

## Section 1: 8-K (8-K)

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

### FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event  
Reported):

January 24, 2019

## DNB Financial Corporation

(Exact name of registrant as specified in its charter)

Pennsylvania

1-34242

23-2222567

(State or other jurisdiction  
of incorporation)

(Commission  
File Number)

(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

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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**Item 2.02. Results of Operations and Financial Condition.**

On January 24, 2019, DNB Financial Corporation issued a press release discussing the Company's Fourth Quarter and Full Year 2018 Results. The press release, attached as Exhibit 99.1 hereto and incorporated herein by reference, is being furnished to the SEC and shall not be deemed to be "filed" for any purpose.

**Item 8.01. Other Events**

The information in Item 2.02 is incorporated into this Item 8.01 by reference.

**Item 9.01. Financial Statements and Exhibits.**

(c) Exhibits. The following exhibit is furnished herewith:

99.1 Press Release, dated January 24, 2019 of DNB Financial Corporation

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

January 24, 2019

DNB Financial Corporation

By: /s/ Gerald F. Sopp

*Name: Gerald F. Sopp*

*Title: Chief Financial Officer and Executive  
Vice President*

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Exhibit Index

**Exhibit No.**

**Description**

99.1

[Press Release dated January 24, 2019 of DNB Financial Corporation](#)

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## Section 2: EX-99.1 (EX-99.1)

### DNB Financial Corporation



For further information, please contact:  
Gerald F. Sopp CFO/Executive Vice-President  
484.359.3138  
gsopp@dnbfirst.com

FOR IMMEDIATE RELEASE  
(NasdaqCM: DNBF)

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#### DNB Financial Corporation Reports Fourth Quarter and Full Year 2018 Results

**Downingtown PA, January 24, 2019** (GLOBE NEWSWIRE)– DNB Financial Corporation (Nasdaq: DNBF), today reported net income of \$3.0 million, or \$0.69 per diluted share, for the quarter ending December 31, 2018, compared with \$808,000, or \$0.19 per diluted share, for the same quarter, last year. For the year ending December 31, 2018, net income was \$10.7 million, or \$2.48 per diluted share, compared with \$7.9 million, or \$1.85 per diluted share, for the same period last year. Fourth quarter and full year 2017 results were impacted by a \$1.8 million charge, or \$0.43 per diluted share, to adjust deferred taxes due to the enactment of the Tax Cuts and Jobs Act (the “Tax Act”) in December 2017.

DNB Financial Corporation (the “Company” or “DNB”) is the parent of DNB First, National Association, one of the first nationally-chartered community banks to serve the greater Philadelphia region.

William J. Hieb, President and CEO, stated, “Our fourth quarter results provide further evidence of the strength and flexibility of the Company’s business strategy. Although the flat yield curve poses a challenge for all banks, we are confident that our prudent commercial loan growth, conservative credit culture, and judicious expense management will benefit our shareholders.”

#### Highlights

- Total loans increased 2.9% (not annualized) on a sequential quarter basis and 10.5% since December 31, 2017. Total commercial loans grew 4.2% (not annualized) on a sequential quarter basis and were 83.3% of total loans as of December 31, 2018.
- The net interest margin was 3.45% for the quarter ending December 31, 2018, compared with 3.39% for the previous quarter and 3.74% for the three months ending December 31, 2017.
- Asset quality remained stable as net charge-offs were only 0.10% (annualized) of total average loans for the fourth quarter of 2018. Non-performing loans were 0.62% of total loans at December 31, 2018.
- Wealth management assets under care were \$253.3 million as of December 31, 2018, compared with \$252.8 million as of December 31, 2017. Wealth management fees represented approximately 37% of total fee income for the fourth quarter of 2018.

- The Company paid a quarterly cash dividend of \$0.07 per share on December 10, 2018.

### **Income Statement Summary**

Net income of \$3.0 million for the fourth quarter of 2018, generated a return on average assets (“ROAA”) and return on average tangible equity (“ROTE”) (a non-GAAP measure) of 1.03% and 12.62%, respectively. A discussion of non-GAAP measures in this release is included below and a reconciliation of this and other non-GAAP to GAAP measures is included in the Financial Tables below.

Net interest income for the three months ending December 31, 2018 was \$9.6 million, which represented a \$407,000 increase from the quarter ending September 30, 2018, and a \$90,000 decrease from the quarter ending December 31, 2017. The net interest margin for the fourth quarter of 2018 was 3.45%; which represented a six basis point increase on a sequential quarter basis. The year-over-year net interest margin decline of 29 basis points was primarily due to a \$245,208 net reduction in purchase accounting marks and the higher cost of interest-bearing liabilities, which was partially offset by a \$92.7 million increase in total average loans. For the fourth quarters of 2018 and 2017, the weighted average yields on total interest-earning assets were 4.44% and 4.35%, respectively, which included purchase accounting marks. On a year-over year basis, the weighted average yield on loans remained at approximately 4.85% as higher yields on newly-originated and purchased loans along with existing adjustable-rate loans offset the reduction in purchase accounting marks.

