44%.
- Wealth management assets under care grew to $191.5 million at December 31, 2015, up from $163.8 million at December 31, 2014, as the Bank continued expanding its wealth management business.

(c) Trends and Uncertainties

Please refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations-Introductory Overview on page 16 of this Form 10-K.

(d) Material Changes in Results

Please refer to the discussion above in the section titled "Significant Events, Transactions and Economic Changes Affecting Results."

(e) Effect of Inflation and Changing Rates

For detailed discussion of the effects of inflation and changes in rates on DNB's results, refer to the following discussion on "Net Interest Income."

2. Net Interest Income

DNB's earnings performance is primarily dependent upon its level of net interest income, which is the excess of interest income over interest expense. Interest income includes interest earned on loans (net of interest reversals on non-performing loans), investments and Federal funds sold, as well as net loan fee amortization and dividend income. Interest expense includes the interest cost for deposits, FHLBP advances, repurchase agreements, corporate debentures, Federal funds purchased and other borrowings.

During the year ended December 31, 2015, management focused on growing the loan portfolio, controlling our composite cost of funds, increasing penetration of new and existing households, as well as maintaining strong asset quality. Total loans increased 5.7% on a year-over year basis, while our composite cost of funds for the year ended December 31, 2015 was 0.45%, the same as it was in 2014. Asset quality remained strong with non-performing loans dropping from 1.50% at the end of 2014, to 1.06% at the end of 2015. The net interest margin for the year ended December 31, 2015 was 3.19% compared to 3.36% in 2014. The decrease was caused by the higher volume of interest-bearing liabilities with no change to the composite cost of funds, combined with a lower yield on earning assets.

Interest on loans was $20.1 million for 2015, compared to $19.6 million for 2014. The average balance of loans was $465.9 million with an average tax equivalent yield of 4.37% in 2015, compared to $435.8 million with an average tax equivalent yield of 4.53% in 2014. Year-over-year results reflect the continuing low interest rate environment in combination with pay downs on higher yielding loans.

Interest and dividends on investment securities was $4.4 million for 2015, compared to $4.0 million for 2014. The average balance of investment securities was $231.8 million with an average tax equivalent yield of 2.19% in 2015 compared to $198.3 million with an average tax equivalent yield of 2.29% in 2014. Total investment securities decreased $11.4 million from December 31, 2014 to December 31, 2015, primarily due to $78.1 million in sales, principal pay-downs, calls and maturities, and a change in unrealized loss of $515,000, offset by $68.0 million in purchases. Interest and dividends increased $388,000, primarily due the higher average volume of the portfolio during the year.

Interest on deposits was $1.2 million for 2015 compared to $1.3 million for 2014. The average balance of interest-bearing deposits was $497.2 million with an average rate of 0.20% for 2015 compared to $463.7 million with an average rate of 0.27% for 2014. The decrease in rate was primarily attributable to a lower interest rate environment.

Interest on FHLBP advances was $787,000 for 2015 compared to $613,000 for 2014. The average balance on FHLBP advances was $20.6 million with an average rate of 3.82% for 2015 compared to $11.0 million with an average rate of 5.58% for 2014.

Interest on repurchase agreements was $51,000 for 2015 compared to $39,000 for 2014. The average balance on repurchase agreements was $25.6 million with an average rate of 0.20% for 2015 compared to $19.5 million with an average rate of 0.20% for 2014. The increase in interest expense was primarily the result of the higher volume of these accounts.

3. Provision for Credit Losses

To provide for known and inherent losses in the loan and lease portfolio, DNB maintains an allowance for credit losses. There was a $1,105,000 provision made in 2015 compared to $1,130,000 in 2014. For a detailed discussion on DNB's reserve methodology, refer to "Item 1 — Determination of the allowance for credit losses" which can be found under "Critical Accounting Policies and Estimates".

4. Non-Interest Income

Non-interest income includes service charges on deposit products; fees received in connection with the sale of non-depository products and services, including fiduciary and investment advisory services offered through DNB First Investment Management and Trust; non-depository securities brokerage products and services and insurance products and services offered through DNB Investments & Insurance; and other sources of income such as increases in the cash surrender value of Bank Owned Life Insurance ("BOLI"), net gains on sales of investment securities and loans. In addition, DNB receives fees for cash management, remote capture, merchant services, debit cards, safe deposit box rentals and similar activities.

Non-interest income was $5.01 million for 2015 compared to $4.96 million for 2014. The $51,000 increase was primarily due to increases of $484,000 in gain on sale of loans, $171,000 in Wealth

Management, $120,000 in gain from insurance proceeds associated with a fire at one of the Bank's locations, $79,000 in mortgage banking, and $79,000 in other fees. The increases were offset by decreases of $780,000 in gains on sale of investments, $95,000 in service charges on deposits, primarily non-sufficient fund fees, and $7,000 in income from BOLI policies.

5. Non-Interest Expense

Non-interest expense includes salaries & employee benefits, furniture & equipment, occupancy, professional & consulting fees as well as marketing, printing & supplies, FDIC insurance, PA shares tax, telecommunications, write-downs on other real estate owned ("OREO") and other repossessed property and other less significant expense items. Non-interest expenses increased during 2015 by $397,000 or 2.1% compared to 2014.

Salary and employee benefits. Salary and employee benefits were $10.6 million for 2015 compared to $10.0 million for 2014. The $553,000 increase was attributable to a higher level of full-time equivalent employees year over year, higher levels of restricted stock grants expense, as well as a higher level of incentive and commission based compensation paid to various revenue producers.

Occupancy. Occupancy expense was $1.9 million for 2015 compared to $2.1 million for 2014. The $200,000 decrease was mainly attributable to a decrease in office building rental expense for our West Chester branch and loan operations office due to the fire during the second quarter of 2015.

Other expenses. Other expenses remained relatively flat at $1.9 million for 2015 and 2014.

FDIC insurance. FDIC insurance expense was $497,000 in 2015 compared to $455,000 in 2014. The $42,000 increase was primarily due to an increase in assets which created a higher assessment in 2015 compared to 2014 (See "*FDIC Insurance and Assessments*" on page 10 of this Form 10-K).

Gain/loss on sale or write-down of OREO and other repossessed property. During 2015, DNB had $134,000 of net loss on the sale/write-downs of OREO properties compared to $7,000 of net loss on the sale/write-downs in 2014. At December 31, 2015, DNB held $2.6 million of such assets, compared to $901,000 at December 31, 2014.

6. Income Taxes

Income tax expense was $1.5 million and $1.7 million for the years ended December 31, 2015 and 2014, respectively. Income tax expense for each period primarily differs from the amount determined at the statutory rate of 34.0% due to tax-exempt income on loans and investment securities, DNB's ownership of BOLI policies and tax credits recognized on a low-income housing limited partnership. The effective tax rates for 2015 and 2014 were 22.6% and 25.9%, respectively. The lower effective tax rate in 2015 was primarily due to higher levels of tax-exempt income on loans and investment securities in 2015, relative to the amounts of such income in 2014.

Financial Condition Analysis

1. Investment Securities

DNB's investment portfolio consists of U.S. agency securities, mortgage-backed securities and collateralized mortgage obligations issued by U.S. Government agencies state and municipal securities, bank stocks, and other bonds and notes. In addition to generating revenue, DNB maintains the investment portfolio to manage interest rate risk, provide liquidity, provide collateral for borrowings and to diversify the credit risk of earning assets. The portfolio is structured to maximize DNB's net interest income given changes in the economic environment, liquidity position and balance sheet mix.

Given the nature of the portfolio, and its generally high credit quality, management normally expects to realize all of its investment upon the maturity of such instruments. Management determines the appropriate classification of securities at the time of purchase. Investment securities are classified as: (a) securities held to maturity ("HTM") based on management's intent and ability to hold them to maturity; (b) trading account ("TA") securities that are bought and held principally for the purpose of selling them in the near term; and (c) securities available for sale ("AFS"). DNB does not currently maintain a trading account portfolio.

Securities classified as AFS include securities that may be sold in response to changes in interest rates, changes in prepayment assumptions, the need to increase regulatory capital or other similar requirements. DNB does not necessarily intend to sell such securities, but has classified them as AFS to provide flexibility to respond to liquidity needs.

DNB's investment portfolio (HTM and AFS securities) totaled $220.2 million at December 31, 2015, down $11.4 million or 4.9% from $231.7 million at December 31, 2014. The $11.4 million decrease in investment securities was primarily due to $78.1 million in sales, principal pay-downs, calls and maturities, and a change in unrealized loss of $515,000, offset by $68.0 million in purchases.

At December 31, 2014, approximately 69% of DNB's investments were in the AFS portfolio and 31% were in the HTM portfolio. Investments consist mainly of mortgage-backed securities and Agency notes backed by government sponsored enterprises, such as FHLMC, FNMA and FHLB. Management regularly reviews its investment portfolio to determine whether any securities are other than temporarily impaired. DNB did not invest in securities backed by sub-prime mortgages. At December 31, 2015, the combined AFS and HTM portfolios had an unrealized pretax gain of $1.1 million and an unrealized pretax loss of $1.7 million. At December 31, 2014, the combined AFS and HTM portfolios had an unrealized pretax gain of $1.5 million and an unrealized pretax loss of $1.5 million. There were no other than temporarily impaired securities.

The following tables set forth information regarding the composition, stated maturity and average yield of DNB's investment security portfolio as of the dates indicated (tax-exempt yields have been adjusted to a tax equivalent basis using a 34% tax rate). The first two tables do not include amortization or anticipated prepayments on mortgage-backed securities. Callable securities are included at their stated maturity dates.

Investment Maturity Schedule, Including Weighted Average Yield
(Dollars in thousands)

	December 31, 2015						
Held to Maturity	**Less than 1 Year**	**1-5 Years**	**5-10 Years**	**Over 10 Years**	**No Stated Maturity**	**Total**	**Yield**
US Government agency obligations	$—	$ 7,973	$ —	$ —	$—	$ 7,973	3.08%
GSE mortgage-backed securities	—	—	2,759	—	—	2,759	2.86
Corporate bonds	—	3,519	7,999	—	—	11,518	4.42
Collateralized mortgage obligations GSE	—	—	—	2,623	—	2,623	2.17
State and municipal tax-exempt	—	8,185	18,112	16,659	—	42,956	3.87
Total	$—	$19,677	$28,870	$19,282	$—	$67,829	3.76%
Percent of portfolio	—%	29%	43%	28%	—%	100%	
Weighted average yield	—%	3.06%	3.88%	4.31%	—%	3.76%	

Available for Sale	Less than 1 Year	1-5 Years	5-10 Years	Over 10 Years	No Stated Maturity	Total	Yield
US Government agency obligations	**$ 9,988**	**$46,728**	**$ 1,492**	**$ —**	**$—**	**$ 58,208**	**1.13%**
GSE mortgage-backed securities	**—**	**—**	**34,111**	**6,240**	**—**	**40,351**	**1.46**
Collateralized mortgage obligations GSE	**—**	**—**	**—**	**15,806**	**—**	**15,806**	**1.64**
Corporate bonds	**2,020**	**16,537**	**2,014**	**—**	**—**	**20,571**	**1.83**
State and municipal tax-exempt	**6,660**	**—**	**3,578**	**7,205**	**—**	**17,443**	**2.85**
Total	**$18,668**	**$63,265**	**$41,195**	**$29,251**	**$—**	**$152,379**	**1.56%**
Percent of portfolio	**12%**	**42%**	**27%**	**19%**	**—%**	**100%**	
Weighted average yield	**0.81%**	**1.37%**	**1.68%**	**2.27%**	**—%**	**1.56%**	

Composition of Investment Securities
(Dollars in thousands)

	December 31					
	2015		2014		2013	
Held to Maturity	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
US Government agency obligations	**$ 7,973**	**$ 8,293**	$ 7,730	$ 8,073	$ 7,494	$ 7,569
GSE mortgage-backed securities	**2,759**	**2,842**	3,579	3,712	5,934	6,134
Corporate bonds	**11,518**	**11,710**	3,951	4,275	6,357	6,606
Collateralized mortgage obligations GSE	**2,623**	**2,606**	3,605	3,579	4,903	4,824
State and municipal tax-exempt	**42,956**	**42,980**	40,589	40,460	40,611	38,269
Total	**$67,829**	**$68,431**	$59,454	$60,099	$65,299	$63,402

	December 31					
	2015		2014		2013	
Available for Sale	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
US Government agency obligations	**$ 58,460**	**$ 58,208**	$ 61,547	$ 61,354	$ 30,522	$ 29,943
GSE mortgage-backed securities	**40,663**	**40,351**	66,669	66,723	49,448	48,930
Collateralized mortgage obligations GSE	**16,241**	**15,806**	20,499	20,011	23,836	22,886
Corporate bonds	**20,921**	**20,571**	13,208	13,102	16,944	16,550
State and municipal tax-exempt	**17,274**	**17,443**	10,917	10,994	2,091	2,072
Certificates of deposit	**—**	**—**	—	—	1,250	1,260
Equity securities	**—**	**—**	27	18	27	18
Total	**$153,559**	**$152,379**	$172,867	$172,202	$124,118	$121,659

2. *Loan and Lease Portfolio*

DNB's loan and lease portfolio consists primarily of commercial and residential real estate loans, commercial loans and lines of credit (including commercial construction), commercial leases and consumer loans. The portfolio provides a stable source of interest income, monthly amortization of principal and, in the case of adjustable rate loans, re-pricing opportunities.

Total loans were $481.8 million at December 31, 2015, up $26.2 million or 5.7% from 2014. Gross loans funded during 2015 were $145.9 million, compared to $129.6 million in 2014. Paydowns on loans were $119.7 million, up 33.9% from $89.4 million in 2014. Commercial loans grew by $6.2 million or 5.3% to $122.5 million, commercial mortgage loans grew $16.8 million or 6.5% to $274.1, consumer loans grew $486,000 or 0.9% to $56.4 million, and residential loans grew $2.7 million or 10.2% to $28.7 million.

The following table sets forth information concerning the composition of total loans outstanding, net of unearned income and fees and the allowance for credit losses, as of the dates indicated.

Total Loans Outstanding, Net of Allowance for Credit Losses
(Dollars in thousands)

	December 31				
	2015	**2014**	**2013**	**2012**	**2011**
Residential mortgage	**$ 28,651**	$ 25,993	$ 24,677	$ 25,835	$ 26,461
Commercial mortgage	**274,132**	257,310	234,599	234,202	232,297
Commercial:					
Commercial term	**102,178**	80,819	89,279	81,888	76,302
Commercial construction	**20,364**	35,534	19,117	12,247	24,818
Lease financing	**—**	—	2	67	191
Consumer:					
Home equity	**51,270**	50,192	41,418	35,322	36,042
Other	**5,163**	5,755	6,262	6,937	7,573
Total loans	**481,758**	455,603	415,354	396,498	403,684
Less allowance for credit losses	**(4,935)**	(4,906)	(4,623)	(6,838)	(6,164)
Net loans	**$476,823**	$450,697	$410,731	$389,660	$397,520

The following table sets forth information concerning the contractual maturities of the loan portfolio, net of unearned income and fees. For amortizing loans, scheduled repayments for the maturity category in which the payment is due are not reflected below, because such information is not readily available.

Loan and Lease Maturities
(Dollars in thousands)

	December 31, 2015			
	Less than 1 Year	**1-5 Years**	**Over 5 Years**	**Total**
Residential mortgage	**$ 8,023**	**$ 43**	**$ 20,585**	**$ 28,651**
Commercial mortgage	**12,360**	**94,913**	**166,859**	**274,132**
Commercial:				
Commercial term	**6,566**	**13,608**	**82,004**	**102,178**
Commercial construction	**10,900**	**3,818**	**5,646**	**20,364**
Consumer:				
Home equity	**1,114**	**3,716**	**46,440**	**51,270**
Other	**17**	**579**	**4,567**	**5,163**
Total loans	**38,980**	**116,677**	**326,101**	**481,758**
Loans with fixed interest rates	**14,355**	**105,768**	**191,496**	**311,619**
Loans with variable interest rates	**24,625**	**10,909**	**134,605**	**170,139**
Total loans	**$38,980**	**$116,677**	**$326,101**	**$481,758**

3. Non-Performing Assets

Total non-performing assets decreased $81,000 to $7.7 million at December 31, 2015, compared to $7.8 million at December 31, 2014. The $81,000 decrease was attributable to a $1.9 million decrease in non-accrual loans and a $123,000 increase in loans 90 days past due and still accruing, and a $1.7 million increase in other real estate owned & other repossessed property. As a result of the decrease in non-performing loans and a $26.2 million net increase in gross loans, the non-performing loans to total

loans ratio decreased to 1.06% at December 31, 2015, from 1.50% at December 31, 2014. The non-performing assets to total assets ratio decreased to 1.02% at December 31, 2015 from 1.07% at December 31, 2014. The allowance to non-performing loans ratio increased to 96.9% at December 31, 2015 from 71.6% at December 31, 2014. DNB continues to work diligently to improve asset quality by adhering to strict underwriting standards and improving lending policies and procedures. Non-performing assets have had, and will continue to have, an impact on earnings; therefore management intends to continue working aggressively to reduce the level of such assets.

Non-performing assets are comprised of non-accrual loans, loans delinquent over ninety days and still accruing, as well as OREO and other repossessed assets. Non-accrual loans are loans for which the accrual of interest ceases when the collection of principal or interest payments is determined to be doubtful by management. It is the policy of DNB to discontinue the accrual of interest when principal or interest payments are delinquent 90 days or more (unless the loan principal and interest are determined by management to be fully secured and in the process of collection), or earlier if considered prudent. Interest received on such loans is applied to the principal balance, or may, in some instances, be recognized as income on a cash basis. A non-accrual loan or lease may be restored to accrual status when management expects to collect all contractual principal and interest due and the borrower has demonstrated a sustained period of repayment performance in accordance with the contractual terms. OREO consists of real estate acquired by foreclosure or deed-in-lieu of foreclosure. Other repossessed assets are primarily assets from DNB's commercial lease portfolio that were repossessed. OREO and other repossessed assets are carried at the lower of carrying value or estimated fair value, less estimated disposition costs. Any significant change in the level of non-performing assets is dependent, to a large extent, on the economic climate within DNB's market area.

DNB's Credit Policy Committee monitors the performance of the loan and lease portfolio to identify potential problem assets on a timely basis. Committee members meet to design, implement and review asset recovery strategies, which serve to maximize the recovery of each troubled asset. As of December 31, 2015, DNB had $19.5 million of loans classified as substandard. Of the $19.5 million, $14.6 million are performing and are believed to require increased supervision and review; and may, depending on the economic environment and other factors, become non-performing assets in future periods. The majority of these loans are secured by commercial real estate, with lesser amounts being secured by residential real estate, inventory and receivables. The amount of performing substandard loans at December 31, 2014 was $16.0 million.

The following table sets forth those assets that are: (i) placed on non-accrual status, (ii) contractually delinquent by 90 days or more and still accruing, and (iii) OREO as a result of foreclosure or voluntary transfer to DNB as well as other repossessed assets. In addition, the table sets forth DNB's asset quality and allowance coverage ratios at the dates indicated:

Non-Performing Assets
(Dollars in thousands)

	December 31				
	2015	**2014**	**2013**	**2012**	**2011**
Non-accrual loans:					
Residential mortgage	**$1,619**	$2,457	$2,250	$ 2,196	$ 1,873
Commercial mortgage	**1,048**	1,294	266	2,804	2,114
Commercial:					
Commercial term	**188**	198	—	—	201
Commercial construction	**1,028**	2,043	2,554	4,326	3,032
Lease financing	**—**	—	—	28	61
Consumer:					
Home equity	**563**	432	434	64	61
Other	**189**	95	82	147	90
Total non-accrual loans	**4,635**	6,519	5,586	9,565	7,432
Loans 90 days past due and still accruing	**457**	334	141	869	210
Total non-performing loans	**5,092**	6,853	5,727	10,434	7,642
Other real estate owned & other repossessed property	**2,581**	901	1,096	1,237	3,974
Total non-performing assets	**$7,673**	$7,754	$6,823	$11,671	$11,616
Asset quality ratios:					
Non-performing loans to total loans	**1.06%**	1.50%	1.38%	2.63%	1.89%
Non-performing assets to total assets	**1.02**	1.07	1.03	1.82	1.91
Allowance for credit losses to:					
Total loans	**1.02**	1.08	1.11	1.72	1.53
Non-performing loans	**96.91**	71.59	80.70	65.54	80.70

Included in the loan portfolio are loans for which DNB has ceased the accrual of interest (i.e. non-accrual loans). Loans of approximately $4.6 million and $6.5 million as of December 31, 2015 and 2014, respectively, were on a non-accrual basis. DNB also had loans of approximately $457,000 and $334,000 that were 90 days or more delinquent, but still accruing, as of December 31, 2015 and 2014, respectively. If contractual interest income had been recorded on non-accrual loans, interest would have been increased as shown in the following tables:

Non-accrual Loans-Contractual Interest Income
(Dollars in thousands)

	December 31, 2015 Amount	Year Ended December 31, 2015 Interest income that would have been recorded under original terms	Interest income recorded during the period	Net impact on interest income
Non-accrual loans:				
Residential mortgage	**$1,619**	**$ 69**	**$—**	**$ 69**
Commercial mortgage	**1,048**	**86**	**—**	**86**
Commercial:				**—**
Commercial term	**188**	**9**	**—**	**9**
Commercial construction	**1,028**	**268**	**—**	**268**
Lease financing	**—**	**—**	**—**	**—**
Consumer:				**—**
Home equity	**563**	**26**	**—**	**26**
Other	**189**	**15**	**—**	**15**
Total non-accrual loans	**4,635**	**473**	**—**	**473**
Loans 90 days past due and still accruing	**457**	**3**	**3**	**—**
Total non-performing loans	**$5,092**	**$476**	**$ 3**	**$473**

	December 31, 2014 Amount	Year Ended December 31, 2014 Interest income that would have been recorded under original terms	Interest income recorded during the period	Net impact on interest income
Non-accrual loans:				
Residential mortgage	$2,457	$ 56	$—	$ 56
Commercial mortgage	1,294	41	—	41
Commercial:				—
Commercial term	198	3	—	3
Commercial construction	2,043	355	—	355
Lease financing	—	—	—	—
Consumer:				—
Home equity	432	26	3	23
Other	95	12	—	12
Total non-accrual loans	6,519	493	3	490
Loans 90 days past due and still accruing	334	6	6	—
Total non-performing loans	$6,853	$499	$ 9	$490

4. *Allowance for Credit Losses*

To provide for known and inherent losses in the loan and lease portfolios, DNB maintains an allowance for credit losses. Provisions for credit losses are charged against income to increase the allowance when necessary. Loan and lease losses are charged directly against the allowance and recoveries on previously charged-off loans are added to the allowance. In establishing its allowance for credit losses, management considers the size and risk exposure of each segment of the loan and lease portfolio, past loss experience, present indicators of risk such as delinquency rates, levels of non-accruals, the potential for losses in future periods, and other relevant factors. Management's evaluation of criticized and classified loans generally includes reviews of borrowers of $100,000 or greater. Consideration is also given to examinations performed by regulatory agencies, primarily the OCC.