Total interest expense was \$2.8 million for the three months ending December 31, 2018, compared with \$2.5 million for the three months ending September 30, 2018 and \$1.6 million for the fourth quarter of 2017. The weighted average rate paid for interest-bearing liabilities was 1.07%, 0.98%, and 0.66% for the quarters ending December 31, 2018, September 30, 2018 and December 31, 2017, respectively. The rise in the weighted average rate was primarily due to an overall increase in market interest rates.

The provision for credit losses was \$350,000 for the fourth quarter of 2018, compared with \$100,000 for the quarter ending September 30, 2018, and \$375,000 for the quarter ending December 31, 2017. As of December 31, 2018, the allowance for credit losses was \$6.7 million and represented 0.71% of total loans. Loans acquired in connection with the purchase of East River Bank in 2016 were recorded at fair value based on an initial estimate of expected cash flows, including a reduction for estimated credit losses, and without carryover of the respective portfolio's historical allowance for credit losses.

Total non-interest income for the fourth quarter of 2018 remained fairly steady at \$1.3 million, compared with \$1.4 million for both the third quarter of 2018 and the quarter ending December 31, 2017. Wealth management fees were \$466,000 for the fourth quarter of 2018, compared with \$542,000 for the third quarter of 2018, and \$456,000 for the fourth quarter of 2017. Wealth management fees represented approximately 37% of total fee income.

Non-interest expense was approximately \$6.8 million for both quarters ending December 31, 2018 and September 30, 2018, compared with \$7.2 million for the quarter ending December 31, 2017. The efficiency ratio was approximately 62% for the three months ended December 31, 2018.

Income tax expense was \$643,000 for the three months ending December 31, 2018, and \$2.3 million for the year ending December 31, 2018. Fourth quarter and full year 2017 results were impacted by a \$1.8 million charge, or \$0.43 per diluted share, to adjust deferred taxes due to the enactment of the Tax Act in December 2017. The Tax Act provided significant changes including a reduction of the federal corporate tax rate to 21% from 34%, effective January 1, 2018.

## **Balance Sheet Summary**

As of December 31, 2018, total assets were \$1.2 billion. Since December 31, 2017, total assets increased \$76.3 million, or 7.1%. Total loan growth of \$89.1 million, or 10.5% was partially offset by a \$15.5 million, or 8.9% decrease in total investment securities. Total deposits increased \$125.6 million, or 14.6% since December 31, 2017, mainly due to growth in NOW, time, and brokered deposits. As of December 31, 2018, total shareholders' equity was \$111.8 million, compared with \$101.9 million as of December 31, 2017. Tangible book value per share (a non-GAAP measure) was \$22.21 as of December 31, 2018, compared with \$20.06 as of December 31, 2017. See Reconciliation of Non-GAAP Financial Measures on page 10.

As of December 31, 2018, total loans were \$935.0 million, or 80.7% of total assets. At the same date, commercial loans, a key strategic emphasis, totaled \$778.4 million and represented 83.3% of total loans. The Company views commercial loan growth as the highest and best use of its capital as they generally have higher yields and shorter durations. Total commercial loans increased \$89.0 million, or 12.9% since December 31, 2017. Loan originations have been prudent and conservative underwriting standards have been maintained.

Total core deposits increased \$37.1 million, or 5.5% since December 31, 2017, and were 72.6% of total deposits as of December 31, 2018. As of the same date, non-interest bearing deposits were 16.7% of total deposits. Time and brokered deposits increased \$88.4 million, or 48.5%, throughout 2018. The Company used these deposits to help fund loan growth due to their more favorable rates and maturities, compared with other funding sources. As of December 31, 2018, the loan-to-deposit ratio was 94.8%. Over the past year, borrowed funds decreased \$57.5 million, or 51%, to \$55.3 million as of December 31, 2018.

Capital ratios continue to exceed all regulatory guidelines. As of December 31, 2018, the tier 1 leverage ratio was 9.48%, the tier 1 risk-based capital ratio was 11.74%, the common equity tier 1 risk-based capital ratio was 10.76% and the total risk based capital ratio was 13.57%. As of the same date, the tangible common equity-to-tangible assets ratio (a non-GAAP measure) was 8.40%. Intangible assets and goodwill totaled \$15.9 million as of December 31, 2018. See Reconciliation of Non-GAAP Financial Measures on page 10.