Management reviews and establishes the adequacy of the allowance for credit losses in accordance with U.S. generally accepted accounting principles, guidance provided by the Securities and Exchange Commission and as prescribed in OCC Bulletin 2006-47. Its methodology for assessing the appropriateness of the allowance consists of several key elements which include: specific allowances for identified impaired loans; and allowances by loan type for pooled homogenous loans. In considering national and local

economic trends, we review a variety of information including Federal Reserve publications, general economic statistics, foreclosure rates and housing statistics published by third parties. We believe this improves the measure of inherent loss over a complete economic cycle and reduces the impact for qualitative adjustments. An unallocated portion of the allowance is intended to provide for probable losses not otherwise accounted for in management's other elements of its overall estimate. An unallocated component is maintained to cover uncertainties such as changes in the national and local economy, concentrations of credit, expansion into new markets and other factors that could affect management's estimate of probable losses. The unallocated component of the allowance also reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

In addition, DNB reviews historical loss experience for the commercial real estate, commercial, residential real estate, home equity and consumer installment loan pools to determine historical loss factors. The historical loss factors are then applied to the current portfolio balances to determine the required reserve percentage for each loan pool based on risk rating. Historical losses are segregated into risk-similar groups and a loss ratio is determined for each group over a five year period. The five year average loss ratio by type is then used to calculate the estimated loss based on the current balance of each group. This five year time period is appropriate given DNB's historical level of losses and, more importantly, represents the current economic environment.

This analysis is intended to assess the potential for loss within the loan portfolio and to substantiate the adequacy of the allowance. Should the analysis indicate that the allowance is not adequate, management will recommend a provision expense be made in an amount equal to the shortfall derived. In establishing and reviewing the allowance for adequacy, emphasis has been placed on utilizing the methodology prescribed in OCC Bulletin 2006-47. Management believes that the following factors create a comprehensive system of controls in which management can monitor the quality of the loan portfolio. Consideration has been given to the following factors and variables which may influence the risk of loss within the loan portfolio:

- Changes in the nature and volume of the portfolio and in the terms of loans
- Changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations
- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses
- Changes in the experience, ability, and depth of lending management and other relevant staff
- Changes in the Loan Review Methodology and Degree of Oversight by Bank's Board of Directors.
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio
- Changes in the value of underlying collateral for collateral-dependent loans

Portfolio risk includes the levels and trends in delinquencies, impaired loans, changes in the loan rating matrix and trends in volume and terms of loans. Management is satisfied with the stability of the past due and non-performing loans and believes there has been no decline in the quality of the loan portfolio due to any trend in delinquent or adversely classified loans. In determining the adequacy of the

allowance, management considers any deterioration of asset quality in DNB's commercial mortgage and residential first mortgage portfolios. New appraisal values we have obtained for existing loans have generally been consistent with trends indicated by Case-Schiller and other indices.

DNB closely monitors the loan to value ratios of all classified assets and requires periodic current appraisals to monitor underlying collateral values. Management also reviews borrower, sponsorship and guarantor's financial strength along with their ability and willingness to provide financial support of their obligations on an immediate and continuing basis.

The provision decreased to $1,105,000 in 2015 compared to $1,130,000 in 2014. DNB's percentage of allowance for credit losses to total loans was 1.02% at December 31, 2015 compared to 1.08%, 1.11%, 1.72%, and 1.53% for the years ended December 31, 2014, 2013, 2012, and 2011 respectively. The allowance as a percentage of total loans declined during the five years ended December 31, 2015. The decline during the five years ended December 31, 2015 was a result of management partially charging off the carrying balance of four large non-performing loans by $4.0 million during 2013 and an increase in total loans from 2011 to 2015 of $78.1 million. Prior to the partial charge-offs during 2013, DNB had specific reserves in the allowance of $1.9 million on these loans. Net charge-offs were $1.1 million in 2015, compared to $847,000, $4.7 million, $781,000, and $1.2 million in 2014, 2013, 2012, and 2011, respectively. The percentage of net charge-offs to total average loans was 0.23%, 0.19%, 1.20%, 0.20%, and 0.29% during the five years ending December 31, 2015, 2014, 2013, 2012, and 2011, respectively. Management is not aware of any potential problem loans, which were accruing and current at December 31, 2015, where serious doubt exists as to the ability of the borrower to comply with the present repayment terms and that would result in a significant loss to DNB.

We typically establish a general valuation allowance on classified loans which are not impaired. In establishing the general valuation allowance, we segregate these loans by loan type. For commercial and construction loans, the determination of the category for each loan is based on periodic reviews of each loan by our lending and credit officers as well as an independent, third-party consultant. The reviews include a consideration of such factors as recent payment history, current financial data, cash flow, financial projections, collateral evaluations, guarantor or sponsorship financial strength and current economic and business conditions. Categories for mortgage and consumer loans are determined through a similar review. Classification of a loan within a category is based on identified weaknesses that increase the credit risk of loss on the loan. The allowance percentage, is determined based on inherent losses associated with each type of lending as determined through consideration of our loss history with each type of loan, trends in credit quality and collateral values, and an evaluation of current economic and business conditions.

We establish a general allowance on non-classified loans to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem loans. This general valuation allowance is determined by segregating the loans by loan category and assigning allowance percentages to each category. An evaluation of each category is made to determine the need to further segregate the loans within each category by type. For our residential mortgage and consumer loan portfolios, we treat them as homogeneous pools. For our commercial real estate and construction loan portfolios, a further analysis is made in which we segregated the loans by type based on the purpose of the loan and the collateral properties securing the loan. Various risk factors for each type of loan are considered, including the impact of general economic and business conditions, collateral value trends, credit quality trends and historical loss experience.

As of December 31, 2015, DNB had $7.7 million of non-performing assets, which included $5.1 million of non-performing loans and $2.6 million of OREO and other repossessed property. Loans are reviewed for impairment in accordance with FASB ASC 310-10-35. Impaired loans can either be secured or unsecured, not including large groups of smaller balance loans that are collectively evaluated. Impairment is measured by the difference between the loan amount and the present value of the future cash flow discounted at the loan's effective interest rate. Management measures loans for impairment by using the fair value of collateral for collateral dependent loans. In general, management reduces the amount of the appraisal by the estimated cost of acquisition and disposition of the underlying collateral and compares that adjusted value with DNB's carrying value. DNB establishes a specific valuation allowance on impaired loans that have a collateral shortfall, including estimated costs to sell in comparison to the carrying value of the loan. Of the $5.0 million of impaired loans at December 31, 2015, $307,000 had a valuation allowance of $114,000 and $4.7 million had no specific allowance. For those impaired loans that management determined that no specific valuation allowance was necessary, management has reviewed the appraisal for each loan and determined that there is no shortfall in the collateral. During the year ended December 31, 2015, DNB recognized $1.2 million in total charge-offs, $954,000 of which related to impaired loans.

We typically order new third-party appraisals or collateral valuations when a loan becomes impaired or is transferred to OREO. This is done within two weeks of a loan becoming impaired or a loan moving to OREO. It generally takes two to eight weeks to receive the appraisals, depending on the type of property being appraised. We recognize any provision or related charge-off within two weeks of receiving the appraisal after the appraisal has been reviewed by DNB. We generally order a new appraisal for all impaired real estate loans having a balance of $100,000 or higher, every twelve months, unless management determines more frequent appraisals are necessary. We use updated valuations when time constraints do not permit a full appraisal process, to reflect rapidly changing market conditions. Because appraisals and updated valuations utilize historical data in reaching valuation conclusions, the appraised or updated value may or may not reflect the actual sales price that we will receive at the time of sale. Management uses the qualitative factor "Changes in the value of underlying collateral for collateral-dependent loans" to establish reserves.

Real estate appraisals typically include up to three approaches to value: the sales comparison approach, the income approach (for income-producing property) and the cost approach. Not all appraisals utilize all three approaches to value. Depending on the nature of the collateral and market conditions, the appraiser may emphasize one approach over another in determining the fair value of collateral.

Appraisals may also contain different estimates of value based on the level of occupancy or future improvements. "As-is" valuations represent an estimate of value based on current market conditions with no changes to the collateral's use or condition. "As-stabilized" or "as-completed" valuations assume that the collateral is improved to a stated standard or achieves its highest and best use in terms of occupancy. "As-stabilized" valuations may be subject to a present value adjustment for market conditions or the schedule for improvements.

In connection with the valuation process, we will typically develop an exit strategy for the collateral by assessing overall market conditions, the current condition and use of the asset and its highest and best use. For most income- producing real estate, investors value most highly a stable income stream from the asset; consequently, we conduct a comparative evaluation to determine whether conducting a sale on an "as-is" basis or on an "as-stabilized" basis is most likely to produce the highest net realizable value and compare these values with the costs incurred and the holding period necessary to achieve the "as stabilized" value.

Our estimates of the net realizable value of collateral include a deduction for the expected costs to sell the collateral or such other deductions as deemed appropriate. For most real estate collateral, we apply a seven to ten percent deduction to the value of real estate collateral to determine its expected costs to sell the asset. This estimate generally includes real estate commissions, one year of real estate taxes and miscellaneous repair and closing costs. If we receive a purchase offer that requires unbudgeted repairs, or if the expected holding period for the asset exceeds one year, then we include the additional real estate taxes and repairs or other holding costs in the expected costs to sell the collateral on a case-by-case basis.

Analysis of Allowance for Credit Losses
(Dollars in thousands)

	Year Ended December 31				
	2015	**2014**	**2013**	**2012**	**2011**
Beginning balance	**$ 4,906**	$4,623	$ 6,838	$ 6,164	$ 5,884
Provisions	**1,105**	1,130	2,530	1,455	1,480
Loans charged off:					
Residential mortgage	**(194)**	(326)	(183)	(99)	(280)
Commercial mortgage	**(105)**	(8)	(716)	—	(51)
Commercial:					
Commercial term	**(200)**	(47)	(247)	(38)	(717)
Commercial construction	**(581)**	(511)	(3,648)	(848)	—
Lease financing	**—**	(1)	(26)	(1)	(200)
Consumer:					
Home equity	**(11)**	—	—	—	—
Other	**(63)**	(82)	(70)	(31)	(64)
Total charged off	**(1,154)**	(975)	(4,890)	(1,017)	(1,312)
Recoveries:					
Residential mortgage	**4**	5	80	21	79
Commercial mortgage	**—**	—	—	—	—
Commercial:					
Commercial term	**13**	3	5	115	9
Commercial construction	**10**	103	—	—	—
Lease financing	**49**	8	59	72	3
Consumer:					
Home equity	**—**	—	—	—	—
Other	**2**	9	1	28	21
Total recoveries	**78**	128	145	236	112
Net charge-offs	**(1,076)**	(847)	(4,745)	(781)	(1,200)
Ending balance	**$ 4,935**	$4,906	$ 4,623	$ 6,838	$ 6,164
Reserve for unfunded loan commitments	**$ 188**	$ 166	$ 143	$ 125	$ 99
Ratio of net charge-offs to average loans	**0.23%**	0.19%	1.20%	0.20%	0.29%

The following table sets forth the composition of DNB's allowance for credit losses at the dates indicated.

Composition of Allowance for Credit Losses
(Dollars in thousands)

	December 31									
	2015		2014		2013		2012		2011	
	Amount	Percent of Loan Type to Total Loans	Amount	Percent of Loan Type to Total Loans	Amount	Percent of Loan Type to Total Loans	Amount	Percent of Loan Type to Total Loans	Amount	Percent of Loan Type to Total Loans
Residential mortgage	**$ 216**	**6%**	$ 269	6%	$ 285	6%	$ 306	6%	$ 383	6%
Commercial mortgage	**2,375**	**57**	2,300	56	2,010	56	3,094	59	3,442	58
Commercial:										
Commercial term	**989**	**21**	709	18	621	21	506	21	474	19
Commercial construction	**569**	**4**	881	8	1,073	5	1,536	3	1,029	6
Lease financing	**—**	**—**	—	—	—	—	3	—	10	—
Consumer:										
Home equity	**195**	**11**	189	11	156	10	178	9	165	4
Other	**64**	**1**	70	1	78	2	86	2	95	7
Unallocated	**527**	**—**	488	—	440	—	1,129	—	566	—
Total	**$4,935**	**100%**	$4,906	100%	$4,623	100%	$6,838	100%	$6,164	100%
Reserve for unfunded loan commitments (other liability)	**$ 188**		$ 166		$ 143		$ 125		$ 99	

5. Certain Regulatory Matters

Dividends payable to DNB by the Bank are subject to certain regulatory limitations. Under normal circumstances, the payment of dividends in any year without regulatory permission is limited to the net profits (as defined for regulatory purposes) for that year, plus the retained net profits for the preceding two calendar years. The sum of these items amounted to $9.6 million for the year ended December 31, 2015. During 2015, the Bank paid $4.4 million to DNB in connection with the Non-Cumulative Perpetual Preferred Stock issued on August 4, 2011 as part of the Small Business Lending Fund program administered by the United States Treasury. The average Non-Cumulative Perpetual Preferred Stock outstanding in 2015 was $4.95 million.

The FDIC has authority to assess and change federal deposit insurance assessment rates based on average consolidated assets, less tangible equity capital of the Bank. For further information, please refer to the discussion of FDIC deposit insurance assessments under Part I, Item 1 ("Business"), section (c) ("Narrative Description of Business") — "Supervision and Regulation — Bank" under the heading "FDIC Insurance and Assessments" on page 10 of this report. DNB's FDIC insurance expense was $497,000 in 2015

DNB was well capitalized at December 31, 2015 and met all regulatory capital requirements. Please refer to Note 16 to the Consolidated Financial Statements for a table that summarizes required capital ratios and the corresponding regulatory capital positions of DNB and the Bank at December 31, 2015.

At December 31, 2015, DNB owned $2.3 million of stock of the Federal Home Loan Bank of Pittsburgh ("FHLBP") and had outstanding borrowings of $30.0 million from the FHLBP. DNB recognized dividend income on FHLBP stock of $107,000 in 2015. At December 31, 2015, DNB's excess borrowing capacity from the FHLBP was $257.2 million. Generally, the loan terms from the FHLBP are better than the terms DNB can receive from other sources.

6. *Off Balance Sheet Arrangements*

In the normal course of business, various commitments and contingent liabilities are outstanding, such as guarantees and commitments to extend credit, borrow money or act in a fiduciary capacity, which are not reflected in the consolidated financial statements. Management does not anticipate any significant losses as a result of these commitments.

DNB had outstanding stand-by letters of credit totaling $3.2 million and unfunded loan and lines of credit commitments totaling $116.4 million at December 31, 2015.

These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet. The exposure to credit loss, in the event of non-performance by the party to the financial instrument for commitments to extend credit and stand-by letters of credit, is represented by the contractual amount. Management uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. DNB evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral, if any, obtained upon the extension of credit, usually consists of real estate, but may include securities, property or other assets.

Stand-by letters of credit are conditional commitments issued by DNB to guarantee the performance or repayment of a financial obligation of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risks involved in issuing letters of credit are essentially the same as those involved in extending loan facilities to customers. DNB holds various forms of collateral to support these commitments.

DNB maintains borrowing arrangements with various correspondent banks, the FHLBP and the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. Through these relationships, DNB has available credit of approximately $303.2 million at December 31, 2015. At December 31, 2015, DNB had $30.0 million of FHLBP borrowings outstanding and the FHLBP had issued letters of credit, on DNB's behalf, totaling $30.0 million against its available credit lines.

As of December 31, 2015, approximately $191.5 million of assets are held by DNB First Wealth Management in a fiduciary, custody or agency capacity. These assets are not assets of DNB, and are not included in the consolidated financial statements.

Off Balance Sheet Obligations
(Dollars in thousands)

		Expiration by Period			
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Commitments to extend credit	$116,380	$11,821	$5,200	$1,010	$98,349
Letters of credit	3,170	3,090	54	—	26
Total	**$119,550**	**$14,911**	**$5,254**	**$1,010**	**$98,375**

For detailed information regarding FHLBP Advances and Short Term Borrowed Funds, see Note 7 to our Consolidated Financial Statements beginning at page 72.

The following table sets forth DNB's known contractual obligations as of December 31, 2015. The amounts presented below do not include interest.

Contractual Obligations
(Dollars in thousands)

		Payments Due by Period			
	Total	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
FHLBP advances	$30,000	$10,000	$4,000	$16,000	$ —
Repurchase agreements	32,416	32,416	—	—	—
Capital lease obligations	464	46	113	148	157
Operating lease obligations	1,932	445	931	465	91
Long-term subordinated debt	9,750	—	—	—	9,750
Junior subordinated debentures	9,279	—	—	—	9,279
Total	**$83,841**	**$42,907**	**$5,044**	**$16,613**	**$19,277**

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

To measure the impacts of longer-term asset and liability mismatches beyond two years, DNB utilizes an Economic Value of Equity ("EVE") model. The EVE model measures the potential price risk of equity to changes in interest rates and factors in the optionality included on the balance sheet. EVE analysis is used to dynamically model the present value of asset and liability cash flows, with rates ranging up or down 200 basis points. The EVE is likely to be different if rates change. Results falling outside prescribed ranges may require action by management. At December 31, 2015 and 2014, DNB's variance in the EVE as a percentage of assets with an instantaneous and sustained parallel shift of 200 basis points was within its negative 3% guideline, as shown in the following table. The change as a percentage of the present value of equity with a 200 basis point increase was within DNB's negative 25% guideline at December 31, 2015 and 2014.

Quantitative and Qualitative Disclosures About Market Risk
(Dollars in thousands)

	December 31, 2015			December 31, 2014		
Change in rates	**Flat**	**−200bp**	**+200bp**	**Flat**	**−200bp**	**+200bp**
EVE	**$68,118**	**$58,298**	**$58,936**	$72,548	$68,218	$ 58,656
Change		**(9,820)**	**(9,182)**		(4,330)	(13,892)
Change as a % of assets		**(1.3)%**	**(1.2)%**		(0.6)%	(1.9)%
Change as a % of PV equity		**(14.4)%**	**(13.5)%**		(6.0)%	(19.1)%

Item 8. Financial Statements and Supplementary Data

DNB Financial Corporation and Subsidiaries
Consolidated Statements of Financial Condition
(Dollars in thousands, except share data)

	December 31 2015	December 31 2014
Assets		
Cash and due from banks	**$ 21,119**	$ 12,504
Federal Funds Sold	**—**	—
Cash and cash equivalents	**21,119**	12,504
Available-for-sale investment securities at fair value (amortized cost of $153,559 and $172,867)	**152,379**	172,202
Held-to-maturity investment securities (fair value of $68,431 and $60,099)	**67,829**	59,454
Total investment securities	**220,208**	231,656
Loans held for sale	**—**	617
Loans	**481,758**	455,603
Allowance for credit losses	**(4,935)**	(4,906)
Net loans	**476,823**	450,697
Restricted stock	**3,447**	2,587
Office property and equipment, net	**6,806**	7,668
Accrued interest receivable	**2,410**	2,253
Other real estate owned & other repossessed property	**2,581**	901
Bank owned life insurance (BOLI)	**9,326**	9,098
Core deposit intangible	**66**	82
Net deferred taxes	**3,733**	3,446
Other assets	**2,299**	1,821
Total assets	**$748,818**	$723,330
Liabilities and Stockholders' Equity		
Liabilities		
Non-interest-bearing deposits	**$125,581**	$102,107
Interest-bearing deposits:		
NOW	**185,973**	205,816
Money market	**137,555**	143,483
Savings	**72,660**	66,634
Time	**66,018**	76,805
Brokered deposits	**18,488**	10,238
Total deposits	**606,275**	605,083
Federal Home Loan Bank of Pittsburgh (FHLBP) advances	**30,000**	20,000
Repurchase agreements	**32,416**	19,221
Junior subordinated debentures	**9,279**	9,279
Subordinated debt	**9,750**	—
Other borrowings	**464**	505
Total borrowings	**81,909**	49,005
Accrued interest payable	**345**	351
Other liabilities	**4,801**	4,983
Total liabilities	**693,330**	659,422
Commitments and contingencies	**—**	—
Stockholders' Equity		
Preferred stock, $10.00 par value; 1,000,000 shares authorized; $1,000 liquidation preference per share; 0 and 13,000 shares issued and outstanding, respectively	**—**	13,000
Common stock, $1.00 par value; 10,000,000 shares authorized; 2,933,049 and 2,903,610 issued, respectively; 2,823,840 and 2,778,724 outstanding, respectively	**2,955**	2,931
Treasury stock, at cost; 109,209 and 124,886 shares, respectively	**(2,015)**	(2,301)
Surplus	**35,097**	34,745
Retained earnings	**21,436**	17,132
Accumulated other comprehensive loss, net	**(1,985)**	(1,599)
Total stockholders' equity	**55,488**	63,908
Total liabilities and stockholders' equity	**$748,818**	$723,330

See accompanying notes to consolidated financial statements.

DNB FINANCIAL CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

(Dollars in thousands, except share and per share data)

	Year Ended December 31 2015	2014
Interest and Dividend Income:		
Interest and fees on loans	**$ 20,082**	$ 19,588
Interest and dividends on investment securities:		
Taxable	**2,955**	2,850
Exempt from federal taxes	**1,399**	1,116
Interest on cash and cash equivalents	**42**	42
Total interest and dividend income	**24,478**	23,596
Interest Expense:		
Interest on NOW, money market and savings	**590**	541
Interest on time deposits	**396**	697
Interest on brokered deposits	**179**	53
Interest on FHLBP advances	**787**	613
Interest on repurchase agreements	**51**	39
Interest on junior subordinated debentures	**301**	295
Interest on subordinated debt	**341**	—
Interest on other borrowings	**67**	73
Total interest expense	**2,712**	2,311
Net interest income	**21,766**	21,285
Provision for credit losses	**1,105**	1,130
Net interest income after provision for credit losses	**20,661**	20,155
Non-interest Income:		
Service charges	**1,131**	1,226
Wealth management	**1,485**	1,314
Mortgage banking, net	**171**	92
Increase in cash surrender value of BOLI	**228**	235
Gain from insurance proceeds	**120**	—
Gains on sale of investment securities, net	**78**	858
Gains on sale of loans	**484**	—
Other fees	**1,312**	1,233
Total non-interest income	**5,009**	4,958
Non-interest Expense:		
Salaries and employee benefits	**10,551**	9,998
Furniture and equipment	**1,239**	1,289
Occupancy	**1,919**	2,119
Professional and consulting	**1,185**	1,216
Advertising and marketing	**631**	662
Printing and supplies	**161**	165
FDIC insurance	**497**	455
PA shares tax	**602**	602
Telecommunications	**245**	252
Loss on sale or write down of OREO, net	**134**	7
Other expenses	**1,865**	1,867
Total non-interest expense	**19,029**	18,632
Income before income tax expense	**6,641**	6,481
Income tax expense	**1,503**	1,677
Net income	**5,138**	4,804
Preferred stock dividends	**50**	135
Net income available to common stockholders	**$ 5,088**	$ 4,669
Earnings per common share:		
Basic	**$ 1.82**	$ 1.69
Diluted	**$ 1.79**	$ 1.66
Cash dividends per common share	**$ 0.28**	$ 0.28
Weighted average common shares outstanding:		
Basic	**2,801,881**	2,766,723
Diluted	**2,847,488**	2,812,726

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(Dollars in thousands)

	Year Ended December 31	
	2015	**2014**
Net income	**$5,138**	$4,804
Other comprehensive income (loss):		
Unrealized holding gains (losses) on AFS investment securities arising during the period		
Before tax amount	**(437)**	2,237
Tax effect	**149**	(760)
	(288)	1,477
Accretion of discount on AFS to HTM reclassification[1]		
Before tax amount	**7**	8
Tax effect[2]	**(2)**	(3)
	5	5
Less reclassification for gains on AFS investment securities included in net income		
Before tax amount	**(78)**	(443)
Tax effect[2]	**27**	151
	(51)	(292)
Other comprehensive income (loss) — securities	**(334)**	1,190
Unrealized actuarial losses — pension		
Before tax amount	**(79)**	(630)
Tax effect	**27**	214
	(52)	(416)
Total other comprehensive (loss) income	**(386)**	774
Total comprehensive income	**$4,752**	$5,578

(1) Amounts are included in interest and dividends on investment securities in the consolidated statements of income.

(2) Amounts are included in income tax expense in the consolidated statements of income.

See accompanying notes to consolidated financial statements.

DNB FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(Dollars in thousands)

	Preferred Stock	Common Stock	Treasury Stock	Surplus	Retained Earnings	Accumulated Other Compre-hensive Loss	Total
Balance at January 1, 2014	$ 12,995	$2,910	$(2,629)	$34,441	$13,239	$(2,373)	$ 58,583
Net income	—	—	—	—	4,804	—	4,804
Other comprehensive income	—	—	—	—	—	774	774
SBLF issuance costs accretion to liquidation value	5	—	—	—	(5)	—	—
Restricted stock compensation expense	—	14	—	202	—	—	216
Exercise of stock options (6,907 shares)	—	7	—	32	—	—	39
Taxes on exercise of stock options	—	—	—	(23)	—	—	(23)
Stock option compensation	—	—	—	51	—	—	51
Cash dividends — common ($0.28 per share)	—	—	—	—	(775)	—	(775)
Cash dividends SBLF preferred	—	—	—	—	(131)	—	(131)
Sale of treasury shares to 401(k) (11,866 shares)	—	—	218	28	—	—	246
Sale of treasury shares to deferred comp. plan (6,020 shares)	—	—	110	14	—	—	124
Balance at December 31, 2014	13,000	2,931	(2,301)	34,745	17,132	(1,599)	63,908
Net income	—	—	—	—	5,138	—	5,138
Other comprehensive loss	—	—	—	—	—	(386)	(386)
Redemption of preferred stock (13,000 shares)	(13,000)	—	—	—	—	—	(13,000)
Restricted stock compensation expense (13,048 restricted stock shares)	—	19	—	323	—	—	342
Exercise of stock options (16,391 shares)	—	16	—	386	—	—	402
Taxes on stock option exercise and share award vest	—	(11)	—	(458)	—	—	(469)
Cash dividends — common ($0.28 per share)	—	—	—	—	(784)	—	(784)
Cash dividends SBLF preferred	—	—	—	—	(50)	—	(50)
Sale of treasury shares to 401(k) (10,519 shares)	—	—	192	68	—	—	260
Sale of treasury shares to deferred comp. plan (5,158 shares)	—	—	94	33	—	—	127
Balance at December 31, 2015	**$ —**	**$2,955**	**$(2,015)**	**$35,097**	**$21,436**	**$(1,985)**	**$ 55,488**

See accompanying notes to consolidated financial statements.

DNB FINANCIAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Year Ended December 31	
	2015	**2014**
Cash Flows From Operating Activities:		
Net income	**$ 5,138**	$ 4,804
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, amortization and accretion	**1,806**	1,802
Provision for credit losses	**1,105**	1,130
Stock based compensation	**342**	267
Net gain on sale of securities	**(78)**	(858)
Net loss on sale and write down of OREO and other repossessed property	**134**	7
Earnings from investment in BOLI	**(228)**	(235)
Deferred tax benefit	**(88)**	(226)
Proceeds from sales of loans	**18,739**	3,645
Loans originated for sale	**(17,467)**	(4,170)
Gain on sale of loans, net	**(655)**	(92)
Write off of property and equipment	**698**	—
(Increase) decrease in accrued interest receivable	**(157)**	44
(Increase) decrease in other assets	**(475)**	799
Decrease in accrued interest payable	**(6)**	(25)
(Decrease) increase in other liabilities	**(260)**	260
Net Cash Provided By Operating Activities	**8,548**	7,152
Cash Flows From Investing Activities:		
Activity in available-for-sale securities:		
Sales	**17,988**	39,333
Maturities, repayments and calls	**58,262**	25,805
Purchases	**(57,928)**	(114,425)
Activity in held-to-maturity securities:		
Sales	**—**	1,612
Maturities, repayments and calls	**1,822**	4,756
Purchases	**(10,093)**	—
Net (increase) decrease in restricted stock	**(860)**	316
Net increase in loans	**(29,020)**	(41,196)
Purchases of office property and equipment	**(661)**	(344)
Expenses capitalized in OREO	**(202)**	—
Proceeds from sale of OREO and other repossessed property	**177**	288
Net Cash Used in Investing Activities	**(20,515)**	(83,855)
Cash Flows From Financing Activities:		
Net increase in deposits	**1,192**	46,336
Repayment of FHLBP advances	**(10,000)**	—
Funding of FHLBP advances	**20,000**	10,000
Net increase (decrease) in repurchase agreements	**13,195**	(633)
Proceeds from issuance of subordinated debt	**9,750**	—
Decrease in other borrowings	**(41)**	(36)
Dividends paid	**(834)**	(906)
Proceeds from the exercise of stock options	**402**	39
Taxes on stock option exercise and share award vest	**(469)**	(23)
Redemption of preferred stock	**(13,000)**	—
Sale of treasury stock	**387**	370
Net Cash Provided by Financing Activities	**20,582**	55,147
Net Change in Cash and Cash Equivalents	**8,615**	(21,556)
Cash and Cash Equivalents at Beginning of Period	**12,504**	34,060
Cash and Cash Equivalents at End of Period	**$ 21,119**	$ 12,504
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the period for:		
Interest	**$ 2,718**	$ 2,336
Income taxes	**1,777**	872
Supplemental Disclosure of Non-cash Flow Information:		
Transfers from loans to other real estate owned and other repossessed property	**1,789**	100

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DNB Financial Corporation (the "Corporation" or "DNB") through its wholly owned subsidiary, DNB First, National Association (the "Bank"), formerly Downingtown National Bank, has been serving individuals and small to medium sized businesses of Chester County, Pennsylvania since 1860. DNB Capital Trust I and II are special purpose Delaware business trusts, which are not consolidated as they are considered variable interest entities and the Corporation is not the primary beneficiary (see additional discussion in Junior Subordinated Debentures — Note 9). The Bank is a locally managed commercial bank providing personal and commercial loans and deposit products, in addition to investment and trust services from twelve community offices. The Bank encounters vigorous competition for market share from commercial banks, thrift institutions, credit unions and other financial intermediaries.

The consolidated financial statements of DNB and its subsidiary, the Bank, which together are managed as a single operating segment ("Community Banking"), are prepared in accordance with U.S. generally accepted accounting principles applicable to the banking industry.

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the Consolidated Statements of Financial Condition, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Amounts subject to significant estimates are items such as the allowance for credit losses and lending related commitments, the fair value of repossessed assets, pension and post-retirement obligations, the fair value of financial instruments and other-than-temporary impairments of investment securities. Among other effects, such changes could result in future impairments of investment securities, and establishment of allowances for credit losses and lending related commitments as well as increased benefit plans' expenses.

Accounting Developments Affecting DNB In January 2014, the FASB issued ASU No. 2014-04, *"Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure."* The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 did not have a material impact on DNB's Consolidated Financial Statements.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contract with Customers (Topic 606). The guidance in this update affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (for example, insurance contracts or lease contracts). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an

entity should apply the following five steps: 1) identify the contracts(s) with the customer; 2) identify the performance obligations in the contract; 3) determine the transaction price; 4) allocate the transaction price to the performance obligations in the contract; and 5) recognize revenue when (or as) the entity satisfies a performance obligation. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer. For a public entity, the amendments in this update are effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early application is not permitted. DNB is still evaluating the effect of this amendment on DNB's consolidated financial statements. . In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*. The guidance in this ASU is now effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. DNB does not expect this ASU to have a significant impact on its financial condition or results of operations.

In June 2014, ASU No. 2014-11 amended ASC Topic 860, "Transfers and Servicing" to address concerns that current accounting guidance distinguishes between repurchase agreements that settle at the same time as the maturity of the transferred financial asset and those that settle any time before maturity. The update changed the accounting for repurchase-to-maturity transactions to secured borrowing accounting and, for repurchase financing arrangements, separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty, which resulted in secured borrowing accounting for the repurchase agreement. The adoption of this ASU did not have a material effect on DNB's operating results or financial condition.

In April 2015, the FASB issued ASU No. 2015-03, Interest — Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The update simplifies the presentation of debt issuance costs by requiring that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. For public companies, this update will be effective for interim and annual periods beginning after December 15, 2015, and is to be applied retrospectively. Early adoption is permitted. DNB is currently assessing the impact that this guidance will have on its consolidated financial statements, but does not expect the guidance to have a material impact on the DNB's consolidated financial statements.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, *Leases*. The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. DNB is currently evaluating the impact of the pending adoption of the ASU on its consolidated financial statements.

Principles of Consolidation The accompanying consolidated financial statements include the accounts of DNB and its wholly owned subsidiary, the Bank. All significant inter-company transactions have been eliminated.

Cash and Due From Banks For purposes of the consolidated statement of cash flows, cash and due from banks, and federal funds sold are considered to be cash equivalents. Generally, federal funds are sold for one-day periods.

Investment Securities Investment securities are classified at the time of purchase and accounted for as follows:

Held-To-Maturity ("HTM") Includes debt securities that DNB has the positive intent and ability to hold to maturity. Debt securities are reported at cost, adjusted for amortization of premiums and accretion of discounts. DNB may sell HTM securities when DNB collects greater than 85% of the original recorded investment on the HTM securities prior to the sale.

Available-For-Sale ("AFS") Includes debt and equity securities not classified as HTM securities. Securities classified as AFS are securities that DNB intends to hold for an indefinite period of time, but not necessarily to maturity. Such securities are reported at fair value, with unrealized holding gains and losses excluded from earnings and reported, net of tax (if applicable), as a separate component of stockholders' equity. Realized gains and losses on the sale of AFS securities are computed on the basis of specific identification of the adjusted cost of each security. Amortization of premiums and accretion of discounts for all types of securities are computed using a level-yield basis.

Other Than Temporary Impairment ("OTTI") Analysis Securities are evaluated on a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether declines in their value are other-than-temporary. To determine whether a loss in value is other-than-temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline, and whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. Once a decline in value for a debt security is determined to be other-than-temporary, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total impairment related to credit losses is included in earnings. The amount of the total impairment related to all other factors is included in other comprehensive income. DNB recorded no impairment charges in 2015 or 2014.

Restricted Stock Restricted investment in bank stocks consist of Philadelphia Federal Reserve Bank ("FRB") stock, Pittsburgh Federal Home Loan Bank ("FHLBP") stock, and Atlantic Central Bankers Bank ("ACBB") stock. Federal law requires a member institution of the district FRB and FHLB to hold stock according to predetermined formulas. Atlantic Central Bankers Bank requires its correspondent banking institutions to hold stock as a condition of membership. The restricted investment in bank stock is carried at cost. Quarterly, the Corporation evaluates the bank stocks for impairment. We evaluate recent and long-term operating performance, liquidity, funding and capital positions, stock repurchase history, dividend history, and impact of legislative and regulatory changes. At December 31, 2015, DNB owned $2.3 million of stock of the FHLBP, $1.1 million of stock of the FRB and $106,000 of stock of ACBB. At December 31, 2014, DNB owned $1.4 million of stock of the FHLBP, $1.1 million of stock of the FRB and $106,000 of stock of ACBB.

Loans Held-for-Sale Loans held for sale are comprised of residential mortgage loans originated by the Bank and servicing of the loan is not retained after sale. Loans held for sale are reported at the lower of cost or fair value, as determined by the aggregate commitments from investors or current investor yield requirements. The amount by which cost exceeds fair value, if any is accounted for as a valuation allowance and is charged to expense in the period of the change. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loan and is recorded in non-interest income.

Loans Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for credit losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. DNB is generally

amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into residential mortgage loans, commercial mortgage loans, commercial loans (which consist of commercial term loans and commercial construction loans), leases, and consumer loans (which consist of home equity loans and other consumer loans.)

For all classes of loans receivable, the accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan or lease is placed on non-accrual, interest accruals cease and uncollected accrued interest is reversed and charged against current income. Interest received on nonaccrual loans, including impaired loans, generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Deferred Loan Fees and Costs Loan origination and commitment fees and related direct-loan origination costs of completed loans are deferred and accreted to income as a yield adjustment over the life of the loan using the level-yield method. The accretion to income is discontinued when a loan is placed on non-accrual status. When a loan is paid off, any unamortized net deferred fee balance is credited to income. When a loan is sold, any unamortized net deferred fee balance is considered in the calculation of gain or loss.

Allowance for Credit Losses The allowance for credit losses consists of the allowance for loan losses and represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance for credit losses is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 120 days past due on a contractual basis, earlier in the event of Bankruptcy, or if there is an amount deemed uncollectible. No portion of the allowance for loan losses is restricted to any individual loan or groups of loans, and the entire allowance is available to absorb any and all loan losses.

The allowance for credit losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. Management performs a quarterly evaluation of the adequacy of the allowance. The allowance is based on DNB's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as residential real estate, home equity and other consumer loans. These pools of loans are evaluated

for loss exposure, based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off and recovery practices
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans
3. Nature and volume of the portfolio and terms of loans
4. Experience, ability, and depth of lending management and staff
5. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications
6. Quality of DNB's loan review system, and the degree of oversight by DNB's Board of Directors
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations
8. Effect of external factors, such as competition and legal and regulatory requirements
9. Changes in the value of underlying collateral for collateral-dependent loans

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for credit loss calculation.

Residential mortgage loans involve certain risks such as interest rate risk and risk of non-repayment. Adjustable-rate single family real estate loans decreases the interest rate risk to the Company that is associated with changes in interest rates but involve other risks, primarily because as interest rates rise, the payment by the borrower rises to the extent permitted by the terms of the loan, thereby increasing the potential for default. At the same time, the marketability of the underlying property may be adversely affected by higher interest rates. Repayment risk can be affected by job loss, divorce, illness and personal bankruptcy or the borrower.

Commercial real estate lending entails significant additional risks as compared with single-family residential property lending. Such loans typically involve large loan balances to single borrowers or groups of related borrowers. The payment experience on such loans is typically dependent on the successful operation of the real estate project. The success of such projects is sensitive to changes in supply and demand conditions in the market for commercial real estate as well as economic conditions generally.

Commercial loans, which are also referred to as commercial and industrial loans ("C & I loans"), include advances to businesses for general commercial purposes and include permanent and short-term working capital, machinery and equipment financing, and may be either in the form of lines of credit or term loans. Although C & I loans may be unsecured to our highest rated borrowers, the majority of these loans are secured by the borrower's accounts receivable, inventory and machinery and equipment. In a significant number of these loans, the collateral also includes the business real estate or the business owner's personal real estate or assets. C & I loans present credit exposure to DNB, as they are more susceptible to risk of loss during a downturn in the economy, as borrowers may have greater difficulty in meeting their debt service requirements and the value of the collateral may decline. DNB attempts to mitigate this risk through its underwriting standards, including evaluating the credit worthiness of the borrower and to the extent available, credit ratings on the business. Additionally, monitoring of the loans through annual renewals and meetings with the borrowers are typical. However, these procedures cannot eliminate the risk of loss associated with this type of lending.

Construction lending is generally considered to involve a higher level of risk as compared to single-family residential lending, due to the concentration of principal in a limited number of loans and borrowers

and the effects of general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. The nature of these loans is such that they are generally more difficult to evaluate and monitor. DNB has attempted to minimize the foregoing risks by, among other things, limiting the extent of its construction lending and has adopted underwriting guidelines which impose stringent loan-to-value, debt service and other requirements for loans which are believed to involve higher elements of credit risk, by limiting the geographic area in which DNB will do business and by working with builders with whom it has established relationships.

Consumer loans generally have shorter terms and higher interest rates than mortgage loans but generally involve more credit risk than mortgage loans because of the type and nature of the collateral and, in certain cases, the absence of collateral. In addition, consumer lending collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely effected by job loss, divorce, illness and personal bankruptcy. In most cases, any repossessed collateral for a defaulted consumer loan will not provide an adequate source of repayment of the outstanding loan balance because of improper repair and maintenance of the underlying security. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. DNB believes that the generally higher yields earned on consumer loans compensate for the increased credit risk associated with such loans and that consumer loans are important to its efforts to provide a full range of services to its customers.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that DNB will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and industrial loans, commercial real estate loans and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. An allowance for credit losses is established for an impaired loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of DNB's impaired loans are measured based on the estimated fair value of the loan's collateral.

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory

reports, accounts receivable agings or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

We perform separate impairment analyses once residential or consumer loans become significantly delinquent. This is essentially the same process for all loan types. Once on non-accrual or at 90 days delinquent (if not before), we generally get updated valuations (appraisals, etc.) and then perform the impairment analysis. So, the general reserve is used to cover the performing loans until we pull out the problem accounts.