## **Asset Quality Summary**

Asset quality remained stable as net charge-offs were 0.10% (annualized) of total average loans for the quarter ending December 31, 2018, and 0.04% for the year ending December 31, 2018. Total non-performing assets, including loans and other real estate property, were \$10.8 million as of December 31, 2018, compared with \$11.5 million as of September 30, 2018, and \$12.6 million as of December 31, 2017. The ratio of non-performing loans to total loans was 0.62% as of December 31, 2018, versus 0.89% as of December 31, 2017.

## **Interest Rate Risk Management**

DNB's strategy has been to seek shorter duration over yield in its lending and investing activities and lengthen duration in its financing activities to minimize interest rate risk. The Company also strives to offer products and services that develop strong relationships to retain core deposits. The Bank has an Asset Liability Management Committee that actively monitors and manages the bank's interest rate exposure using simulation models and gap analysis. The Committee's primary objective is to minimize

the adverse impact of changes in interest rates on net interest income, while maximizing earnings. Simulation model results show moderate liability sensitivity to rising rates in 100, 200, 300 and 400 basis point shock scenarios. Rate changes ramped in over 24 months also show moderate liability sensitivity.

### **Non-GAAP Based Financial Measures**

The income statement summary and selected financial data contains non-GAAP financial measures calculated using non-GAAP amounts. These measures are tangible book value per common share, return on average tangible equity and tangible equity to tangible assets. Tangible book value per share adjusts the numerator by the amount of Goodwill and Other Intangible Assets (reduction of Shareholders' Equity). Return on average tangible equity adjusts the denominator by the amount of Goodwill and Other Intangible Assets (reduction of Shareholders' Equity). Tangible equity to tangible assets adjusts the numerator by the amount of Goodwill and Other Intangible Assets (reduction of Shareholders' Equity) and adjust the denominator by the amount of Goodwill and Other Intangible Assets (reduction of Total Assets). Management uses non-GAAP measures to present historical periods comparable to the current period presentation. In addition, management believes the use of non-GAAP measures provides additional clarity when assessing our financial results and use of equity. Disclosures of this type should not be viewed as substitutes for results determined to be in accordance with U.S. GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other entities.

### **General Information**

DNB Financial Corporation is a bank holding company whose bank subsidiary, DNB First, National Association, is a community bank headquartered in Downingtown, Pennsylvania with 15 locations. DNB First, which was founded in 1860, provides a broad array of consumer and business banking products, and offers brokerage and insurance services through DNB Investments & Insurance, and investment management services through DNB Investment Management & Trust. DNB Financial Corporation's shares are traded on NASDAQ's Capital Market under the symbol: DNBFI. We invite our customers and shareholders to visit our website at <https://www.dnbfirst.com>. DNB's Investor Relations site can be found at <https://investors.dnbfirst.com/>.

### **Forward-Looking Statements**

This press release contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, expectations or predictions of future financial or business performance. These forward-looking statements include statements with respect to DNB'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 DNB'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.

In addition to factors previously disclosed in the reports filed by DNB with the Securities and Exchange Commission (the "SEC") and those identified elsewhere in this document, the following factors, among others, could cause actual results to differ materially from forward looking statements or historical performance: the strength of the United States economy in general and the strength of the local economies in which DNB conducts its 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; the downgrade, and any future downgrades, in the credit rating of the U.S. Government and federal agencies; inflation, interest rate, market and monetary fluctuations; the timely development of

and acceptance of new products and services 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 DNB's products and services; the success of DNB 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; additional acquisitions; changes in consumer spending and saving habits; the nature, extent, and timing of governmental actions and reforms; and the success of DNB at managing the risks involved in the foregoing. Further, DNB's expectations with respect to the effects of the new tax law could be affected by future clarifications, amendments, and interpretations of such law. Annualized, pro forma, projected and estimated numbers presented herein are presented for illustrative purpose only, are not forecasts and may not reflect actual results.

DNB 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 press release, even if subsequently made available by DNB on its website or otherwise. DNB 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 DNB to reflect events or circumstances occurring after the date of this press release.

For a complete discussion of the assumptions, risks and uncertainties related to our business, you are encouraged to review our filings with the SEC, including our most recent annual report on Form 10-K, as supplemented by our quarterly or other reports subsequently filed with the SEC.