Loans whose terms are modified are classified as troubled debt restructurings if DNB grants such borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a troubled debt restructuring generally involve a temporary reduction in interest rate or an extension of a loan's stated maturity date. Non-accrual troubled debt restructurings are restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. Loans classified as troubled debt restructurings are designated as impaired.

As of December 31, 2015, DNB had no commercial mortgages classified as a TDR, compared to one commercial mortgage classified as a TDR totaling $2,246,000 at December 31, 2014. The loan was paid off during the third quarter of 2015. The rate on this loan was modified and the terms of the loans were changed to interest only while the project was being built out. The loan commenced normal principal and interest payments in June 2014. The loan was extended and there was no reduction of principal. The balance of the loan prior to modification was $2,272,000 and the balance after the modification was $2,272,000. During the twelve months ended December 31, 2015 and 2014, there were no defaults on any terms of this loan.

As of December 31, 2015, DNB had one consumer home equity loan classified as a TDR totaling $102,000 compared to one consumer home equity loan classified as a TDR totaling $102,000 (the same loan) at December 31, 2014. The monthly payment on this loan was reduced for 36 months and the borrower will resume making contractual payments at the end of this period. The loan was extended and there was no reduction of principal. This loan was classified a TDR in June of 2014. The balance of the loan prior to the modification was $102,000 and the balance after the modification was $102,000. During the twelve months ended December 31, 2015 and 2014, there were no defaults on any terms of this loan.

As of December 31, 2015, DNB had one consumer installment loan classified as a TDR totaling $40,000 compared to no such loans at December 31, 2014. The interest rate on the loan was reduced. The loan was extended and there was no reduction of principal. This loan was classified as a TDR in December of 2015. The balance of the loan prior to modification was $42,000 and the balance after the modification was $42,000. DNB recognized a partial charge-off of the loan in the amount of $2,000. During the twelve months ended December 31, 2015, there were no defaults on any terms of this loan.

The allowance calculation methodology includes further segregation of loan classes into risk rating categories. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans or when credit deficiencies arise, such as delinquent loan payments, for commercial and consumer loans. Credit quality risk ratings include regulatory classifications of special mention, substandard, doubtful and loss. Loans criticized special mention have potential weaknesses that deserve management's close attention. If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. Loans classified substandard have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They include loans that are inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified doubtful have all the weaknesses inherent in loans classified substandard with the added characteristic that collection or liquidation in full, on the basis of current conditions and facts, is highly improbable. Loans classified as a loss are considered uncollectible and are charged to the allowance for loan losses. Loans not classified are rated pass.

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review DNB's allowance for credit losses and may require DNB to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for credit losses is appropriate.

Reserve for unfunded loan commitments The reserve for unfunded loan commitments represents management's estimate of losses inherent in off-balance sheet items related to the loan portfolio which consist of commitments to extend credit and letters of credit. The same risk and loss factors are applied to both funded and unfunded commitments. However, the bank calculates reserves required to support unfunded commitments in each loan category based only on the estimated likelihood (the probability) that DNB would advance funds into a known troubled situation, and then sustain a loss on the newly advanced funds. The amount of reserve for unfunded loan commitments, which is included in "Other liabilities" on the balance sheet, was $188,000 and $166,000 at December 31, 2015 and December 31, 2014, respectively.

Other Real Estate Owned & Other Repossessed Property Other real estate owned ("OREO") and other repossessed property consists of properties acquired as a result of, or in-lieu-of, foreclosure as well as other repossessed property. Properties classified as OREO are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying value or fair value, less estimated costs to sell. Costs relating to the development or improvement of the properties are capitalized and costs relating to holding the properties are charged to expense. Real estate loans in the process of foreclosure as of December 31, 2015 amounted to $1.0 million.

Office Properties and Equipment Office properties and equipment are recorded at cost. Depreciation is computed using the straight-line method over the expected useful lives of the assets. The costs of maintenance and repairs are expensed as they are incurred; renewals and betterments are capitalized. All long-lived assets are reviewed for impairment when conditions indicate that impairment may have occurred, based on the fair value of the asset. In addition, long-lived assets to be disposed of are generally reported at the lower of carrying amount or fair value, less cost to sell. Gains or losses on disposition of properties and equipment are reflected in operations.

Income Taxes DNB accounts for income taxes in accordance with the income tax accounting guidance set forth in FASB ASC Topic 740, Income Taxes.

The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. DNB determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

DNB recognizes interest and penalties on income taxes as a component of income tax expense. DNB is no longer subject to examinations by taxing authorities for the years before January 1, 2012. DNB had no unrecognized tax positions as of December 31, 2015.

Pension Plan The Bank maintains a noncontributory defined benefit pension plan covering substantially all employees over the age of 21 with one year of service. Plan benefits are based on years of service and the employee's monthly average compensation for the highest five consecutive years of their last ten years of service (see Note 13 — Benefit Plans). The Bank recognizes the overfunded or underfunded status of pension and other post retirement benefit plans on the balance sheet. Gains and losses, prior service costs and credits, and any remaining transition amounts that have not yet been

recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost.

Stock Based Compensation Stock compensation accounting guidance (FASB ASC Topic 718, Compensation — Stock Compensation) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black Sholes model is used to estimate the fair value of stock options. The market price of DNB's common stock at the date of grant have been used for restricted stock awards granted up to and including 2014.

Preferred Stock Preferred stock ranks senior to common stock with respect to dividends and has preference in the event of liquidation.

Non-Cumulative Perpetual Preferred Stock, Series 2011A — The shares of Non-Cumulative Perpetual Preferred Stock, Series 2011A ("Series 2011A Preferred Stock") issued to the United States Treasury ("U.S. Treasury") under the Small Business Lending Fund program ("SBLF") are accounted for as permanent equity on DNB's Consolidated Statements of Financial Condition. Proceeds received from the issuance of the SBLF preferred stock were used to redeem, in 2011, the CPP preferred stock issued under the TARP capital purchase plan.

The Series 2011A Preferred Stock is entitled to receive non-cumulative dividends payable quarterly. The dividend rate, which is calculated on the aggregate Liquidation Amount, was initially set at 3.874% per annum based upon the current level of "Qualified Small Business Lending", or "QSBL" (as defined in the Securities Purchase Agreement) by the Bank. The dividend rate for future dividend periods will be set based upon the "Percentage Change in Qualified Lending" (as defined in the Securities Purchase Agreement) between each dividend period and the "Baseline" QSBL level. Such dividend rate may vary from 1% per annum to 5% per annum for the second through tenth dividend periods depending on the volume of QSBL the Bank originates in future periods, and will be fixed at a rate between 1% per annum to 7% per annum and remain unchanged up to four and one-half years following the funding date (the eleventh through the first half of the nineteenth dividend periods). If the Series 2011A Preferred Stock remains outstanding for more than four-and-one-half years, the dividend rate will be fixed at 9%. Prior to that time, in general, the dividend rate decreases as the level of the Bank's QSBL increases. At December 31, 2013 and 2012 the dividend rate was 1.00%. Such dividends are not cumulative, but DNB may only declare and pay dividends on its common stock (or any other equity securities junior to the Series 2011A Preferred Stock) if it has declared and paid dividends for the current dividend period on the Series 2011A Preferred Stock, and will be subject to other restrictions on its ability to repurchase or redeem common stock and other securities. In addition, if (i) DNB has not timely declared and paid dividends on the Series 2011A Preferred Stock for six dividend periods or more, whether or not consecutive, and (ii) shares of Series 2011A Preferred Stock with an aggregate liquidation preference of at least $13,000,000 are still outstanding, the Treasury (or any successor holder of Series 2011A Preferred Stock) may designate two additional directors to be elected to DNB's Board of Directors. Preferred dividends paid (declared and accrued) is deducted from net income for computing income available to common stockholders and earnings per share computations. During 2015, DNB had redeemed all of the Series 2011A Preferred Stock issued to the U.S. Treasury.

Earnings Per Common Share (EPS) Basic EPS is computed based on the weighted average number of common shares outstanding during the year. Diluted EPS reflects the potential dilution that could occur from unvested stock awards and the exercise of stock options and warrants computed using the treasury stock method. Stock options and awards for which the exercise price exceeds the average market price over the period have an anti-dilutive effect on EPS and, accordingly, are excluded from the EPS calculation. Treasury shares are not deemed outstanding for earnings per share calculations.

Comprehensive Loss Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, accretion of discount on securities transferred from available-for-sale to held-to-maturity, and changes in the funded status of the pension plan of which the accumulated amounts are also recognized as separate components of stockholders' equity.

Accumulated Other Comprehensive Loss *(Dollars in thousands)*	**Before-Tax Amount**	**Tax Effect**	**Net-of-Tax Amount**
December 31, 2015			
Net unrealized loss on AFS securities	**$(1,180)**	**$ 402**	**$ (778)**
Discount on AFS to HTM reclassification	**(17)**	**6**	**(11)**
Unrealized actuarial losses-pension	**(1,812)**	**616**	**(1,196)**
	$(3,009)	**$1,024**	**$(1,985)**
December 31, 2014			
Net unrealized loss on AFS securities	$ (665)	$ 227	$ (438)
Discount on AFS to HTM reclassification	(24)	8	(16)
Unrealized actuarial losses-pension	(1,734)	589	(1,145)
	$(2,423)	$ 824	$(1,599)

Treasury Stock Shares of the Company's common stock which are repurchased on the open market are classified as treasury stock on the consolidated balance sheet. Treasury stock is recorded at the cost at which it was obtained in the open market, and at the date of reissuance, treasury stock on the consolidated balance sheet is reduced by the cost for which it was purchased, using a weighted average price of the remaining treasury stock.

Bank-Owned Life Insurance The Bank is the beneficiary of insurance policies on the lives of certain officers of the Bank. The Bank has recognized the amount that could be realized under the insurance policies as an asset in the consolidated statements of financial condition.

Trust Assets Assets held by DNB First Wealth Management, a wholly owned subsidiary of the Bank, in fiduciary or agency capacities are not included in the consolidated financial statements since such items are not assets of DNB. Operating income and expenses of DNB First Wealth Management are included in the consolidated statements of income and are recorded on an accrual basis.

Advertising and Marketing Costs DNB follows the policy of charging the costs of advertising and marketing to expense as incurred. Advertising and marketing costs were approximately $631,000 and $662,000 for the years ended December 31, 2015 and December 31, 2014, respectively.

Significant Concentrations of Credit Risk Most of DNB's activities are with customers located throughout southeastern Pennsylvania. DNB's commercial portfolio has a concentration in loans to commercial real estate investors and developers as defined by regulation. There are numerous risks associated with commercial loans that could impact the borrower's ability to repay on a timely basis. They include, but are not limited to: the owner's business expertise; changes in local, national, and in some cases

international economies; competition; governmental regulation; and the general financial stability of the borrowing entity.

DNB attempts to mitigate these risks by completing an analysis of the borrower's business and industry history, the borrower's financial position, as well as that of the business owner. DNB will also require the borrower to periodically provide financial information on the operation of the business over the life of the loan. In addition, most commercial loans are secured by assets of the business or those of the business owner, which can be liquidated if the borrower defaults, along with the personal surety of the business owner.

Subsequent Events Management has evaluated events and transactions occurring subsequent to December 31, 2015 for items that should potentially be recognized or disclosed in these Consolidated Financial Statements. The evaluation was conducted through the date these financial statements were issued.

(2) INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities, as of the dates indicated, are summarized as follows:

	December 31, 2015			
(Dollars in thousands)	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Estimated Fair Value**
Held To Maturity				
US Government agency obligations	**$ 7,973**	**$320**	**$ —**	**$ 8,293**
Government Sponsored Entities (GSE) mortgage-backed securities	**2,759**	**83**	**—**	**2,842**
Corporate bonds	**11,518**	**234**	**(42)**	**11,710**
Collateralized mortgage obligations GSE	**2,623**	**9**	**(26)**	**2,606**
State and municipal tax-exempt	**42,956**	**300**	**(276)**	**42,980**
Total	**$ 67,829**	**$946**	**$ (344)**	**$ 68,431**
Available For Sale				
US Government agency obligations	**$ 58,460**	**$ —**	**$ (252)**	**$ 58,208**
GSE mortgage-backed securities	**40,663**	**13**	**(325)**	**40,351**
Collateralized mortgage obligations GSE	**16,241**	**3**	**(438)**	**15,806**
Corporate bonds	**20,921**	**—**	**(350)**	**20,571**
State and municipal tax-exempt	**17,274**	**180**	**(11)**	**17,443**
Total	**$153,559**	**$196**	**$(1,376)**	**$152,379**

(Dollars in thousands)	December 31, 2014 Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Held To Maturity				
US Government agency obligations	$ 7,730	$ 343	$ —	$ 8,073
Government Sponsored Entities (GSE) mortgage-backed securities	3,579	133	—	3,712
Corporate bonds	3,951	324	—	4,275
Collateralized mortgage obligations GSE	3,605	3	(29)	3,579
State and municipal tax-exempt	40,589	418	(547)	40,460
Total	$ 59,454	$1,221	$(576)	$ 60,099
Available For Sale				
US Government agency obligations	$ 61,547	$ 4	$(197)	$ 61,354
GSE mortgage-backed securities	66,669	189	(135)	66,723
Collateralized mortgage obligations GSE	20,499	8	(496)	20,011
Corporate bonds	13,208	—	(106)	13,102
State and municipal tax-exempt	10,917	87	(10)	10,994
Equity securities	27	2	(11)	18
Total	$172,867	$ 290	$(955)	$172,202

Included in unrealized losses are market losses on securities that have been in a continuous unrealized loss position for twelve months or more and those securities that have been in a continuous unrealized loss position for less than twelve months. The table below details the aggregate unrealized losses and aggregate fair value of the underlying securities whose fair values are below their amortized cost at December 31, 2015 and 2014.

(Dollars in thousands)	Total Fair Value	Total Unrealized Loss	December 31, 2015 Fair Value Impaired Less Than 12 Months	Unrealized Loss Less Than 12 Months	Fair Value Impaired More Than 12 Months	Unrealized Loss More Than 12 Months
Held To Maturity						
Corporate bonds	**$ 7,597**	**$ (42)**	**$ 7,597**	**$ (42)**	**$ —**	**$ —**
Collateralized mortgage obligations GSE	**1,482**	**(26)**	**388**	**(10)**	**1,094**	**(16)**
State and municipal tax-exempt	**13,161**	**(276)**	**4,380**	**(34)**	**8,781**	**(242)**
Total	**$ 22,240**	**$ (344)**	**$ 12,365**	**$ (86)**	**$ 9,875**	**$(258)**
Available For Sale						
US Government agency obligations	**$ 58,208**	**$ (252)**	**$ 58,208**	**$(252)**	**$ —**	**$ —**
GSE mortgage-backed securities	**38,307**	**(325)**	**33,984**	**(238)**	**4,323**	**(87)**
Collateralized mortgage obligations GSE	**15,231**	**(438)**	**4,187**	**(41)**	**11,044**	**(397)**
Corporate bonds	**20,571**	**(350)**	**16,157**	**(264)**	**4,414**	**(86)**
State and municipal tax-exempt	**6,660**	**(11)**	**6,660**	**(11)**	**—**	**—**
Total	**$138,977**	**$(1,376)**	**$119,196**	**$(806)**	**$19,781**	**$(570)**

(Dollars in thousands)	Total Fair Value	Total Unrealized Loss	December 31, 2014 Fair value Impaired Less Than 12 Months	Unrealized Loss Less Than 12 Months	Fair value Impaired More Than 12 Months	Unrealized Loss More Than 12 Months
Held To Maturity						
Collateralized mortgage obligations GSE	$ 3,043	$ (29)	$ 3,043	$ (29)	$ —	$ —
State and municipal tax-exempt	19,054	(547)	2,138	(7)	16,916	(540)
Total	$ 22,097	$(576)	$ 5,181	$ (36)	$16,916	$(540)
Available For Sale						
US Government agency obligations	$ 56,342	$(197)	$49,222	$ (97)	$ 7,120	$(100)
GSE mortgage-backed securities	22,157	(135)	14,996	(38)	7,161	(97)
Collateralized mortgage obligations GSE	18,133	(496)	3,669	(5)	14,464	(491)
Corporate bonds	13,102	(106)	9,531	(31)	3,571	(75)
State and municipal tax-exempt	2,967	(10)	2,360	(9)	607	(1)
Equity securities	12	(11)	—	—	12	(11)
Total	$112,713	$(955)	$79,778	$(180)	$32,935	$(775)

As of December 31, 2015, there were nineteen GSE mortgage-backed securities, twenty-three municipalities, seventeen corporate bonds, twelve agency notes, and seventeen collateralized mortgage obligations which were in an unrealized loss position. DNB does not intend to sell these securities and management of DNB does not expect to be required to sell any of these securities prior to a recovery of its cost basis. Management has reviewed all of these securities and believes that DNB will collect all principal and interest that is due on debt securities on a timely basis. Management does not believe any individual unrealized loss as of December 31, 2015 represents an other-than-temporary impairment. DNB reviews its investment portfolio on a quarterly basis judging each investment for OTTI. The OTTI analysis focuses on the duration and the amount a particular security is below book.

Factors affecting the market price include credit risk, market risk, interest rates, economic cycles, and liquidity risk. The magnitude of any unrealized loss may be affected by the relative concentration of the Corporation's investment in any one issuer or industry. DNB has established policies to reduce exposure through diversification of concentration of the investment portfolio including limits on concentrations to any one issuer and as such, management believes the investment portfolio is prudently diversified.

The declines in value are related to a change in interest rates and/or subsequent change in credit spreads required for these issues affecting market price. All issues are performing and are expected to continue to perform in accordance with their respective contractual terms and conditions. Short to intermediate average durations and in certain cases monthly principal payments should reduce further market value exposure to increases in rates.

Collateralized mortgage obligations GSE There are seventeen impaired securities classified as collateralized mortgage obligations, twelve of which were impaired for more than 12 months. The largest unrealized loss of a security in this group is 4.83% of its book value. All of these securities were issued and insured by FNMA, FHLMC or GNMA. DNB receives monthly principal and interest payments on all of these securities on a timely basis and none of these agencies has ever defaulted on mortgage-backed principal or interest. DNB anticipates a recovery in the market value as the securities approach their maturity dates or if interest rates decline from December 31, 2015 levels. Management concluded that these securities were not other-than-temporarily impaired at December 31, 2015.

State and municipal tax-exempt There are twenty-three impaired securities in this category, which are comprised of intermediate to long-term municipal bonds, twelve of which were impaired for more than 12 months. The largest unrealized loss of a security in this group is 5.12% of its book value. All of the issues carry an "A+" or better underlying credit support and were evaluated on the basis on their

underlying fundamentals; included but not limited to annual financial reports, geographic location, population and debt ratios. In certain cases, options for calls reduce the effective duration and in turn the future market value fluctuations. All issues are performing and are expected to continue to perform in accordance with their respective contractual terms and conditions. There have not been disruptions of any payments, associated with any of these municipal securities. These bonds are conservative in nature and the value decline is related to the changes in interest rates that occurred since the time of purchase and subsequent changes in spreads affecting the market prices. Thirteen of the impaired municipals are school districts that have PA school district credit enhancement programs and ten of those also have additional insurance. The remaining ten are one insured school district, four uninsured school districts, and five uninsured townships, all of which have strong underlying ratings. Management concluded that these securities were not other-than-temporarily impaired at December 31, 2015.

US Government agency obligations There are twelve impaired securities classified as agencies, none of which were impaired for more than 12 months. The largest unrealized loss of a security in this group is 0.81% of its book value. All of these securities were issued and insured by FHLB, FNMA, or FHLMC. DNB has received timely interest payments on all of these securities and none of these agencies has ever defaulted on their bonds. DNB anticipates a recovery in the market value as the securities approach their maturity dates. Management concluded that these securities were not other-than-temporarily impaired at December 31, 2015.

GSE mortgage-backed securities There are nineteen impaired bonds classified as GSE mortgage-backed securities, three of which were impaired for more than 12 months. The largest unrealized loss of a security in this group is 2.10% of its book value. All of these securities were issued and insured by FNMA, FHLMC or GNMA. DNB receives monthly principal and interest payments on all of these securities on a timely basis and none of these agencies has ever defaulted on mortgage-backed principal or interest. DNB anticipates a recovery in the market value as the securities approach their maturity dates or if interest rates decline from December 31, 2015 levels. Management concluded that these securities were not other-than-temporarily impaired at December 31, 2015.

Corporate bonds There were seventeen impaired bonds classified as corporate bonds, two of which were impaired for more than 12 months. The largest unrealized loss of a security in this group is 3.55% of its book value. The bonds are investment grade and the value decline is related to the changes in interest rates that occurred since the time of purchase and subsequent changes in spreads affecting the market prices. All of the issues carry a "BBB" or better underlying credit support and were evaluated on the basis on their underlying fundamentals; included but not limited to annual financial reports, rating agency reports, capital strength and debt ratios. DNB anticipates a recovery in the market value as the securities approach their maturity dates or if interest rates decline from December 31, 2015 levels. Management concluded that these securities were not other-than-temporarily impaired at December 31, 2015.

In determining that the securities giving rise to the previously mentioned unrealized losses were not other than temporary, the Corporation evaluated the factors cited above, which the Corporation considers when assessing whether a security is other-than-temporarily impaired. In making these evaluations the Corporation must exercise considerable judgment. Accordingly, there can be no assurance that the actual results will not differ from the Corporation's judgments and that such differences may not require the future recognition of other-than-temporary impairment charges that could have a material affect on the Corporation's financial position and results of operations. In addition, the value of, and the realization of any loss on, an investment security is subject to numerous risks as cited above.