## **FINANCIAL TABLES FOLLOW**

**DNB Financial Corporation**  
**Condensed Consolidated Statements of Income (Unaudited)**  
*(Dollars in thousands, except per share data)*

|   | <b>Three Months Ended</b> |                | <b>Twelve Months Ended</b> |                 |
|---|---------------------------|----------------|----------------------------|-----------------|
|   | <b>Dec 31,</b>            |                | <b>Dec 31,</b>             |                 |
|   | <b>2018</b>               | <b>2017</b>    | <b>2018</b>                | <b>2017</b>     |
| <b>EARNINGS:</b>                          |                           |                |                            |                 |
| Interest income                           | \$ 12,338                 | \$ 11,241      | \$ 46,175                  | \$ 43,385       |
| Interest expense                          | 2,780                     | 1,593          | 9,371                      | 5,720           |
| Net interest income                       | 9,558                     | 9,648          | 36,804                     | 37,665          |
| Provision for credit losses               | 350                       | 375            | 1,200                      | 1,660           |
| Non-interest income                       | 1,268                     | 1,250          | 5,199                      | 5,012           |
| Gain from insurance proceeds              | -                         | 123            | 8                          | 203             |
| Gain on sale of investment securities     | -                         | 25             | -                          | 50              |
| Gain on sale of SBA loans                 | 1                         | 21             | 38                         | 153             |
| Loss on sale / write-down of OREO and ORA | 20                        | -              | 171                        | 121             |
| Due diligence & merger expense            | -                         | -              | -                          | 77              |
| Non-interest expense                      | 6,812                     | 7,202          | 27,704                     | 27,823          |
| Income before income taxes <sup>(1)</sup> | 3,645                     | 3,490          | 12,974                     | 13,402          |
| Income tax expense                        | 643                       | 2,682          | 2,290                      | 5,456           |
| Net income                                | <u>\$ 3,002</u>           | <u>\$ 808</u>  | <u>\$ 10,684</u>           | <u>\$ 7,946</u> |
| Net income per common share, diluted      | <u>\$ 0.69</u>            | <u>\$ 0.19</u> | <u>\$ 2.48</u>             | <u>\$ 1.85</u>  |

<sup>(1)</sup> Net income before income taxes includes net accretion of purchase accounting fair value adjustments of \$190,000 and \$935,000 for the three and twelve month periods ended December, 31, 2018, respectively, compared with \$433,000 and \$2.2 million for the same periods last year.

**Condensed Consolidated Statements of Financial Condition (Unaudited)**  
*(Dollars in thousands)*

|  | <b>Dec 31,</b>      | <b>Dec 31,</b>      |
|--|---------------------|---------------------|
|  | <b>2018</b>         | <b>2017</b>         |
| <b>FINANCIAL POSITION:</b>                 |                     |                     |
| Cash and cash equivalents                  | \$ 17,321           | \$ 10,917           |
| Investment securities                      | 158,669             | 174,173             |
| Loans held for sale                        | 419                 | 651                 |
| Loans                                      | 934,971             | 845,897             |
| Allowance for credit losses                | <u>(6,675)</u>      | <u>(5,843)</u>      |
| Net loans                                  | 928,296             | 840,054             |
| Premises and equipment, net                | 7,636               | 8,649               |
| Restricted Stock                           | 5,616               | 7,641               |
| Other assets                               | <u>40,278</u>       | <u>39,830</u>       |
| Total assets                               | <u>\$ 1,158,235</u> | <u>\$ 1,081,915</u> |
| Deposits                                   | \$ 986,771          | \$ 861,203          |
| FHLB advances                              | 32,935              | 79,013              |
| Repurchase agreements                      | -                   | 12,023              |
| Other borrowings                           | 12,584              | 12,017              |
| Subordinated debt                          | 9,750               | 9,750               |
| Other liabilities                          | 4,349               | 5,967               |
| Stockholders' equity                       | <u>111,846</u>      | <u>101,942</u>      |
| Total liabilities and stockholders' equity | <u>\$ 1,158,235</u> | <u>\$ 1,081,915</u> |



**DNB Financial Corporation**  
**Selected Financial Data (Unaudited)**  
*(In thousands, except per share data)*

|  | <b>Quarterly</b> |                |                |                |                |
|--|------------------|----------------|----------------|----------------|----------------|
|  | <b>2018</b>      | <b>2018</b>    | <b>2018</b>    | <b>2018</b>    | <b>2017</b>    |
|  | <b>4th Qtr</b>   | <b>3rd Qtr</b> | <b>2nd Qtr</b> | <b>1st Qtr</b> | <b>4th Qtr</b> |
| <b>Earnings and Per Share Data</b>                 |                  |                |                |                |                |
| Net income   | \$ 3,002         | \$ 3,020       | \$ 2,049       | \$ 2,613       | \$ 808         |
| Basic earnings per common share                    | \$ 0.70          | \$ 0.70        | \$ 0.48        | \$ 0.61        | \$ 0.19        |
| Diluted earnings per common share <sup>(2)</sup>   | \$ 0.69          | \$ 0.70        | \$ 0.47        | \$ 0.61        | \$ 0.19        |
| Dividends per common share                         | \$ 0.07          | \$ 0.07        | \$ 0.07        | \$ 0.07        | \$ 0.07        |
| Book value per common share                        | \$ 25.88         | \$ 25.06       | \$ 24.49       | \$ 24.15       | \$ 23.78       |
| Tangible book value per common share (Non-GAAP)    | \$ 22.21         | \$ 21.38       | \$ 20.79       | \$ 20.44       | \$ 20.06       |
| Average common shares outstanding                  | 4,317            | 4,307          | 4,298          | 4,291          | 4,274          |
| Average diluted common shares outstanding          | 4,320            | 4,318          | 4,314          | 4,309          | 4,297          |
| <b>Performance Ratios</b>                          |                  |                |                |                |                |
| Return on average assets                           | 1.03%            | 1.07%          | 0.74%          | 0.97%          | 0.30%          |
| Return on average equity                           | 10.80%           | 11.17%         | 7.79%          | 10.25%         | 3.10%          |
| Return on average tangible equity (Non-GAAP)       | 12.62%           | 13.11%         | 9.18%          | 12.12%         | 3.66%          |
| Yield on Loans and Leases                          | 4.85%            | 4.74%          | 4.70%          | 4.71%          | 4.85%          |
| Cost of Deposits                                   | 0.97%            | 0.86%          | 0.77%          | 0.63%          | 0.52%          |
| Net interest margin                                | 3.45%            | 3.39%          | 3.44%          | 3.51%          | 3.74%          |
| Efficiency ratio                                   | 62.45%           | 63.68%         | 70.39%         | 64.61%         | 64.73%         |
| Wtd average yield on earning assets                | 4.44%            | 4.30%          | 4.28%          | 4.24%          | 4.35%          |
| <b>Asset Quality Ratios</b>                        |                  |                |                |                |                |
| Net charge-offs (recoveries) to average loans      | 0.10%            | (0.12%)        | 0.15%          | 0.04%          | 0.06%          |
| Non-performing loans/Total loans                   | 0.62%            | 0.71%          | 0.76%          | 0.97%          | 0.89%          |
| Non-performing assets/Total assets                 | 0.94%            | 1.02%          | 1.05%          | 1.22%          | 1.16%          |
| Allowance for credit loss/Total loans              | 0.71%            | 0.72%          | 0.70%          | 0.71%          | 0.69%          |
| Allowance for credit loss/Non-performing loans     | 115.50%          | 101.36%        | 91.76%         | 73.08%         | 77.36%         |
| <b>Capital Ratios</b>                              |                  |                |                |                |                |
| Total equity/Total assets                          | 9.66%            | 9.58%          | 9.29%          | 9.42%          | 9.42%          |
| Tangible equity/Tangible assets (Non-GAAP)         | 8.40%            | 8.29%          | 8.00%          | 8.09%          | 8.07%          |
| Tier 1 leverage ratio                              | 9.48%            | 9.48%          | 9.35%          | 9.33%          | 9.19%          |
| Common equity tier 1 risk-based capital ratio      | 10.76%           | 10.91%         | 10.69%         | 10.63%         | 10.71%         |
| Tier 1 risk based capital ratio                    | 11.74%           | 11.93%         | 11.72%         | 11.67%         | 11.80%         |
| Total risk based capital ratio                     | 13.57%           | 13.83%         | 13.59%         | 13.56%         | 13.73%         |
| Wealth Management Assets Under Care <sup>(1)</sup> | \$ 253,323       | \$ 269,074     | \$ 257,797     | \$ 260,324     | \$ 252,823     |

<sup>(1)</sup> Wealth Management Assets Under Care includes assets under management, administration, supervision and brokerage.

<sup>(2)</sup> The sum of the four quarters EPS data does not equal the annual EPS data due to rounding.