The amortized cost and estimated fair value of investment securities as of December 31, 2015, by final contractual maturity, are shown below. Actual maturities may differ from contractual maturities because certain securities may be called or prepaid without penalties.

(Dollars in thousands)	Held to Maturity		Available for Sale	
	Amortized Cost	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	**$ —**	**$ —**	**$ 18,694**	**$ 18,668**
Due after one year through five years	**19,677**	**20,250**	**63,770**	**63,265**
Due after five years through ten years	**28,870**	**28,972**	**41,423**	**41,195**
Due after ten years	**19,282**	**19,209**	**29,672**	**29,251**
No stated maturity	**—**	**—**	**—**	**—**
Total investment securities	**$67,829**	**$68,431**	**$153,559**	**$152,379**

The principal value of investment securities sold as of the dates indicated are shown below. The HTM securities that were sold during the year ended December 31, 2014 were permissible because DNB collected greater than 85% of the original recorded investment on the HTM securities prior to the sale.

(Dollars in thousands)	Year Ended December 31	
	2015	**2014**
Available for sale securities sold	**$17,988**	$39,333
Held to maturity securities sold	**—**	1,612
Total sold securities	**$17,988**	$40,945

Gains and losses resulting from investment sales, redemptions or calls were as follows:

(Dollars in thousands)	Year Ended December 31	
	2015	**2014**
Gross realized gains-AFS	**$ 90**	$474
Gross realized gains-HTM	**—**	415
Gross realized losses-AFS	**(12)**	(31)
Gross realized losses-HTM	**—**	—
Net realized gain	**$ 78**	$858

At December 31, 2015 and 2014, investment securities with a carrying value of approximately $147.9 million and $174.9 million, respectively, were pledged to secure public funds, repurchase agreements, FHLBP advances and for other purposes as required by law. See Note 7 regarding the use of certain securities as collateral.

(3) LOANS

(Dollars in thousands)	December 31 2015	December 31 2014
Residential mortgage	**$ 28,651**	$ 25,993
Commercial mortgage	**274,132**	257,310
Commercial:		
Commercial term	**102,178**	80,819
Commercial construction	**20,364**	35,534
Consumer:		
Home equity	**51,270**	50,192
Other	**5,163**	5,755
Total loans	**$481,758**	$455,603
Less allowance for credit losses	**(4,935)**	(4,906)
Net loans	**$476,823**	$450,697

Some of DNB's directors and executive officers, and their related interests had transactions with the Bank in the ordinary course of business. All loan transactions were made on substantially the same terms, such as collateral and interest rates, as those prevailing at the time for comparable transactions. In the opinion of management, these transactions do not involve more than the normal risk of collectability nor do the present other unfavorable features. It is anticipated that similar transactions will be entered into the future. DNB had $70,000 in related party loans at December 31, 2014. After $8,000 in advances and $11,000 in payments on these loans during 2015, DNB had $67,000 in related party loans at December 31, 2015.

(4) ALLOWANCE FOR CREDIT LOSSES

The performance and credit quality of the loan portfolio is monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2015 and December 31, 2014:

Age Analysis of Past Due Loans Receivables

	December 31, 2015						
(Dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater than 90 Days**	**Total Past Due**	**Current**	**Total Loans Receivables**	**Loans Receivable > 90 Days and Accruing**
Residential mortgage	$502	$ 552	$2,076	$3,130	$ 25,521	$ 28,651	$457
Commercial mortgage	36	86	96	218	273,914	274,132	—
Commercial:							
Commercial term	—	—	—	—	102,178	102,178	—
Commercial construction	—	581	447	1,028	19,336	20,364	—
Consumer:							
Home equity	7	310	153	470	50,800	51,270	—
Other	100	—	148	248	4,915	5,163	—
Total	**$645**	**$1,529**	**$2,920**	**$5,094**	**$476,664**	**$481,758**	**$457**

	December 31, 2014						
(Dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater than 90 Days**	**Total Past Due**	**Current**	**Total Loans Receivables**	**Loans Receivable > 90 Days and Accruing**
Residential mortgage	$1,005	$302	$2,648	$3,955	$ 22,038	$ 25,993	$191
Commercial mortgage	48	187	236	471	256,839	257,310	—
Commercial:							
Commercial term	—	—	—	—	80,819	80,819	—
Commercial construction	—	—	2,043	2,043	33,491	35,534	—
Consumer:							
Home equity	58	214	386	658	49,534	50,192	119
Other	71	70	119	260	5,495	5,755	24
Total	$1,182	$773	$5,432	$7,387	$448,216	$455,603	$334

DNB had $1.1 million and $2.2 million in loans in process of foreclosure as of December 31, 2015 and 2014, respectively.

The following table sets forth those assets that are: (i) placed on non-accrual status, (ii) contractually delinquent by 90 days or more and still accruing, and (iii) OREO as a result of foreclosure or voluntary transfer to DNB as well as other repossessed assets.

Interest that would have been recognized on nonaccrual loans had they been current in accordance with their original terms was $473,000 and $493,000 for the years ended December 31, 2015 and December 31, 2014, respectively.

Non-Performing Assets

(Dollars in thousands)	**December 31** **2015**	**2014**
Non-accrual loans:		
Residential mortgage	**$1,619**	$2,457
Commercial mortgage	**1,048**	1,294
Commercial:		
Commercial term	**188**	198
Commercial construction	**1,028**	2,043
Consumer:		
Home equity	**563**	432
Other	**189**	95
Total non-accrual loans	**4,635**	6,519
Loans 90 days past due and still accruing	**457**	334
Total non-performing loans	**5,092**	6,853
Other real estate owned & other repossessed property	**2,581**	901
Total non-performing assets	**$7,673**	$7,754

The following tables summarize information in regards to impaired loans by loan portfolio class as of December 31, 2015 and December 31, 2014 and for the years then ended.

Impaired Loans

	December 31, 2015				
(Dollars in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:					
Residential mortgage	$1,620	$1,919	$ —	$1,883	$ 5
Commercial mortgage	1,181	1,461	—	2,501	85
Commercial:					
Commercial term	—	—	—	—	—
Commercial construction	1,140	3,526	—	838	—
Consumer:					
Home equity	691	716	—	535	4
Other	82	90	—	124	2
Total	**$4,714**	**$7,712**	**$ —**	**$5,881**	**$96**
With allowance recorded:					
Residential mortgage	$ —	$ —	$ —	$ 105	$—
Commercial mortgage	—	—	—	121	—
Commercial:					
Commercial term	200	211	110	200	—
Commercial construction	—	—	—	537	—
Consumer:					
Home equity	—	—	—	18	—
Other	107	107	4	29	—
Total	**$ 307**	**$ 318**	**$114**	**$1,010**	**$—**
Total:					
Residential mortgage	$1,620	$1,919	$ —	$1,988	$ 5
Commercial mortgage	1,181	1,461	—	2,622	85
Commercial:					
Commercial term	200	211	110	200	—
Commercial construction	1,140	3,526	—	1,375	—
Consumer:					
Home equity	691	716	—	553	4
Other	189	197	4	153	2
Total	**$5,021**	**$8,030**	**$114**	**$6,891**	**$96**

(Dollars in thousands)	December 31, 2014 Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential mortgage	$2,457	$ 3,270	$ —	$2,010	$—
Commercial mortgage	3,400	3,501	—	2,869	88
Commercial:					
Commercial term	—	—	—	—	—
Commercial construction	1,706	4,822	—	1,310	—
Consumer:					
Home equity	549	564	—	459	9
Other	94	102	—	62	—
Total	$8,206	$12,259	$ —	$6,710	$97
With allowance recorded:					
Residential mortgage	$ —	$ —	$ —	$ 151	$—
Commercial mortgage	200	200	104	54	—
Commercial:					
Commercial term	200	202	119	80	—
Commercial construction	450	2,031	50	1,026	—
Consumer:					
Home equity	—	—	—	—	—
Other	—	—	—	43	—
Total	$ 850	$ 2,433	$273	$1,354	$—
Total:					
Residential mortgage	$2,457	$ 3,270	$ —	$2,161	$—
Commercial mortgage	3,600	3,701	104	2,923	88
Commercial:					
Commercial term	200	202	119	80	—
Commercial construction	2,156	6,853	50	2,336	—
Consumer:					
Home equity	549	564	—	459	9
Other	94	102	—	105	—
Total	$9,056	$14,692	$273	$8,064	$97

The following tables present the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within DNB's internal risk rating system as of December 31, 2015 and December 31, 2014.

Credit Quality Indicators

(Dollars in thousands)	December 31, 2015 Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage	$ 26,762	$ —	$ 1,889	$—	$ 28,651
Commercial mortgage	262,036	4,802	7,294	—	274,132
Commercial:					
Commercial term	93,025	2,555	6,598	—	102,178
Commercial construction	17,521	—	2,843	—	20,364
Consumer:					
Home equity	50,551	—	719	—	51,270
Other	4,974	—	189	—	5,163
Total	**$454,869**	**$7,357**	**$19,532**	**$—**	**$481,758**

(Dollars in thousands)	December 31, 2014 Pass	Special Mention	Substandard	Doubtful	Total
Residential mortgage	$ 23,259	$ —	$ 2,734	$—	$ 25,993
Commercial mortgage	245,307	2,610	9,393	—	257,310
Commercial:					
Commercial term	75,303	72	5,444	—	80,819
Commercial construction	31,057	—	4,477	—	35,534
Consumer:					
Home equity	49,611	—	581	—	50,192
Other	5,661	—	94	—	5,755
Total	$430,198	$2,682	$22,723	$—	$455,603

Allowance for Credit Losses and Recorded Investment in Related Loans

The following tables set forth the activity and composition of DNB's allowance for credit losses at the dates indicated.

(Dollars in thousands)	Residential Mortgage	Commercial Mortgage	Commercial Term	Commercial Construction	2015 Lease Financing	Consumer Home Equity	Consumer Other	Unallocated	Total
Allowance for credit losses:									
Beginning balance — January 1, 2015	$ 269	$ 2,300	$ 709	$ 881	$ —	$ 189	$ 70	$488	$ 4,906
Charge-offs	(194)	(105)	(200)	(581)	—	(11)	(63)	—	(1,154)
Recoveries	4	—	13	10	49	—	2	—	78
Provisions	137	180	467	259	(49)	17	55	39	1,105
Ending balance — December 31, 2015	**$ 216**	**$ 2,375**	**$ 989**	**$ 569**	**$ —**	**$ 195**	**$ 64**	**$527**	**$ 4,935**
Ending balance: individually evaluated for impairment	$ —	$ —	$ 110	$ —	$ —	$ —	$ 4	$ —	$ 114
Ending balance: collectively evaluated for impairment	$ 216	$ 2,375	$ 879	$ 569	$ —	$ 195	$ 60	$527	$ 4,821
Ending balance: Loan receivables	$28,651	$274,132	$102,178	$20,364	$ —	$51,270	$5,163		$481,758
Ending balance: individually evaluated for impairment	$ 1,620	$ 1,181	$ 200	$ 1,140	$ —	$ 691	$ 189		$ 5,021
Ending balance: collectively evaluated for impairment	$27,031	$272,951	$101,978	$19,224	$ —	$50,579	$4,974		$476,737

(Dollars in thousands)	Residential Mortgage	Commercial Mortgage	Commercial Term	Commercial Construction	2014 Lease Financing	Consumer Home Equity	Consumer Other	Unallocated	Total
Allowance for credit losses:									
Beginning balance — January 1, 2014	$ 285	$ 2,010	$ 621	$ 1,033	$—	$ 156	$ 78	$440	$ 4,623
Charge-offs	(326)	(8)	(47)	(511)	(1)	—	(82)	—	(975)
Recoveries	5	—	3	103	8	—	9	—	128
Provisions	305	298	132	256	(7)	33	65	48	1,130
Ending balance — December 31, 2014	$ 269	$ 2,300	$ 709	$ 881	$—	$ 189	$ 70	$488	$ 4,906
Ending balance: individually evaluated for impairment	$ —	$ 104	$ 119	$ 50	$—	$ —	$ —	$ —	$ 273
Ending balance: collectively evaluated for impairment	$ 269	$ 2,196	$ 590	$ 831	$—	$ 189	$ 70	$488	$ 4,633
Ending balance: Loan receivables	$25,993	$257,310	$80,819	$35,534	$—	$50,192	$5,755		$455,603
Ending balance: individually evaluated for impairment	$ 2,457	$ 3,600	$ 200	$ 2,156	$—	$ 549	$ 94		$ 9,056
Ending balance: collectively evaluated for impairment	$23,536	$253,710	$80,619	$33,378	$—	$49,643	$5,661		$446,547

(5) OFFICE PROPERTY AND EQUIPMENT

(Dollars in thousands)	Estimated Useful Lives	December 31 2015	2014
Land		**$ 840**	$ 840
Buildings and leasehold improvements	5-31.5 years	**10,982**	11,807
Furniture, fixtures and equipment	2-20 years	**14,712**	14,382
Total cost		**26,534**	27,029
Less accumulated depreciation		**(19,728)**	(19,361)
Office property and equipment, net		**$ 6,806**	$ 7,668

Amounts charged to operating expense for depreciation for the years ended December 31, 2015 and 2014 amounted to $825,000 and $894,000, respectively.

The Bank leases office space from Headwaters Associates, a Pennsylvania general partnership for which William S. Latoff (who passed away on January 11, 2016), the Company's Chairman of the Board and Chief Executive Officer during 2015, was one of two general partners. Pursuant to the terms of the Lease, the Bank paid Headwaters an aggregate of $139,000 in 2015, and $306,000 in 2014. As a general partner in Headwaters, Mr. Latoff received $69,000 and $153,000 in 2015 and 2014, respectively, as a result of the lease.

(6) DEPOSITS

Included in interest bearing time deposits are time and brokered deposit issued in amounts of $250,000 or more in the amount of $32.7 million and $34.4 million at December 31, 2015 and 2014, respectively. These certificates and their remaining maturities at December 31, 2015 were as follows:

	December 31, 2015		
(Dollars in thousands)	**Time Deposits**	**Brokered Deposits**	**Total**
Three months or less	**$13,014**	**$—**	**$13,014**
Over three through six months	**15,919**	**—**	**15,919**
Over six through twelve months	**1,259**	**—**	**1,259**
Over one year through two years	**1,359**	**—**	**1,359**
Over two years	**1,155**	**—**	**1,155**
Total	**$32,706**	**$—**	**$32,706**

Time and brokered deposit scheduled to mature have the following remaining maturities:

	December 31, 2015		
(Dollars in thousands)	**Time Deposits**	**Brokered Deposits**	**Total**
One year or less	**$48,783**	**$ 4,015**	**$52,798**
Over one year through two years	**9,055**	**6,077**	**15,132**
Over two years through three years	**2,331**	**3,174**	**5,505**
Over three years through four years	**3,796**	**—**	**3,796**
Over four years through five years	**2,053**	**5,222**	**7,275**
Over five years	**—**	**—**	**—**
Total	**$66,018**	**$18,488**	**$84,506**

At December 31, 2015 and 2014, deposits of related parties amounted to $556,000 and $590,000, respectively.

(7) FHLBP ADVANCES AND SHORT-TERM BORROWED FUNDS

The schedule below provides a summary of short-term borrowings that consist of securities sold under agreements to repurchase, federal funds purchased and other borrowings. Securities sold under agreements to repurchase are overnight borrowings between DNB and its commercial depositors and are subject to daily repricing. Federal Funds purchased from correspondent banks mature in one business day and reprice daily based on the Federal Funds rate. As of December 31, 2015, DNB's total availability under Federal Funds lines was $46.0 million. Other short-term borrowings consist of credit available through the Federal Home Loan Bank of Pittsburgh (FHLBP) and the Federal Reserve Discount Window. DNB maintains a line-of-credit (Open Repo Plus) with the FHLBP which is a revolving term commitment used on an overnight basis. The term of this commitment may not exceed 364 days and it reprices daily at market rates. Under terms of a blanket collateral agreement with the FHLBP, the line-of-credit and long term advances are secured by FHLBP stock and qualifying loan receivables, principally real estate secured loans. As of December 31, 2015 DNB's total availability was $257.2 million with the FHLBP and availability at the Federal Reserve Discount Window is dependent upon the market value of the collateral delivered to the Federal Reserve at the time funds are borrowed.

The following table presents a summary of aggregate short-term borrowings as of and for the years ended December 31, 2015 and 2014.

	2015		2014	
(Dollars in thousands)	**Repurchase Agreements**	**Other Short-term Borrowings**	**Repurchase Agreements**	**Other Short-term Borrowings**
Amount outstanding at end of year	**$32,416**	**$ —**	$19,221	$ —
Weighted average interest rate at end of year	**0.20%**	**—%**	0.16%	—%
Maximum amount outstanding at any month-end	**$35,271**	**$ —**	$35,555	$ 600
Daily average amount outstanding	**$25,574**	**$ 204**	$19,531	$ 276
Weighted average interest rate for the year	**0.20%**	**0.51%**	0.20%	0.64%

Repurchase agreements accounted for as secured borrowings are shown in the following table.

(Dollars in thousands)	**Overnight and Continuous**	**Up to 30 days**	**30-90 days**	**Greater than 90 days**	**Total**
December 31, 2015					
Repurchase agreements and repurchase-to-maturity transactions	**$32,416**	**$—**	**$—**	**$—**	**$32,416**
Gross amount of recognized liabilities for repurchase agreements in statement of condition					**$32,416**
December 31, 2014					
Repurchase agreements and repurchase-to-maturity transactions	$19,221	$—	$—	$—	$19,221
Gross amount of recognized liabilities for repurchase agreements in statement of condition					$19,221

As of December 31, 2015 and December 31, 2014, DNB had $32.4 million and $19.2 million of repurchase agreements, respectively. In conjunction with these repurchase agreements, $33.1 million and $19.6 million of state and municipal securities were sold on an overnight basis as of December 31, 2015 and December 31, 2014, respectively, which represents 102% of the repurchase agreement amount. DNB may be required to provide additional collateral based on the fair value of the underlying securities. Daily procedures are followed to ensure repurchase agreements are properly collateralized.

In addition to short-term borrowings, DNB maintains borrowing arrangements with the FHLBP to meet borrowing needs exceeding 30 days. The advances are collateralized by loans, and a lien on the Bank's FHLBP stock. There were $381.6 million in loans used as collateral for FHLBP borrowings. After a collateral weighting of 69%, that amount totaled $263.8 million. Below, certain advances are convertible term advances and are callable, at the FHLBP's option, at various dates. If an advance is called by the FHLBP, DNB has the option of repaying the borrowing, or continuing to borrow at three month Libor plus 14 basis points. In addition to the $30.0 million of borrowings from the FHLBP at December 31, 2015, the

FHLBP had issued letters of credit, on DNB's behalf, totaling $30.0 million against DNB's available credit lines. These letters of credit were used to secure public deposits as required by law.

	December 31, 2015		December 31, 2014	
(Dollars in thousands)	**Weighted Average Rate**	**Amount**	**Weighted Average Rate**	**Amount**
Due by December 31, 2015	—%	$ —	5.86%	$10,000
Due by December 31, 2016	0.51	10,000	—	—
Due by December 31, 2017	1.22	2,000	—	—
Due by December 31, 2018	1.46	2,000	—	—
Due by December 31, 2019	1.91	10,000	1.91	10,000
Due by December 31, 2020	1.88	6,000	—	—
Total	**1.36%**	**$30,000**	3.89%	$20,000

(8) OTHER BORROWINGS

Included in other borrowings is a long-term capital lease agreement, which relates to DNB's West Goshen branch. As of December 31, 2015 the lease has a carrying amount of $206,000 net of accumulated depreciation of $544,000, and is included in the balance of office properties and equipment in the accompanying statements of financial condition. The following is a schedule of the future minimum capital lease payments, together with the present value of the net minimum lease payments, as of December 31, 2015:

(Dollars in thousands)	**Year ended December 31**
2016	$ 107
2017	107
2018	106
2019	107
2020	106
Thereafter	175
Total minimum lease payments	708
Less amount representing interest	(244)
Present value of net minimum lease payments	**$ 464**

DNB recognized rent expense of $614,000 and $765,000 for the years ended December 31, 2015 and 2014, respectively. The following is a schedule of the future minimum non-cancelable operating lease

payments for the Operations Center in Downingtown, branches at Exton and Chadds Ford, and temporary locations in Exton and West Chester as of December 31, 2015.

(Dollars in thousands)	**Year ended December 31**
2016	$ 445
2017	399
2018	399
2019	314
2020	254
Thereafter	121
Total minimum lease payments	**$1,932**

(9) SUBORDINATED DEBENTURES AND NOTES

DNB has two issuances of junior subordinated debentures (the "debentures") as follows. The majority of the proceeds of each issuance were invested in DNB's subsidiary, to increase the Bank's capital levels. The junior subordinated debentures issued in each case qualify as a component of capital for regulatory purposes. DNB Capital Trust I and II are special purpose Delaware business trusts, which are not consolidated.

DNB Capital Trust I

DNB's first issuance of junior subordinated debentures was on July 20, 2001. This issuance of debentures are at floating rates and were issued to DNB Capital Trust I, a Delaware business trust in which DNB owns all of the common equity. DNB Capital Trust I issued $5 million of floating rate (6 month Libor plus 3.75%, with a cap of 12%) capital preferred securities to a qualified institutional buyer. The proceeds of these securities were used by the Trust, along with DNB's capital contribution, to purchase $5,155,000 principal amount of DNB's floating rate junior subordinated debentures. The preferred securities have been redeemable since July 25, 2006 and must be redeemed upon maturity of the debentures on July 25, 2031.

DNB Capital Trust II

DNB's second issuance of junior subordinated debentures was on March 30, 2005. This issuance of debentures are at floating rates and were issued to DNB Capital Trust II, a Delaware business trust in which DNB owns all of the common equity. DNB Capital Trust II issued $4.0 million of floating rate (the rate was fixed at 6.56% for the first 5 years and is now adjusting at a rate of 3-month LIBOR plus 1.77%) capital preferred securities. The proceeds of these securities were used by the Trust, along with DNB's capital contribution, to purchase $4,124,000 principal amount of DNB's floating rate junior subordinated debentures. The preferred securities have been redeemable since May 23, 2010. The preferred securities must be redeemed upon maturity of the debentures on May 23, 2035.

Subordinated Note

On March 5, 2015, DNB Financial Corporation entered into a Subordinated Note Purchase Agreement (the "Agreement") with an accredited investor under which the Company issued a $9.75 million subordinated note (the "Note") to the investor. The Note has a maturity date of March 6, 2025, and bears interest at a fixed rate of 4.25% per annum for the first 5 years and then will float at the Wall Street Journal Prime rate plus 1.00%, provided that the interest rate applicable to the outstanding principal balance will at no time be less than 3.0% or greater than 5.75% per annum.

DNB may, at its option, beginning with the first interest payment date after March 6, 2019, and on any interest payment date thereafter, redeem the Note, in whole or in part, at par plus accrued and unpaid interest to the date of redemption. The Note is not subject to repayment at the option of the noteholder.

The Note is unsecured and ranks junior in right of payment to DNB's senior indebtedness and to DNB's obligations to its general creditors and qualifies as Tier 2 capital for regulatory purposes.

(10) FAIR VALUES

FASB ASC Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy based on the nature of data inputs for fair value determinations, under which DNB is required to value each asset within its scope using assumptions that market participations would utilize to value that asset. When DNB uses its own assumptions, it is required to disclose additional information about the assumptions used and the effect of the measurement on earnings or the net change in assets for the period.

The three levels of the fair value hierarchy under FASB ASC Topic 820 are as follows:

Level 1 — Quoted prices in active markets for identical securities.

Level 2 — Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active and model derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 — Instruments whose significant value drivers are unobservable.

A description of the valuation methodologies used for assets measured at fair value is set forth below:

DNB's available-for-sale investment securities, which generally include U.S. government agencies and mortgage backed securities, collateralized mortgage obligations, corporate bonds and equity securities are reported at fair value. These securities are valued by an independent third party ("preparer"). The preparer's evaluations are based on market data. They utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, their evaluated pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (only obtained from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data. For certain securities additional inputs may be used or some market inputs may not be applicable. Inputs are prioritized differently on any given day based on market conditions.

U.S. Government agencies are evaluated and priced using multi-dimensional relational models and option adjusted spreads. State and municipal securities are evaluated on a series of matrices including reported trades and material event notices. Mortgage backed securities are evaluated using matrix correlation to treasury or floating index benchmarks, prepayment speeds, monthly payment information and other benchmarks. Other investments are evaluated using a broker-quote based application, including quotes from issuers.

Impaired loans are those loans that the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

OREO assets are adjusted to fair value less estimated selling costs upon transfer of the loans to OREO. Subsequently, OREO assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. There assets are included as level 3 fair values.

The following table summarizes the assets at December 31, 2015 and December 31, 2014 that are recognized on DNB's balance sheet using fair value measurement determined based on the differing levels of input.

	December 31, 2015			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets at Fair Value**
Assets Measured at Fair Value on a Recurring Basis				
US Government agency obligations	**$—**	**$ 58,208**	**$ —**	**$ 58,208**
GSE mortgage-backed securities	**—**	**40,351**	**—**	**40,351**
Collateralized mortgage obligations GSE	**—**	**15,806**	**—**	**15,806**
Corporate bonds	**—**	**20,571**	**—**	**20,571**
State and municipal tax-exempt	**—**	**17,443**	**—**	**17,443**
Total assets measured at fair value on a recurring basis	**$—**	**$152,379**	**$ —**	**$152,379**
Assets Measured at Fair Value on a Nonrecurring Basis				
Impaired loans	**$—**	**$ —**	**$ 964**	**$ 964**
OREO & other repossessed property	**—**	**—**	**682**	**682**
Total assets measured at fair value on a nonrecurring basis	**$—**	**$ —**	**$1,646**	**$ 1,646**

	December 31, 2014			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets at Fair Value**
Assets Measured at Fair Value on a Recurring Basis				
US Government agency obligations	$—	$ 61,354	$ —	$ 61,354
GSE mortgage-backed securities	—	66,723	—	66,723
Collateralized mortgage obligations GSE	—	20,011	—	20,011
Corporate bonds	—	13,102	—	13,102
State and municipal tax-exempt	—	10,994	—	10,994
Equity securities	18	—	—	18
Total assets measured at fair value on a recurring basis	$18	$172,184	$ —	$172,202
Assets Measured at Fair Value on a Nonrecurring Basis				
Impaired loans	$—	$ —	$2,916	$ 2,916
OREO & other repossessed property	—	—	100	100
Total assets measured at fair value on a nonrecurring basis	$—	$ —	$3,016	$ 3,016

The following table presents additional information about assets measured at fair value on a nonrecurring basis and for which DNB has utilized Level 3 inputs to determine fair value:

Quantitative Information about Level 3 Fair Value Measurement
December 31, 2015

(Dollars in thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)			
Impaired loans —		Appraisal of	Appraisal adj.[2]	0%	to	0%	(0)%
Residential mortgage	**$115**	collateral[1]	Disposal costs[2]	−8%	to	−8%	(−8)%
Impaired loans —		Appraisal of	Appraisal adj.[2]	0%	to	0%	(0)%
Commercial mortgage	**97**	collateral[1]	Disposal costs[2]	−13%	to	−13%	(−13)%
Impaired loans —		Appraisal of	Appraisal adj.[2]	−72%	to	−72%	(−72)%
Commercial term	**90**	collateral[1]	Disposal costs[2]	−11%	to	−11%	(−11)%
Impaired loans —		Appraisal of	Appraisal adj.[2]	0%	to	0%	(0)%
Commercial construction	**559**	collateral[1]	Disposal costs[2]	−8%	to	−8%	(−8)%
Impaired loans —		Appraisal of	Appraisal adj.[2]	0%	to	0%	(0)%
Consumer other	**103**	collateral[1]	Disposal costs[2]	−8%	to	−8%	(−8)%
Impaired loan total	**$964**						
Other real estate owned	**$682**		Disposal costs[2]	−8%	to	−8%	(−8)%

Quantitative Information about Level 3 Fair Value Measurement
December 31, 2014

(Dollars in thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)			
Impaired loans —		Appraisal of	Appraisal adj.[2]	0%	to	0%	(0)%
Residential mortgage	$1,244	collateral[1]	Disposal costs[2]	−8%	to	−8%	(−8)%
Impaired loans —		Appraisal of	Appraisal adj.[2]	0%	to	0%	(0)%
Commercial mortgage	97	collateral[1]	Disposal costs[2]	−13%	to	−13%	(−13)%
Impaired loans —		Appraisal of	Appraisal adj.[2]	0%	to	0%	(0)%
Commercial term	81	collateral[1]	Disposal costs[2]	−11%	to	−11%	(−11)%
Impaired loans —		Appraisal of	Appraisal adj.[2]	0%	to	−47%	(−19)%
Commercial construction	1,494	collateral[1]	Disposal costs[2]	−11%	to	−11%	(−11)%
Impaired loan total	$2,916						
Other real estate owned	$ 100		Disposal costs[2]	−8%	to	−16%	(−12)%

(1) Fair value is generally determined through independent appraisals or sales contracts of the underlying collateral, which generally include various level 3 inputs which are not identifiable.

(2) Appraisals are adjusted by management for qualitative factors and disposal costs.

Impaired loans. Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $5.0 million at December 31, 2015. Of this, $307,000 had specific valuation allowances of $114,000, leaving a fair value of $193,000 as of December 31, 2015. In addition, DNB had $931,000 in impaired loans that were partially charged down by

$160,000, leaving $771,000 at fair value as of December 31, 2015. The total fair value of impaired loans at December 31, 2015 was $964,000.

Impaired loans had a carrying amount of $9.1 million at December 31, 2014. Of this, $850,000 had specific valuation allowances of $273,000, leaving a fair value of $577,000 at December 31, 2014. In addition, DNB had $2.9 million in impaired loans that were partially charged down by $526,000, leaving $2.3 million at fair value as of December 31, 2014. The total fair value of impaired loans at December 31, 2014 was $2.9 million.

Other Real Estate Owned & other repossessed property Other real estate owned ("OREO") consists of properties acquired as a result of, or in-lieu-of, foreclosure. Properties or other assets are classified as OREO and other repossessed property are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying value or fair value, less estimated costs to sell. Costs relating to the development or improvement of the assets are capitalized and costs relating to holding the assets are charged to expense. DNB had $2.6 million of such assets at December 31, 2015, which consisted of $2.4 million in OREO and $165,000 in other repossessed property. DNB had $901,000 of such assets at December 31, 2014, which consisted of $837,000 in OREO and $64,000 in other repossessed property. Subsequent to the repossession of these assets, DNB wrote down the carrying values of certain assets by $154,000 in OREO during the year ended December 31, 2015. DNB did not write down the carrying values during the year ending December 31, 2014.

Below is management's estimate of the fair value of all financial instruments, whether carried at cost or fair value on DNB's consolidated balance sheet. The carrying amounts and estimated fair values of financial instruments at December 31, 2015 and December 31, 2014 are as follows:

	December 31, 2015				
(Dollars in thousands)	**Carrying Amount**	**Estimated Fair Value**	**Level 1**	**Level 2**	**Level 3**
Financial assets					
Cash and cash equivalents	**$ 21,119**	**$ 21,119**	**$21,119**	**$ —**	**$ —**
AFS investment securities	**152,379**	**152,379**	**—**	**152,379**	**—**
HTM investment securities	**67,829**	**68,431**	**—**	**66,431**	**2,000**
Restricted stock	**3,447**	**3,447**	**—**	**3,447**	**—**
Loans held-for-sale	**—**	**—**	**—**	**—**	**—**
Loans, net of allowance, including impaired	**476,823**	**461,925**	**—**	**—**	**461,925**
Accrued interest receivable	**2,410**	**2,410**	**—**	**2,410**	**—**
Financial liabilities					
Deposits:					
Non-interest-bearing deposits	**125,581**	**125,581**	**—**	**125,581**	**—**
Interest-bearing deposits:	**396,188**	**396,188**	**—**	**396,188**	**—**
Time	**66,018**	**65,697**	**—**	**65,697**	**—**
Brokered deposits	**18,488**	**18,327**	**—**	**18,327**	**—**
Repurchase agreements	**32,416**	**32,416**	**—**	**32,416**	**—**
FHLBP advances	**30,000**	**30,210**	**—**	**30,210**	**—**
Junior subordinated debentures and other borrowings	**9,279**	**7,889**	**—**	**7,889**	**—**
Subordinated debt	**9,750**	**9,999**	**—**	**9,999**	**—**
Accrued interest payable	**345**	**345**	**—**	**345**	**—**
Off-balance sheet instruments	**—**	**—**	**—**	**—**	**—**

(Dollars in thousands)	December 31, 2014 Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	$ 12,504	$ 12,504	$12,504	$ —	$ —
AFS investment securities	172,202	172,202	18	172,184	—
HTM investment securities	59,454	60,099	—	60,099	—
Restricted stock	2,587	2,587	—	2,587	—
Loans held-for-sale	617	640	—	—	—
Loans, net of allowance, including impaired	450,697	436,499	—	—	436,499
Accrued interest receivable	2,253	2,253	—	2,253	—
Financial liabilities					
Deposits:					
Non-interest-bearing deposits	102,107	102,107	—	102,107	—
Interest-bearing deposits:	415,933	415,933	—	415,933	—
Time	76,805	76,519	—	76,519	—
Brokered deposits	10,238	10,204	—	10,204	—
Repurchase agreements	19,221	19,221	—	19,221	—
FHLBP advances	20,000	20,616	—	20,616	—
Junior subordinated debentures and other borrowings	9,279	7,546	—	7,546	—
Accrued interest payable	351	351	—	351	—
Off-balance sheet instruments	—	—	—	—	—

The specific estimation methods and assumptions used can have a substantial impact on the resulting fair values of financial instruments. Following is a brief summary of the significant assumptions, methods, and estimates used in estimating fair value.

Limitations Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time DNB's entire holdings of a particular financial instrument. Because no market exists for a significant portion of DNB's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Cash and Cash Equivalents, Accrued Interest Receivable and Accrued Interest Payable The carrying amounts for short-term investments (cash and cash equivalents) and accrued interest receivable and payable approximate fair value.

Loans Held-for-Sale (Carried at Lower of Cost or Fair Value) The fair value of loans held-for-sale is determined, when possible, using quoted secondary-market prices. If no such quotes prices exist, the fair value of a loan is determined using quoted prices for a similar loan or loans, adjusted for the specific attributes of that loan.

Loans Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, commercial mortgages, residential mortgages, consumer and non-accrual loans. The fair value of performing loans is calculated by discounting expected cash flows using an estimated market discount rate. Expected cash flows include both contractual cash flows and

prepayments of loan balances. Prepayments on consumer loans were determined using the median of estimates of securities dealers for mortgage-backed investment pools.

The estimated discount rate considers credit and interest rate risk inherent in the loan portfolios and other factors such as liquidity premiums and incremental servicing costs to an investor. Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented would be indicative of the value negotiated in an actual sale.

The fair value for non-accrual loans not based on fair value of collateral was derived through a discounted cash flow analysis, which includes the opportunity costs of carrying a non-performing asset. An estimated discount rate was used for these non-accrual loans, based on the probability of loss and the expected time to recovery.

Deposits and Repurchase Agreements The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate money market accounts, savings accounts, and interest checking accounts approximate their fair values at the reporting date. Fair values for fixed-rate CDs are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-Term Borrowings The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within 90 days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on DNB's current incremental borrowing rates for similar types of borrowing arrangements.

Long-Term Debt The fair value of DNB's fixed rate long-term borrowings which includes FHLBP advances, subordinated note, junior subordinated debentures, and other borrowings is estimated using a discounted cash flow analysis based on the open market's rate for similar types of borrowing arrangements. The carrying amounts of variable-rate long-term borrowings approximate their fair values at the reporting date.

Restricted Stock The carrying amount of restricted investment in Federal Home Loan Bank stock, Federal Reserve stock and ACBB stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Off-balance-sheet Instruments (Disclosed at Cost) Off-balance-sheet instruments are primarily comprised of loan commitments, which are generally priced at market at the time of funding. Fees on commitments to extend credit and stand-by letters of credit are deemed to be immaterial and these instruments are expected to be settled at face value or expire unused. It is impractical to assign any fair value to these instruments.

(11) FEDERAL INCOME TAXES

Income tax expense was comprised of the following:

(Dollars in thousands)	Year Ended December 31 2015	2014
Current tax expense:		
Federal	**$1,581**	$1,894
State	**10**	9
Deferred income tax (benefit) expense:		
Federal	**(88)**	(226)
Income tax expense	**$1,503**	$1,677

The effective income tax rates of 22.6% for 2015 and 25.9% for 2014 were different than the applicable statutory Federal income tax rate of 34%. The reason for these differences follows:

(Dollars in thousands)	Year Ended December 31 2015	2014
Federal income taxes at statutory rate	**$2,258**	$2,203
Decrease resulting from:		
Tax-exempt interest and dividend preference	**(640)**	(467)
Bank owned life insurance	**(78)**	(80)
Other, net (decrease) increase	**(37)**	21
Income tax expense	**$1,503**	$1,677

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities are presented below:

(Dollars in thousands)	December 31 2015	2014
Deferred tax assets:		
Allowance for credit losses	**$1,677**	$1,485
Unrealized losses on securities	**402**	227
Unrealized losses on reclassified securities	**6**	8
Unrealized loss on pension obligation	**616**	589
Capital loss disallowance	**1**	1
State net operating losses	**528**	463
Unvested stock awards	**147**	131
Deferred compensation (SERP)	**732**	704
Nonqualified stock options	**59**	74
Non-accrued interest	**468**	547
Provision for unfunded loans	**64**	57
OREO write-downs	**52**	75
Core deposit intangible	**14**	16
Accrued expenses	**57**	51
Total gross deferred tax assets	**4,823**	4,428
Deferred tax liabilities:		
Depreciation	**(31)**	(101)
Pension expense	**(27)**	(50)
Bank shares tax credit	**(199)**	(189)
Prepaid expenses	**(219)**	(151)
Mortgage servicing rights	**(44)**	(28)
Deferred gain from insurance proceeds	**(41)**	—
Total gross deferred tax liabilities	**(561)**	(519)
Valuation allowance	**(529)**	(463)
Net deferred tax asset	**$3,733**	$3,446

As of December 31, 2015, DNB had no material unrecognized tax benefits or accrued interest and penalties. It is DNB's policy to account for interest and penalties accrued relative to unrecognized tax benefits as a component of income tax expense. Federal and state tax years 2012 through 2014 were open for examination as of December 31, 2015.

DNB had net state operating loss carryovers with the Commonwealth of Pennsylvania of $7.4 million and $6.8 million at December 31, 2015 and 2014, respectively for which a full valuation allowance has been established. These carryovers will begin to expire in 2021.

(12) EARNINGS PER COMMON SHARE

Basic earnings per share ("EPS") is computed based on the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the treasury stock method and reflects the potential dilution that could occur from the exercise of stock options and the amortized portion of unvested stock awards. Stock options and unvested stock awards for which the exercise or the grant price exceeds the average market price over the period have an anti-dilutive effect on EPS and, accordingly, are excluded from the calculation. Treasury shares are not deemed outstanding for earnings per share calculations. There were no anti-dilutive stock options outstanding, and no anti-dilutive stock

awards at December 31, 2015. There were 48,041 anti-dilutive stock options outstanding, and 25,135 anti-dilutive stock awards at December 31, 2014. The following table sets forth the computation of basic and diluted earnings per share:

(In thousands, except per share data)	Year Ended December 31					
	2015			**2014**		
	Income	**Shares**	**Amount**	**Income**	**Shares**	**Amount**
Basic EPS						
Net income available to common stockholders	**$5,088**	**2,802**	**$ 1.82**	$4,669	2,767	$ 1.69
Effect of potential dilutive common stock equivalents — stock options and restricted shares	**—**	**45**	**(0.03)**	—	46	(0.03)
Diluted EPS						
Income available to common stockholders after assumed exercises	**$5,088**	**2,847**	**$ 1.79**	$4,669	2,813	$ 1.66

(13) BENEFIT PLANS

Pension Plan The Bank maintains a defined benefit pension plan (the "Plan") covering all employees, including officers, who have been employed for one year and have attained 21 years of age. Prior to May 1, 1985, an individual must have attained the age of 25 and accrued one year of service. The Plan provides pension benefits to eligible retired employees at 65 years of age equal to 1.5% of their average monthly pay multiplied by their years of accredited service (maximum 40 years). The accrued benefit is based on the monthly average of their highest five consecutive years of their last ten years of service. The Plan generally covers only full-time employees.

Effective December 31, 2003, DNB amended its Plan to curtail future eligibility and so that no participants will earn additional benefits under the Plan after December 31, 2003. As a result of this amendment, no further service or compensation was credited under the Plan after December 31, 2003. The Plan, although frozen, will continue to provide benefit payments and eligible employees can still earn vesting credits until retirement.

The Society of Actuaries released new mortality tables in 2014 which the Company first utilized in its pension plan remeasurements at December 31, 2014. The change in mortality assumption resulted in an increase to the Plan's accumulated benefit obligation of $100,000.

The following table summarizes the changes in the fair value of plan assets, changes in the projected benefit obligation (PBO), the funded status of both the accumulated benefit obligation (ABO) and the PBO, and the weighted-average assumptions used to determine benefit obligations for the pension plan at December 31, 2015 and 2014. Amounts recognized at December 31, 2015 and 2014 are reflected in other assets, and in accrued expenses and other liabilities on the Consolidated Statements of Financial Condition. The estimation of DNB's PBO associated with these plans considers various actuarial assumptions for mortality rates and discount rates. As of December 31, 2015, DNB continued to utilize mortality assumptions published by the Society of Actuaries in October 2014 that were first adopted as of December 31, 2014, adjusted to reflect observed and anticipated future mortality.