**DNB Financial Corporation**  
**Condensed Consolidated Statements of Income (Unaudited)**  
*(Dollars in thousands, except per share data)*

|   | Three Months Ended |                 |                 |                 |                |
|---|--------------------|-----------------|-----------------|-----------------|----------------|
|   | Dec 31,            | Sept 30,        | June 30,        | Mar 31,         | Dec 31,        |
|   | 2018               | 2018            | 2018            | 2018            | 2017           |
| <b>EARNINGS:</b>                          |                    |                 |                 |                 |                |
| Interest income                           | \$ 12,338          | \$ 11,635       | \$ 11,289       | \$ 10,913       | \$ 11,241      |
| Interest expense                          | 2,780              | 2,484           | 2,221           | 1,886           | 1,593          |
| Net interest income                       | 9,558              | 9,151           | 9,068           | 9,027           | 9,648          |
| Provision for credit losses               | 350                | 100             | 375             | 375             | 375            |
| Non-interest income                       | 1,268              | 1,336           | 1,322           | 1,273           | 1,250          |
| Gain from insurance proceeds              | -                  | 8               | -               | -               | 123            |
| Gain on sale of investment securities     | -                  | -               | -               | -               | 25             |
| Gain on sale of SBA loans                 | 1                  | 27              | 10              | -               | 21             |
| Loss on sale / write-down of OREO and ORA | 20                 | 11              | 140             | -               | -              |
| Non-interest expense                      | 6,812              | 6,762           | 7,400           | 6,730           | 7,202          |
| Income before income taxes                | 3,645              | 3,649           | 2,485           | 3,195           | 3,490          |
| Income tax expense                        | 643                | 629             | 436             | 582             | 2,682          |
| Net income <sup>(1)</sup>                 | <u>\$ 3,002</u>    | <u>\$ 3,020</u> | <u>\$ 2,049</u> | <u>\$ 2,613</u> | <u>\$ 808</u>  |
| Net income per common share, diluted      | <u>\$ 0.69</u>     | <u>\$ 0.70</u>  | <u>\$ 0.47</u>  | <u>\$ 0.61</u>  | <u>\$ 0.19</u> |

<sup>(1)</sup> Fourth quarter 2017 results were impacted by a \$1.8 million charge, or \$0.43 per diluted share, to adjust deferred taxes due to the enactment of the Tax Cuts and Jobs Act.

**Condensed Consolidated Statements of Financial Condition (Unaudited)**

*(Dollars in thousands)*

|  | Dec 31,             | Sept 30,            | June 30,            | Mar 31,             | Dec 31,             |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
|  | 2018                | 2018                | 2018                | 2018                | 2017                |
| <b>FINANCIAL POSITION:</b>                 |                     |                     |                     |                     |                     |
| Cash and cash equivalents                  | \$ 17,321           | \$ 10,702           | \$ 33,452           | \$ 14,078           | \$ 10,917           |
| Investment securities                      | 158,669             | 161,230             | 165,574             | 171,108             | 174,173             |
| Loans held for sale                        | 419                 | -                   | 276                 | 646                 | 651                 |
| Loans and leases                           | 934,971             | 908,293             | 885,320             | 864,345             | 845,897             |
| Allowance for credit losses                | (6,675)             | (6,559)             | (6,188)             | (6,145)             | (5,843)             |
| Net loans and leases                       | 928,296             | 901,734             | 879,132             | 858,200             | 840,054             |
| Premises and equipment, net                | 7,636               | 7,881               | 8,150               | 8,366               | 8,649               |
| Goodwill                                   | 15,525              | 15,525              | 15,525              | 15,525              | 15,525              |
| Restricted Stock                           | 5,616               | 5,864               | 6,950               | 7,363               | 7,641               |
| Other assets                               | 24,753              | 25,179              | 24,550              | 24,744              | 24,305              |
| Total assets                               | <u>\$ 1,158,235</u> | <u>\$ 1,128,115</u> | <u>\$ 1,133,609</u> | <u>\$ 1,100,030</u> | <u>\$ 1,081,915</u> |
| Demand                                     | \$ 164,746          | \$ 168,311          | \$ 175,561          | \$ 172,044          | \$ 176,815          |
| NOW  | 238,276             | 213,707             | 216,261             | 207,538             | 199,310             |
| Money market                               | 235,023             | 227,797             | 254,061             | 253,757             | 221,726             |
| Savings                                    | 77,979              | 78,996              | 80,044              | 81,635              | 81,050              |
| Core deposits                              | 716,024             | 688,811             | 725,927             | 714,974             | 678,901             |
| Time deposits                              | 162,096             | 154,021             | 114,766             | 115,214             | 140,490             |
| Brokered deposits                          | 108,651             | 97,049              | 93,422              | 61,598              | 41,812              |
| Total deposits                             | 986,771             | 939,881             | 934,115             | 891,786             | 861,203             |
| FHLB advances                              | 32,935              | 36,952              | 62,972              | 67,993              | 79,013              |
| Repurchase agreements                      | -                   | 4,089               | 5,609               | 10,717              | 12,023              |
| Subordinated debt                          | 9,750               | 9,750               | 9,750               | 9,750               | 9,750               |
| Other borrowings                           | 12,584              | 22,833              | 9,615               | 9,630               | 12,017              |
| Other liabilities                          | 4,349               | 6,551               | 6,215               | 6,484               | 5,967               |
| Stockholders' equity                       | 111,846             | 108,059             | 105,333             | 103,670             | 101,942             |
| Total liabilities and stockholders' equity | <u>\$ 1,158,235</u> | <u>\$ 1,128,115</u> | <u>\$ 1,133,609</u> | <u>\$ 1,100,030</u> | <u>\$ 1,081,915</u> |