The following table sets forth the Plan's funded status, as of the measurement dates of December 31, 2015 and 2014 and amounts recognized in DNB's consolidated financial statements at December 31, 2015 and 2014:

(Dollars in thousands)	December 31 2015	2014
Projected benefit obligation	**$(6,583)**	$(6,783)
Accumulated benefit obligation	**(6,583)**	(6,783)
Fair value of plan assets	**4,851**	5,197
Amounts recognized in the statement of financial position consist of:		
Other liabilities	**$(1,732)**	$(1,586)
Funded status	**$(1,732)**	$(1,586)
Amounts recognized in accumulated other comprehensive loss consist of:		
Net loss	**$ 1,812**	$ 1,734
Total	**$ 1,812**	$ 1,734

The amounts and changes in DNB's pension benefit obligation and fair value of plan assets for the years ended December 31, 2015 and 2014 are as follows:

(Dollars in thousands)	Year ended December 31 2015	2014
Change in benefit obligation		
Benefit obligation at beginning of year	**$6,783**	$6,250
Interest cost	**243**	275
Actuarial (gain) loss	**(162)**	636
Benefits paid	**(281)**	(378)
Benefit obligation at end of year	**$6,583**	$6,783
Change in plan assets		
Fair value of assets at beginning of year	**$5,197**	$5,274
Actual return on plan assets	**(58)**	235
Employer contribution	**57**	103
Benefits paid	**(281)**	(378)
Estimated expenses	**(64)**	(37)
Fair value of assets at end of year	**$4,851**	$5,197

The Plan's assets are invested using an asset allocation strategy in units of certain equity, bond, real estate and money market funds. The following table summarizes the weighted average asset allocations as of the dates indicated:

	December 31 2015	2014
Cash and cash equivalents	**2.6%**	2.4%
Equity securities	**55.1**	57.8
Fixed income securities	**42.3**	39.8
Total	**100.0%**	100.0%

Equity securities consist mainly of equity common trust funds and mutual funds. Fixed income securities consist mainly of fixed income common trust funds and individual securities. Pension plan assets are invested with a moderate growth objective, with target asset allocations of approximately 50 - 60% bonds and cash and approximately 40 - 50% in stocks. As of December 31, 2015, the plan held 44.9% of its assets in bonds and cash.

Net periodic pension costs for the years indicated include the following components:

	Year Ended December 31	
(Dollars in thousands)	**2015**	**2014**
Service cost	**$ 46**	$ 44
Interest cost	**243**	275
Expected return on plan assets	**(272)**	(285)
Recognized net actuarial loss	**109**	49
Net periodic cost	**$ 126**	$ 83
Assumptions used:		
Discount rate:		
Obligation	**4.05%**	3.75%
Expense	**3.75**	4.50
Rate of increase in compensation level	**N/A**	N/A
Expected long-term rate of return on assets	**5.50**	5.50

In selecting the expected long-term rate of return on assets used for the Plan, DNB considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of the Plan. This included considering the asset allocation and the expected returns likely to be earned over the life of the plan. This basis is consistent with the prior year. The discount rate is the rate used to determine the present value of DNB's future benefit obligations for its pension.

DNB's estimated future benefit payments are as follows:

(Dollars in thousands)	**Period**	**Benefits**
	2016	$ 622
	2017	306
	2018	361
	2019	431
	2020	917
	2021-2025	2,387

The estimated costs that will be amortized from accumulated other comprehensive income into net periodic pension cost during the next fiscal year are as follows:

(Dollars in thousands)	
Service cost	**$ 44**
Interest cost	**254**
Expected return on plan assets	**(253)**
Recognized net actuarial gain	**128**
Estimated 2016 net periodic benefit cost	**$ 173**

The fair value of DNB's pension plan assets by asset category are as follows:

	December 31, 2015			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets at Fair Value**
Mutual fund — equity:				
US equities	**$1,345**	**$—**	**$—**	**$1,345**
International equities	**1,202**	**—**	**—**	**1,202**
Real estate	**126**	**—**	**—**	**126**
Mutual funds — fixed income:				
Domestic fixed income	**2,052**	**—**	**—**	**2,052**
US corporate bonds, notes and cash:				
Corporate bonds	**—**	**—**	**—**	**—**
Cash	**126**	**—**	**—**	**126**
Total assets measured at fair value on a recurring basis	**$4,851**	**$—**	**$—**	**$4,851**

	December 31, 2014			
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	**Assets at Fair Value**
Mutual fund — equity:				
US equities	$1,622	$—	$—	$1,622
International equities	1,245	—	—	1,245
Real estate	133	—	—	133
Mutual funds — fixed income:				
Domestic fixed income	2,070	—	—	2,070
US corporate bonds, notes and cash:				
Corporate bonds	—	—	—	—
Cash	127	—	—	127
Total assets measured at fair value on a recurring basis	$5,197	$—	$—	$5,197

Retirement and Death Benefit Agreement During 1999, the Bank and Henry F. Thorne, its then current Chief Executive Officer (the "Executive"), entered into a Death Benefit Agreement providing for supplemental death and retirement benefits for him (the "Supplemental Plan"). In 2003, the Supplemental Plan was replaced by a Retirement and Death Benefit Agreement (the "Replacement Plan").

The Replacement Plan provides that the Bank and the Executive share in the rights to the cash surrender value and death benefits of a split-dollar life insurance policy (the "Policy") The policy is designed to provide the Executive, upon attaining age 65, with projected annual after-tax payments of approximately $35,000. In addition, the Policy is intended to provide the Executive with a projected death benefit of $750,000.

In July 2008, DNB commenced making monthly payments of $3,658 to the Executive. The remaining liability under the plan was $739,000 and $739,000 as of December 31, 2015 and 2014, respectively. The annual expense for the same respective periods was $54,000 and $53,000.

Supplemental Executive Retirement Plan for Chairman and Chief Executive Officer *(William S. Latoff passed away on January 11, 2016)* DNB had a Supplemental Executive Retirement Plan (also known as a SERP) for its Chairman and Chief Executive Officer, William S. Latoff. The purpose of the SERP was to provide Mr. Latoff a pension supplement beginning at age 70 to compensate him for the loss of retirement plan

funding opportunities from his other business interests because of his commitments to DNB as Chairman and CEO. The liability based on the contract will be $1.3 million in the first quarter of 2016. This amount will be paid out in 2019.

401(k) Retirement Savings Plan The Bank has adopted a retirement savings 401(k) plan. Participants are permitted to authorize pre-tax savings contributions to a separate trust established under the 401(k) plan, subject to limitations on deductibility of contributions imposed by the Internal Revenue Code. The plan allows after-tax contributions to be made as well. The contributions are subject to the same limitations. Management evaluates discretionary matching contributions each quarter based upon DNB's financial performance. DNB made no matching contributions to the 401(k) plan in 2015 and 2014.

Profit Sharing Plan The Bank maintains a Profit Sharing Plan for eligible employees. The plan provides that the Bank make contributions equal to 3% of the eligible participant's W-2 wages. DNB's related expense associated with the Profit Sharing Plan was $262,000 and $246,000 in 2015 and 2014, respectively.

Stock Option Plan DNB has a Stock Option Plan for employees and directors. Under the plan, options (both qualified and non-qualified) to purchase a maximum of 793,368 (as adjusted for subsequent stock dividends) shares of DNB's common stock could be issued to employees and directors.

Under the plan, option exercise prices must equal the fair market value of the shares on the date of option grant and the option exercise period may not exceed ten years. Vesting of options under the plan is determined by the Plan Committee. There were 354,090 and 354,090 shares available for grant at December 31, 2015 and 2014, respectively. All options currently outstanding are immediately exercisable. DNB fully recorded all stock option expense by the end of 2014. DNB had no expense in 2015 and expensed $51,000 in 2014.

The award agreement provides that, upon issuance of the plan shares, the grantee may elect to pay federal withholding taxes on the award in cash or by electing to apply some of the awarded shares at their fair market value, or both. Under the Stock Option Plan, 99,086 shares were exercised in 2015. The shares awarded from the NQ cashless exercises resulted in an increase in shares outstanding of 16,391. There was a cash equivalent of 6,533 shares used to pay all applicable taxes on the transactions. Stock option activity is indicated below:

	Number Outstanding	Weighted Average Exercise Price
Outstanding January 1, 2014	207,303	$15.92
Issued	—	—
Exercised	(24,906)	15.92
Forfeited	—	—
Expired	(18,811)	22.78
Outstanding December 31, 2014	163,586	$15.13
Issued	—	—
Exercised	(99,086)	19.34
Forfeited	—	—
Expired	—	—
Outstanding December 31, 2015	**64,500**	**$ 8.67**

The weighted-average price and weighted average remaining contractual life for the outstanding options are listed below for the dates indicated.

December 31, 2015

Range of Exercise Prices	Number Outstanding	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Intrinsic Value
$6.93-10.99	64,500	64,500	$8.67	2.15 years	$1,344,000
Total	**64,500**	**64,500**	**$8.67**	**2.15 years**	**$1,344,000**

December 31, 2014

Range of Exercise Prices	Number Outstanding	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Intrinsic Value
$ 6.93-10.99	80,650	80,650	$ 8.66	3.15 years	$1,044,000
14.00-19.99	34,895	34,895	17.51	0.97 years	143,000
23.00-24.27	48,041	48,041	24.27	0.29 years	—
Total	163,586	163,586	$15.13	1.85 years	$1,187,000

Other Stock-Based Compensation DNB maintains an Incentive Equity and Deferred Compensation Plan. The plan provides that up to 243,101 shares of common stock may be granted, at the discretion of the Board, to individuals of DNB. Shares already granted are issuable on the earlier of three years after the date of the grant or a change in control of DNB if the recipients are then employed by DNB (“Vest Date”). Upon issuance of the shares, resale of the shares is restricted for an additional one year, during which the shares may not be sold, pledged or otherwise disposed of. Prior to the Vest Date and in the event the recipient terminates association with DNB for reasons other than death, disability or change in control, the recipient forfeits all rights to the shares that would otherwise be issued under the grant.

Share awards granted by the plan were recorded at the date of award based on the fair market value of shares. Awards are being amortized to expense over a three or four-year cliff-vesting period. Restricted stock awards are non-participating shares.

For the twelve-month periods ended December 31, 2015 and 2014, $342,000 and $216,000 was amortized to expense. At December 31, 2015, approximately $1.2 million in additional compensation will be recognized over the weighted average remaining service period of approximately 2.51 years. At December 31, 2015, 91,169 shares were reserved for future grants under the plan. 24,000 restricted shares vested in 2015. The shares awarded from the cashless exercises resulted in an increase in shares

outstanding of 13,048. There was a cash equivalent of 10,952 shares used to pay all applicable taxes on the transactions. Stock grant activity is indicated below.

	Shares	Weighted Average Stock Price
Non-vested stock awards — January 1, 2014	50,795	$15.65
Granted	25,135	21.72
Forfeited	—	—
Vested	—	—
Non-vested stock awards — December 31, 2014	75,930	$17.66
Granted	26,595	27.55
Forfeited	(1,270)	19.21
Vested	(24,000)	12.28
Non-vested stock awards — December 31, 2015	**77,255**	**$22.71**

(14) COMMITMENTS, CONTINGENT LIABILITIES AND OFF-BALANCE-SHEET RISK

In the normal course of business, various commitments and contingent liabilities are outstanding, such as guarantees and commitments to extend credit, borrow money or act in a fiduciary capacity, which are not reflected in the consolidated financial statements. Management does not anticipate any significant losses as a result of these commitments.

DNB had outstanding stand-by letters of credit totaling $3.2 million and unfunded loan and lines of credit commitments totaling $116.4 million at December 31, 2015, of which, $103.3 million were variable rate and $13.1 million were fixed rate. The amount of reserve for unfunded loan commitments at December 31, 2015 was $188,000. DNB had outstanding stand-by letters of credit totaling $2.2 million and unfunded loan and lines of credit commitments totaling $101.7 million at December 31, 2014, of which, $94.6 million were variable rate and $7.1 million were fixed rate. The amount of reserve for unfunded loan commitments at December 31, 2014 was $166,000.

These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized on the balance sheet. The exposure to credit loss in the event of non-performance by the party to the financial instrument for commitments to extend credit and stand-by letters of credit is represented by the contractual amount. Management uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Stand-by letters of credit are conditional commitments issued by DNB to guarantee the performance or repayment of a financial obligation of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risks involved in issuing letters of credit are essentially the same as those involved in extending loan facilities to customers. DNB holds various forms of collateral to support these commitments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. DNB evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral, if any, obtained upon the extension of credit, usually consists of real estate, but may include securities, property or other assets.

DNB maintains borrowing arrangements with correspondent banks and the FHLBP, as well as access to the discount window at the Federal Reserve Bank of Philadelphia to meet short-term liquidity needs. Through these relationships, DNB has available credit of approximately $303.2 million.

Assets held by DNB First Wealth Management in a fiduciary, custody or agency capacity at December 31, 2015 totaled $191.5 million. These assets are not assets of DNB, and are not included in the consolidated financial statements.

DNB is a party to a number of lawsuits arising in the ordinary course of business. While any litigation causes an element of uncertainty, management is of the opinion that the liability, if any, resulting from the actions, will not have a material effect on the accompanying financial statements.

(15) PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information of DNB Financial Corporation follows:

Condensed Statements of Financial Condition *(Dollars in thousands)*	**December 31 2015**	**December 31 2014**
Assets		
Cash	**$ 75**	$ 160
Investment securities, at fair value	**—**	18
Investment in subsidiary	**74,243**	73,206
Other assets	**302**	104
Total assets	**$74,620**	$73,488
Liabilities and Stockholders' Equity		
Liabilities		
Junior subordinated debentures	**$ 9,279**	$ 9,279
Subordinated debt	**9,750**	—
Other liabilities	**103**	301
Total liabilities	**19,132**	9,580
Stockholders' equity	**55,488**	63,908
Total liabilities and stockholders' equity	**$74,620**	$73,488

Condensed Statements of Income *(Dollars in thousands)*	**Year Ended December 31 2015**	**Year Ended December 31 2014**
Income:		
Equity in undistributed income of subsidiary	**$1,429**	$4,548
Loss on sale of equity securities	**(8)**	—
Dividends from subsidiary	**4,359**	551
Total income	**5,780**	5,099
Expense:		
Interest expense	**642**	295
Total expense	**642**	295
Net income	**$5,138**	$4,804

Condensed Statements of Comprehensive Income *(Dollars in thousands)*	**Year Ended December 31** **2015**	**2014**
Net income	**$5,138**	$4,804
Other comprehensive income (loss):		
Unrealized holding gains (losses) on AFS investment securities arising during the period		
Before tax amount	**(437)**	2,237
Tax effect	**149**	(760)
	(288)	1,477
Accretion of discount on AFS to HTM reclassification[1]		
Before tax amount	**7**	8
Tax effect[2]	**(2)**	(3)
	5	5
Less reclassification for gains on AFS investment securities included in net income		
Before tax amount	**(78)**	(443)
Tax effect[2]	**27**	151
	(51)	(292)
Other comprehensive income (loss) — securities	**(334)**	1,190
Unrealized actuarial losses — pension		
Before tax amount	**(79)**	(630)
Tax effect	**27**	214
	(52)	(416)
Total other comprehensive (loss) income	**(386)**	774
Total comprehensive income	**$4,752**	$5,578

[1] Amounts are included in interest and dividends on investment securities in the consolidated statements of income.

[2] Amounts are included in income tax expense in the consolidated statements of income.

Condensed Statements of Cash Flows *(Dollars in thousands)*	**Year Ended December 31** **2015**	**2014**
Cash Flows From Operating Activities:		
Net income	**$ 5,138**	$ 4,804
Adjustments to reconcile net income to net cash used in operating activities:		
Equity in income of subsidiary and dividends	**(5,787)**	(5,099)
Loss on sale of equity securities	**8**	—
Stock based compensation	**342**	267
Deferred tax benefit	**(3)**	—
Dividends to holding company	**4,358**	549
Net change in other liabilities	**(198)**	(5)
Net change in other assets	**(198)**	7
Net Cash Used in Operating Activities	**3,660**	523
Cash Flows From Investing Activities:		
Sale of available-for-sale equity securities	**19**	—
Net Cash Provided by Investing Activities	**19**	—
Cash Flows From Financing Activities:		
Sale of treasury stock	**387**	370
Proceeds from exercise of stock options	**402**	39
Taxes on exercise of stock options	**(469)**	(23)
Proceeds from issuance of subordinated debt	**9,750**	—
Payment to repurchase preferred stock	**(13,000)**	—
Dividends paid	**(834)**	(906)
Net Cash Used in Financing Activities	**(3,764)**	(520)
Net Change in Cash and Cash Equivalents	**(85)**	3
Cash and cash equivalents at Beginning of Period	**160**	157
Cash and cash equivalents at End of Period	**$ 75**	$ 160

(16) REGULATORY MATTERS

Under the Federal Reserve's Regulation H, the Bank may not, without regulatory approval, declare or pay a dividend to DNB if the total of all dividends declared in a calendar year exceeds the total of (a) the Bank's net income for that year and (b) its retained net income for the preceding two calendar years, less any required transfers to additional paid-in capital or to a fund for the retirement of preferred stock.

In July of 2013 the respective U.S. federal banking agencies issued final rules implementing Basel III and the Dodd-Frank Act capital requirements to be fully phased in on a global basis on January 1, 2019. The new regulations establish a new tangible common equity capital requirement, increase the minimum requirement for the current Tier 1 risk-weighted asset ("RWA") ratio, phase out certain kinds of intangibles treated as capital and certain types of instruments and change the risk weightings of certain assets used to determine required capital ratios. The new common equity Tier 1 capital component requires capital of the highest quality — predominantly composed of retained earnings and common stock instruments. For community banks such as DNB First, National Association, a common equity Tier 1 capital ratio 4.5% became effective on January 1, 2015. The new capital rules also increased the current minimum Tier 1 capital ratio from 4.0% to 6.0% beginning on January 1, 2015. In addition, in order to make capital distributions and pay discretionary bonuses to executive officers without restriction, an institution must also maintain greater than 2.5% in common equity attributable to a capital conservation buffer to be phased in from January 1, 2016 until January 1, 2019. The new rules also increase the risk weights for several categories of assets, including an increase from 100% to 150% for certain acquisition, development and construction loans and more than 90-day past due exposures. The new capital rules

maintain the general structure of the prompt corrective action rules, but incorporate the new common equity Tier 1 capital requirement and the increased Tier 1 RWA requirement into the prompt corrective action framework.

The Bank will remain well capitalized under the implementation of Basel III, which was effective January 1, 2015. In assessing a bank's capital adequacy, regulators also consider other factors such as interest rate risk exposure; liquidity, funding and market risks; quality and level of earnings; concentrations of credit, quality of loans and investments; risks of any nontraditional activities; effectiveness of bank policies; and management's overall ability to monitor and control risks.

Quantitative measures established by regulation to ensure capital adequacy require DNB to maintain certain minimum amounts and ratios as set forth below. Management believes that DNB and the Bank meet all capital adequacy requirements to which they are subject. The Bank is considered "Well Capitalized" under the regulatory framework for prompt corrective action. To be categorized as Well Capitalized, the Bank must maintain minimum ratios as set forth below. There are no conditions or events since the most recent regulatory notification that management believes would have changed the Bank's category. Actual capital amounts and ratios are presented in the following table.

	Actual		**For Capital Adequacy Purposes**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
DNB Financial Corporation						
December 31, 2015:						
Total risk-based capital	**$81,321**	**14.78%**	**$57,744**	**10.50%**	**N/A**	**N/A**
Common equity tier 1 capital	**57,448**	**10.44**	**38,502**	**7.00**	**N/A**	**N/A**
Tier 1 risk-based capital	**66,448**	**12.08**	**46,753**	**8.50**	**N/A**	**N/A**
Tier 1 (leverage) capital	**66,448**	**8.94**	**29,717**	**4.00**	**N/A**	**N/A**
December 31, 2014:						
Total risk-based capital	$79,491	15.92%	$39,951	8.00%	N/A	N/A
Tier 1 risk-based capital	74,419	14.90	19,975	4.00	N/A	N/A
Tier 1 (leverage) capital	74,419	10.55	28,215	4.00	N/A	N/A
DNB First, N.A.						
December 31, 2015:						
Total risk-based capital	**$80,286**	**14.63%**	**$57,624**	**10.50%**	**$68,600**	**12.50%**
Common equity tier 1 capital	**75,163**	**13.70**	**38,416**	**7.00**	**49,392**	**9.00**
Tier 1 risk-based capital	**75,163**	**13.70**	**46,648**	**8.50**	**57,624**	**10.50**
Tier 1 (leverage) capital	**75,163**	**10.13**	**29,670**	**4.00**	**37,087**	**5.00**
December 31, 2014:						
Total risk-based capital	$79,510	15.93%	$39,919	8.00%	$49,898	10.00%
Tier 1 risk-based capital	74,438	14.92	19,959	4.00	29,939	6.00
Tier 1 (leverage) capital	74,438	10.56	28,198	4.00	35,247	5.00

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of DNB Financial Corporation
Downingtown, Pennsylvania

We have audited the accompanying consolidated statements of financial condition of DNB Financial Corporation and its subsidiaries (collectively the "Corporation") as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended. 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. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that 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 financial position of DNB Financial Corporation and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

Philadelphia, Pennsylvania
March 23, 2016

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

DNB's interim Chief Executive Officer and Chief Financial Officer have reviewed and evaluated the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of December 31, 2015, the end of the period covered by this report, in accordance with the requirements of Exchange Act Rule 240.13a-15(b). Based on that evaluation, the interim Chief Executive Officer and the Chief Financial Officer have concluded that DNB's disclosure controls and procedures are effective as of December 31, 2015.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Management, with the participation of our interim Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of DNB's internal control over financial reporting at December 31, 2015. To make this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework (2013).* Management believes that, as of December 31, 2015, DNB's internal control over financial reporting was effective. This annual report on Form 10-K does not include an attestation report of DNB's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by DNB's independent registered public accounting firm pursuant to the exemption provided to issuers that are not "large accelerated filers" or "accelerated filers".