**DNB Financial Corporation**  
**Condensed Consolidated Statements of Financial Condition - Quarterly Average Balances (Unaudited)**  
*(Dollars in thousands)*

|  | <u>Dec 31,</u><br><u>2018</u> | <u>Sept 30,</u><br><u>2018</u> | <u>June 30,</u><br><u>2018</u> | <u>Mar 31,</u><br><u>2018</u> | <u>Dec 31,</u><br><u>2017</u> |
|--|-------------------------------|--------------------------------|--------------------------------|-------------------------------|-------------------------------|
| <b>FINANCIAL POSITION:</b>                 |                               |                                |                                |                               |                               |
| Cash and cash equivalents                  | \$ 25,269                     | \$ 21,676                      | \$ 20,528                      | \$ 16,509                     | \$ 23,513                     |
| Investment securities                      | 159,717                       | 163,800                        | 168,836                        | 172,488                       | 173,959                       |
| Loans held for sale                        | 320                           | 338                            | 642                            | 113                           | 34                            |
| Loans and leases                           | 919,985                       | 889,113                        | 869,166                        | 851,623                       | 827,273                       |
| Allowance for credit losses                | (6,550)                       | (6,567)                        | (6,197)                        | (5,958)                       | (5,639)                       |
| Net loans and leases                       | 913,435                       | 882,546                        | 862,969                        | 845,665                       | 821,634                       |
| Premises and equipment, net                | 7,789                         | 8,059                          | 8,306                          | 8,552                         | 8,841                         |
| Goodwill                                   | 15,525                        | 15,525                         | 15,525                         | 15,525                        | 15,525                        |
| Restricted Stock                           | 5,759                         | 6,262                          | 6,836                          | 7,674                         | 6,795                         |
| Other assets                               | 23,816                        | 24,012                         | 23,568                         | 23,436                        | 24,723                        |
| Total assets                               | <u>\$ 1,151,630</u>           | <u>\$ 1,122,218</u>            | <u>\$ 1,107,210</u>            | <u>\$ 1,089,962</u>           | <u>\$ 1,075,024</u>           |
| <br>                                       |                               |                                |                                |                               |                               |
| Demand                                     | \$ 168,495                    | \$ 174,798                     | \$ 170,885                     | \$ 174,022                    | \$ 192,700                    |
| NOW  | 222,638                       | 215,055                        | 206,341                        | 204,719                       | 196,055                       |
| Money market                               | 241,777                       | 238,679                        | 252,825                        | 236,165                       | 216,853                       |
| Savings                                    | 78,069                        | 79,695                         | 80,696                         | 80,992                        | 81,118                        |
| Core deposits                              | 710,979                       | 708,227                        | 710,747                        | 695,898                       | 686,726                       |
| Time deposits                              | 157,944                       | 141,794                        | 114,091                        | 133,222                       | 142,283                       |
| Brokered deposits                          | 104,161                       | 85,690                         | 82,957                         | 43,739                        | 41,814                        |
| Total deposits                             | 973,084                       | 935,711                        | 907,795                        | 872,859                       | 870,823                       |
| FHLB advances                              | 34,834                        | 45,549                         | 54,971                         | 75,458                        | 59,373                        |
| Repurchase agreements                      | 1,168                         | 4,644                          | 12,042                         | 12,364                        | 15,388                        |
| Subordinated debt                          | 9,750                         | 9,750                          | 9,750                          | 9,750                         | 9,750                         |
| Other borrowings                           | 15,752                        | 13,060                         | 10,923                         | 10,470                        | 9,835                         |
| Other liabilities                          | 6,780                         | 6,193                          | 6,277                          | 5,657                         | 6,298                         |
| Stockholders' equity                       | 110,262                       | 107,311                        | 105,452                        | 103,404                       | 103,557                       |
| Total liabilities and stockholders' equity | <u>\$ 1,151,630</u>           | <u>\$ 1,122,218</u>            | <u>\$ 1,107,210</u>            | <u>\$ 1,089,962</u>           | <u>\$ 1,075,024</u>           |