There have been no changes in internal controls over financial reporting that occurred during our fourth quarter of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

Part III

Item 10. Directors and Executive Officers of the Registrant

The information required herein with respect to Registrant's directors, officers and corporate governance is incorporated by reference to pages 10-20 of DNB's Proxy Statement for the 2016 Annual Meeting of Stockholders, and the information required herein with respect to compliance with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to page 9 of DNB's Proxy Statement for the Annual Meeting of Shareholders. DNB has adopted a Code of Ethics that applies to DNB's principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions. DNB's current Code of Ethics is incorporated herein by reference as Exhibit 14 to this report.

Item 11. Executive Compensation

The information required herein is incorporated by reference to pages 21-36 of DNB's Proxy Statement for the 2016 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

(a) Information Regarding Equity Compensation Plans

The following table summarizes certain information relating to equity compensation plans maintained by DNB as of December 31, 2015:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders:			
1995 Stock Option Plan	64,500	$ 8.67	354,090
2004 Incentive Equity and Deferred Compensation Plan	77,255	22.71	91,169
Equity compensation plans not approved by security holders	—	—	—
Total	**141,755**	**$16.32**	**445,259**

(b) The balance of the information required herein is incorporated by reference to pages 7-8 of DNB's Proxy Statement for the 2016 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Party Transactions and Director Independence

The information required herein is incorporated by reference to pages 17 and 37 of DNB's Proxy Statement for the 2016 Annual Meeting of Shareholders. Amounts of Related Party Loans are disclosed in Notes 3 "Loans" and Note 5 "Office Property and Equipment" in this Form 10-K.

Item 14. Principal Accountant Fees and Services

The information required herein is incorporated by reference to pages 38-40 of DNB's Proxy Statement for the 2016 Annual Meeting of Shareholders.

Part IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements.

The 2015 and 2014 consolidated financial statements listed below, together with an opinion of BDO USA, LLP, dated March 23, 2016 for the years ending December 31, 2015 and 2014 with respect thereto, are set forth beginning at page 45 of this report under Item 8, "Financial Statements and Supplementary Data."

Report of Independent Registered Public Accounting Firm
Consolidated Statements of Financial Condition
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income
Consolidated Statements of Stockholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

(a)(2) Not applicable

(a)(3) Exhibits, pursuant to Item 601 of Regulation S-K.

The exhibits listed on the Index to Exhibits on pages 83-86 of this report are incorporated by reference and filed or furnished herewith in response to this Item.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DNB FINANCIAL CORPORATION

March 23, 2016

BY: /s/ William J. Hieb

William J. Hieb, interim Chief Executive Officer, President and Director (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Date
/s/ James H. Thornton James H. Thornton, Chairman of the Board	March 23, 2016
/s/ William J. Hieb William J. Hieb, interim Chief Executive Officer, President and Director (Principal Executive Officer)	March 23, 2016
/s/ Gerald F. Sopp Gerald F. Sopp Chief Financial Officer (Principal Financial Officer and Accounting Officer)	March 23, 2016
/s/ James R. Biery James R. Biery Director	March 23, 2016
/s/ Thomas A. Fillippo Thomas A. Fillippo Director	March 23, 2016
/s/ Gerard F. Griesser Gerard F. Griesser Director	March 23, 2016
/s/ Mildred C. Joyner Mildred C. Joyner Director	March 23, 2016
/s/ James J. Koegel James J. Koegel Director	March 23, 2016
/s/ Mary D. Latoff Mary D. Latoff Director	March 23, 2016

Index to Exhibits

Exhibit No. Under Item 601 of Regulation S-K		
2	(i)	Purchase and Assumption Agreement, by and between DNB First, National Association and Capital Bank, National Association dated as of April 2, 2012 filed as Exhibit 2.1 to Form 8-K (No. 1-34242) on April 4, 2012 and incorporated herein by reference.
3	(i)	Amended and Restated Articles of Incorporation, as amended effective December 8, 2008, filed March 31, 2009 as item 3(i) to Form 10-K for the fiscal year-ended December 31, 2008 (No. 1-34242) and incorporated herein by reference.
	(ii)	Bylaws of the Registrant as amended January 27, 2016, filed as Exhibit 3.1 to Form 8-K (No. 1-34242) on January 29, 2016 and incorporated herein by reference.
	(iii)	Certificate of Designations of Fixed Rate Cumulative Preferred Stock, Series 2008A of DNB Financial Corporation, filed as Exhibit 4.3 to Form 8-K (No. 1-34242) on January 26, 2009 and incorporated herein by reference.
4	(a)	Registrant has certain debt obligations outstanding, for none of which do the instruments defining holders rights authorize an amount of securities in excess of 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis. Registrant agrees to furnish copies of such agreements to the Commission on request.
	(b)	Form of Preferred Stock Certificate to the United States Department of the Treasury, filed as Exhibit 4.4 to Form 8-K (No. 1-34242) on January 30, 2009 and incorporated herein by reference.
	(c)	Form of Warrant to Purchase Common Stock to the United States Department of the Treasury, filed as Exhibit 4.5 to Form 8-K (No. 1-34242) on January 30, 2009 and incorporated herein by reference.
	(d)	Form of Certificate for 13,000 shares of Non-Cumulative Perpetual Preferred Stock, Series 2011A, $10.00 par value per share of DNB Financial Corporation, filed as Exhibit 99.2 to Form 8-K (No. 1-34242) on August 8, 2011 and incorporated herein by reference.
	(e)	Certificate of Designation of Non-Cumulative Perpetual Preferred Stock, Series 2011A, $10.00 par value per share, filed as Exhibit 99.3 to Form 8-K (No. 1-34242) on August 8, 2011 and incorporated herein by reference.
	(f)	Exhibit 4.1 Subordinated Note, by and between DNB Financial Corporation and Jersey Shore State Bank, dated as of March 5, 2015, filed as Exhibit 4.1 to Form 8-K (No. 1-34242) on March 5, 2015 and incorporated herein by reference.
10	(a)*	Amended and Restated Change of Control Agreements dated December 20, 2006 between DNB Financial Corporation and DNB First, N.A. and the following executive officers, each in the form filed March 26, 2007 as item 10(a) to Form 10-K for the fiscal year-ended December 31, 2006 (No. 1-34242) and incorporated herein by reference: Bruce E. Moroney and C. Tomlinson Kline III.
	(b)**	1995 Stock Option Plan of DNB Financial Corporation (as amended and restated, effective as of April 25, 2012), filed on March 22, 2012 as Appendix A to Registrant's Proxy Statement for its Annual Meeting of Stockholders held April 25, 2012, and incorporated herein by reference.

(c)** DNB Financial Corporation Incentive Equity and Deferred Compensation Plan (As Amended and Restated Effective May 5, 2009), filed March 31, 2009 as Appendix A to Registrant's definitive proxy statement on Schedule 14-A (No. 1-34242) and incorporated herein by reference.

(d)* Amended and Restated Change of Control Agreement among DNB Financial Corporation, DNB First, N.A. and William S. Latoff, dated December 20, 2006, filed March 26, 2007 as item 10(e) to Form 10-K for the fiscal year-ended December 31, 2006 (No. 1-34242) and incorporated herein by reference.

(e)* Agreement of Lease dated February 10, 2005 between Headwaters Associates, a Pennsylvania general partnership, as Lessor, and DNB First, National Association as Lessee for a portion of premises at 2 North Church Street, West Chester, Pennsylvania, filed March 10, 2005 as Item 10(l) to Form 10-K for the fiscal year ended December 31, 2004 (No. 1-34242) and incorporated herein by reference, as amended by Addendum to Agreement of Lease dated as of November 15, 2005, filed March 23, 2006 as Item 10(l) to Form 10-K for the fiscal year ended December 31, 2005 (No. 1-34242) and incorporated herein by reference, and as further amended by Second Addendum to Agreement of Lease dated as of May 25, 2006, filed August 14, 2006 as Item 10(l) to Form 10-Q for the fiscal quarter ended June 30, 2006 (No. 1-34242) and incorporated herein by reference, and as further amended by Third Addendum to Agreement of Lease dated as of June 9, 2010, filed August 13, 2010 as Item 10(f) to Form 10-Q for the fiscal quarter ended June 30, 2010 (No. 1-34242) and incorporated herein by reference and as further amended by Fourth Addendum to Agreement of Lease dated as of June 30, 2013, filed August 9, 2013 as Item 10.1 to Form 10-Q for the fiscal quarter ended June 30, 2013 (No. 1-34242) and incorporated herein by reference.

(f)** Form of Stock Option Agreement for grants prior to 2005 under the Registrant's Stock Option Plan, filed May 11, 2005 as Item 10(n) to Form 10-Q for the fiscal quarter ended March 31, 2005 (No. 1-34242) and incorporated herein by reference.

(g)** Form of Nonqualified Stock Option Agreement for April 18, 2005 and subsequent grants prior to April 23, 2010 under the Stock Option Plan, filed May 11, 2005 as Item 10(o) to Form 10-Q for the fiscal quarter ended March 31, 2005 (No. 1-34242) and incorporated herein by reference.

(h) Agreement of Sale dated June 1, 2005 between DNB First, National Association (the "Bank"), as seller, and Papermill Brandywine Company, LLC, a Pennsylvania limited liability company, as buyer ("Buyer") with respect to the sale of the Bank's operations center and an adjunct administrative office (the "Property") and accompanying (i) Agreement of Lease between the Buyer as landlord and the Bank as tenant, pursuant to which the Property will be leased back to the Bank, and (ii) Parking Easement Agreement to provide cross easements with respect to the Property, the Buyer's other adjoining property and the Bank's other adjoining property, filed August 15, 2005 as Item 10(p) to Form 10-Q for the fiscal quarter ended June 30, 2005 (No. 1-34242) and incorporated herein by reference.

(i) Agreement of Lease dated November 18, 2005 between Papermill Brandywine Company, LLC, a Pennsylvania limited liability company ("Papermill"), as Lessor, and DNB First, National Association as Lessee for the banks operations center and adjunct administrative office, filed March 23, 2006 as Item 10(q) to Form 10-K for the fiscal year ended December 31, 2005 (No. 1-34242) and incorporated herein by reference.

(j)* Amended and Restated Change of Control Agreement among DNB Financial Corporation, DNB First, N.A. and William J. Hieb, filed May 15, 2007 as Item 10(l) to Form 10-Q for the fiscal quarter ended March 31, 2007 (No. 1-34242) and incorporated herein by reference.

(k)** Form of Nonqualified Stock Option Agreement for grants on and after December 22, 2005 and prior to April 23, 2010 under the Stock Option Plan, filed March 23, 2006 as Item 10(s) to Form 10-K for the fiscal year ended December 31, 2005 (No. 1-34242) and incorporated herein by reference.

(l)* Deferred Compensation Plan For Directors of DNB Financial Corporation (adopted effective October 1, 2006), filed November 14, 2006 as Item 10(s) to Form 10-Q for the fiscal quarter ended September 30, 2006 (No. 1-34242) and incorporated herein by reference.

(m)* DNB Financial Corporation Deferred Compensation Plan (adopted effective October 1, 2006), filed November 14, 2006 as Item 10(t) to Form 10-Q for the fiscal quarter ended September 30, 2006 (No. 1-34242) and incorporated herein by reference.

(n)* Trust Agreement, effective as of October 1, 2006, between DNB Financial Corporation and DNB First, National Association (Deferred Compensation Plan), filed November 14, 2006 as Item 10(u) to Form 10-Q for the fiscal quarter ended September 30, 2006 (No. 1-34242) and incorporated herein by reference.

(o)* Change of Control Agreements among DNB Financial Corporation, DNB First, N.A. and each of the following executive officers, each in the form filed March 26, 2007 as item 10(q) to Form 10-K for the fiscal year-ended December 31, 2006 (No. 1-34242) and incorporated herein by reference: Albert J. Melfi, Jr. and Gerald F. Sopp.

(p)* DNB Financial Corporation Supplemental Executive Retirement Plan for William S. Latoff as amended and restated effective April 1, 2007, filed May 15, 2007 as Item 10(r) to Form 10-Q for the fiscal quarter ended March 31, 2007 (No. 1-34242) and incorporated herein by reference, as further amended by Amendment dated December 8, 2008, filed March 31, 2009 as item 3(r) to Form 10-K for the fiscal year-ended December 31, 2008 (No. 1-34242) and incorporated herein by reference.

(q)* Trust Agreement effective as of December 20, 2006 between DNB Financial Corporation and DNB First, N.A. (William S. Latoff SERP), filed March 26, 2007 as item 10(s) to Form 10-K for the fiscal year-ended December 31, 2006 (No. 1-34242) and incorporated herein by reference, as modified by Agreement to Terminate Trust dated as of April 1, 2007, filed May 15, 2007 as Item 10(s) to Form 10-Q for the fiscal quarter ended March 31, 2007 (No. 1-34242) and incorporated herein by reference.

(r)* DNB Offer Letter to Albert J. Melfi, Jr., dated November 10, 2006, filed March 26, 2005 as item 10(t) to Form 10-K for the fiscal year-ended December 31, 2006 (No. 1-34242) and incorporated herein by reference.

(s)* DNB Offer Letter to Gerald F. Sopp, dated December 20, 2006, filed March 26, 2007 as item 10(u) to Form 10-K for the fiscal year-ended December 31, 2006 (No. 1-34242) and incorporated herein by reference.

(t)** Form of Restricted Stock Award Agreement dated November, 28, 2007, filed March 28, 2008 as item 10(v) to Form 10-K for the fiscal year-ended December 31, 2007 (No. 1-34242) and incorporated herein by reference.

(u)** Restricted Stock Award Agreement dated April 23, 2010 between DNB Financial Corporation and William S. Latoff, filed August 13, 2010 as Item 10(x) to Form 10-Q for the fiscal quarter ended June 30, 2010 (No. 1-34242) and incorporated herein by reference.

(v)** Form of Restricted Stock Option Agreement for non-employee directors for awards made on and after April 23, 2010 pursuant to the 1995 Stock Option Plan of DNB Financial Corporation (as amended and restated, effective as of April 27, 2004), filed August 13, 2010 as Item 10(y) to Form 10-Q for the fiscal quarter ended June 30, 2010 (No. 1-34242) and incorporated herein by reference.

(w)** Form of Restricted Stock Option Agreement for employees for awards made on and after April 23, 2010 pursuant to the 1995 Stock Option Plan of DNB Financial Corporation (as amended and restated, effective as of April 27, 2004), filed August 13, 2010 as Item 10(z) to Form 10-Q for the fiscal quarter ended June 30, 2010 (No. 1-34242) and incorporated herein by reference.

(x)** Form of Amendment effective April 23, 2010, to the Restricted Stock Award agreements made between James H. Thornton, James J. Koegel, Mildred C. Joyner and Thomas A. Fillippo, non-employee Directors of the registrant, and the registrant on November 28, 2007 and December 17, 2008, filed August 13, 2010 as Item 10(aa) to Form 10-Q for the fiscal quarter ended June 30, 2010 (No. 1-34242) and incorporated herein by reference.

(y)** Form of Amendment effective April 23, 2010, to the Restricted Stock Award agreements made between Eli Silberman, a non-employee Director of the registrant, and the registrant on November 28, 2007 and December 17, 2008, filed August 13, 2010 as Item 10(bb) to Form 10-Q for the fiscal quarter ended June 30, 2010 (No. 1-34242) and incorporated herein by reference.

(z)** Form of Amendment effective April 23, 2010, to the Restricted Stock Award agreements made between William S. Latoff, William J. Hieb, Albert J. Melfi, Gerald F. Sopp and Bruce E. Moroney, officers of the registrant, and the registrant on November 28, 2007 and December 17, 2008, filed August 13, 2010 as Item 10(cc) to Form 10-Q for the fiscal quarter ended June 30, 2010 (No. 1-34242) and incorporated herein by reference.

(aa) Securities Purchase Agreement dated as of August 4, 2011, between the Secretary of the Treasury and DNB Financial Corporation, filed as Exhibit 99.1 to Form 8-K (No. 1-34242) on August 8, 2011 and incorporated herein by reference.

(bb) Letter Agreement dated August 4, 2011 between the Secretary of the Treasury and DNB Financial Corporation, filed as Exhibit 99.4 to Form 8-K (No. 1-34242) on August 8, 2011 and incorporated herein by reference.

(cc) Warrant Letter Agreement, dated September 21, 2011, between DNB Financial Corporation and the Secretary of the Treasury, filed as Exhibit 10.1 to Form 8-K (No. 1-34242) on September 22, 2011 and incorporated herein by reference.

(dd)* Form of Amendment to Change of Control Agreement For Named Executive Officers, filed as Exhibit 99.1 to Form 8-K (No. 1-34242) on October 28, 2011 and incorporated herein by reference.

(ee)** Restricted Stock Award Agreement dated December 12, 2011 between DNB Financial Corporation and William S. Latoff, filed as Item 99.1 to Form 8-K/A (No. 1-34242) on January 6, 2012 and incorporated herein by reference.

(ff)**	Form of Restricted Stock Award Agreement for Directors, filed as Exhibit 99.1 to Form 8-K (No. 1-34242) on December 21, 2012 and incorporated herein by reference.
(gg)**	Form of Restricted Stock Award Agreement for employees, filed as Exhibit 99.2 to Form 8-K (No. 1-34242) on December 21, 2012 and incorporated herein by reference.
(hh)*	Amended Change of Control Agreement among DNB Financial Corporation, DNB First, N.A. and Gerald F. Sopp, filed as Exhibit 99.3 to Form 8-K (No. 1-34242) on December 21, 2012 and incorporated herein by reference.
(ii)*	Change of Control Agreement among DNB Financial Corporation, DNB First, N.A. and Vincent Liuzzi, filed August 11, 2014 as Item 10.1 to Form 10-Q for the fiscal quarter ended June 30, 2014 (No. 1-34242) and incorporated herein by reference.
(jj)	Exhibit 10.1 Subordinated Note Purchase Agreement, by and between DNB Financial Corporation and Jersey Shore State Bank, dated as of March 5, 2015, filed as Exhibit 10.1 to Form 8-K (No. 1-34242) on March 5, 2015 and incorporated herein by reference.
11	Registrant's Statement of Computation of Earnings Per Share is set forth in Note 12 to Registrant's consolidated financial statements at of this Form 10-K and is incorporated herein by reference.
14	Code of Ethics as amended and restated effective February 23, 2005, filed March 10, 2005 as Item 10(m) to Form 10-K for the fiscal year ended December 31, 2004 (No. 1-34242) and incorporated herein by reference.
21	List of Subsidiaries, filed herewith.
23	Consent of BDO USA, LLP, filed herewith.
31.1	Rule 13a-14(a)/15d-14 (a) Certification of Chief Executive Officer, filed herewith.
31.2	Rule 13a-14(a)/15d-14 (a) Certification of Chief Financial Officer, filed herewith.
32.1	Section 1350 Certification of Chief Executive Officer, filed herewith.
32.2	Section 1350 Certification of Chief Financial Officer, filed herewith.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

* Management contract or compensatory plan arrangement.

** Stockholder approved compensatory plan pursuant to which DNB's Common Stock may be issued to employees of DNB

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DNB Financial Corporation

CORPORATE HEADQUARTERS

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www.dnbfirst.com

FINANCIAL INFORMATION

Investors, brokers, security analysts and others desiring financial information should contact Gerald F. Sopp at 484-359-3138 or gsopp@dnbfirst.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

BDO USA, LLP
Ten Penn Center, 1801 Market Street
Suite 1700
Philadelphia, PA 19103

COUNSEL

Stradley, Ronon, Stevens and Young, LLP
2600 One Commerce Square
Philadelphia, PA 19103

STOCK LISTING

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

REGISTRAR AND STOCK TRANSFER AGENT

Computershare Shareholder Services
211 Quality Circle, Suite 210
P.O. Box 30170
College Station, TX 77842-3170
(800) 368-5948
www-us.computershare.com/investor

MARKET MAKERS

Boenning & Scattergood, Inc.
800-842-8928

FIG Partners
866-344-2657

Janney Montgomery Scott, Inc.
800-526-6397

Raymond James Financial, Inc.
800-800-4693

DIRECTORS

James H. Thornton, Chairman
James R. Biery
Thomas A. Fillippo, Sr.
Gerard F. Griesser
William J. Hieb
Mildred C. Joyner
James J. Koegel
Mary D. Latoff

DIRECTORS EMERITUS

Vernon J. Jameson
Eli Silberman
Henry F. Thorne

EXECUTIVE OFFICERS

William J. Hieb
President and Chief Executive Officer

Vince Liuzzi
Executive Vice President
Chief Banking Officer

Albert J. Melfi, Jr.
Executive Vice President
Chief Lending Officer

Gerald F. Sopp
Executive Vice President
Chief Financial Officer & Secretary

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Swope Lees Commercial Real Estate, LLC

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Co-Owner, Kashbox Consulting

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Shareholder, Gawthorp Greenwood, PC

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

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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

West Chester
2 North Church Street
West Chester, PA 19380

West Goshen
1115 West Chester Pike
West Chester, PA 19380