**DNB Financial Corporation**  
**Reconciliation of Non-GAAP Financial Measures (Unaudited)**

**Reconciliation of Tangible Book Value Per Common Share to Book Value Per Common Share**

*(In thousands, except share and per share data)*

|   | <b>Dec 31,<br/>2018</b> | <b>Sept 30,<br/>2018</b> | <b>June 30,<br/>2018</b> | <b>Mar 31,<br/>2018</b> | <b>Dec 31,<br/>2017</b> |
|---|-------------------------|--------------------------|--------------------------|-------------------------|-------------------------|
| Stockholders' Equity                            | \$ 111,846              | \$ 108,059               | \$ 105,333               | \$ 103,670              | \$ 101,942              |
| Goodwill  | 15,525                  | 15,525                   | 15,525                   | 15,525                  | 15,525                  |
| Other intangible assets                         | 343                     | 364                      | 388                      | 423                     | 435                     |
| Tangible common equity (Non-GAAP)               | \$ 95,978               | \$ 92,170                | \$ 89,420                | \$ 87,722               | \$ 85,982               |
| Outstanding shares                              | 4,321,745               | 4,311,860                | 4,301,898                | 4,292,689               | 4,286,117               |
| Book value per common share (GAAP)              | \$ 25.88                | \$ 25.06                 | \$ 24.49                 | \$ 24.15                | \$ 23.78                |
| Tangible book value per common share (Non-GAAP) | 22.21                   | 21.38                    | 20.79                    | 20.44                   | 20.06                   |

**Return on Average Tangible Equity**

*(Dollars in thousands)*

|  | <b>For the Quarter Ended</b> |                          |                          |                         |                         |
|--|------------------------------|--------------------------|--------------------------|-------------------------|-------------------------|
|  | <b>Dec 31,<br/>2018</b>      | <b>Sept 30,<br/>2018</b> | <b>June 30,<br/>2018</b> | <b>Mar 31,<br/>2018</b> | <b>Dec 31,<br/>2017</b> |
| Average Stockholders' Equity                     | \$ 110,262                   | \$ 107,311               | \$ 105,452               | \$ 103,404              | \$ 103,557              |
| Average goodwill                                 | 15,525                       | 15,525                   | 15,525                   | 15,525                  | 15,525                  |
| Average other intangible assets                  | 354                          | 376                      | 388                      | 423                     | 435                     |
| Average tangible stockholders' equity (Non-GAAP) | \$ 94,383                    | \$ 91,410                | \$ 89,539                | \$ 87,456               | \$ 87,597               |
| Net Income                                       | \$ 3,002                     | \$ 3,020                 | \$ 2,049                 | \$ 2,613                | \$ 808                  |
| Return on average stockholders' equity (GAAP)    | 10.80 %                      | 11.17 %                  | 7.79 %                   | 10.25 %                 | 3.10 %                  |
| Return on average tangible equity (Non-GAAP)     | 12.62                        | 13.11                    | 9.18                     | 12.12                   | 3.66                    |

**Tangible Equity/Tangible Assets**

*(Dollars in thousands)*

|   | <b>Dec 31,<br/>2018</b> | <b>Sept 30,<br/>2018</b> | <b>June 30,<br/>2018</b> | <b>Mar 31,<br/>2018</b> | <b>Dec 31,<br/>2017</b> |
|---|-------------------------|--------------------------|--------------------------|-------------------------|-------------------------|
| Stockholders' Equity                              | \$ 111,846              | \$ 108,059               | \$ 105,333               | \$ 103,670              | \$ 101,942              |
| Goodwill  | 15,525                  | 15,525                   | 15,525                   | 15,525                  | 15,525                  |
| Other intangible assets                           | 343                     | 364                      | 388                      | 423                     | 435                     |
| Tangible common equity (Non-GAAP)                 | \$ 95,978               | \$ 92,170                | \$ 89,420                | \$ 87,722               | \$ 85,982               |
| Assets  | 1,158,235               | 1,128,115                | 1,133,609                | 1,100,030               | 1,081,915               |
| Goodwill  | 15,525                  | 15,525                   | 15,525                   | 15,525                  | 15,525                  |
| Other intangible assets                           | 343                     | 364                      | 388                      | 423                     | 435                     |
| Tangible assets (Non-GAAP)                        | 1,142,367               | 1,112,226                | 1,117,696                | 1,084,082               | 1,065,955               |
| Total equity/Total assets (GAAP)                  | 9.66 %                  | 9.58 %                   | 9.29 %                   | 9.42 %                  | 9.42 %                  |
| Tangible common equity/Tangible assets (Non-GAAP) | 8.40                    | 8.29                     | 8.00                     | 8.09                    | 8.07                    |