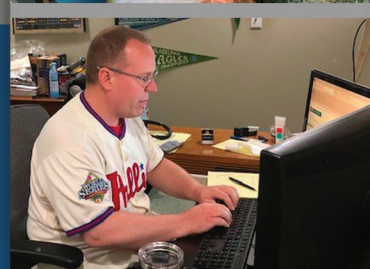
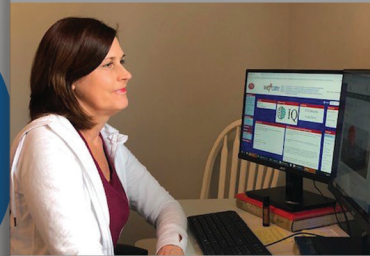




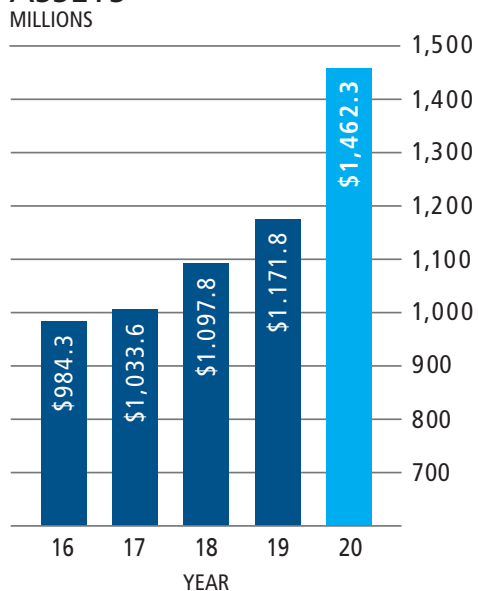
ENB Financial Corp
2020 Annual Report

enb

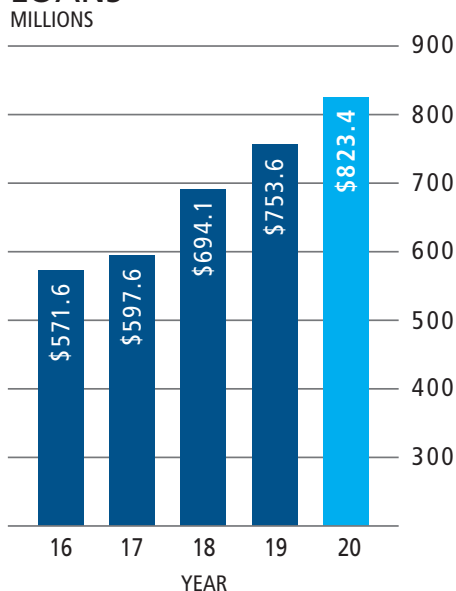


FIVE-YEAR PERFORMANCE

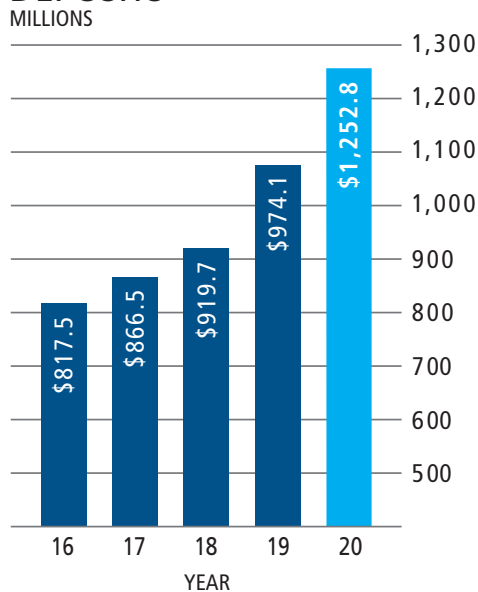
ASSETS



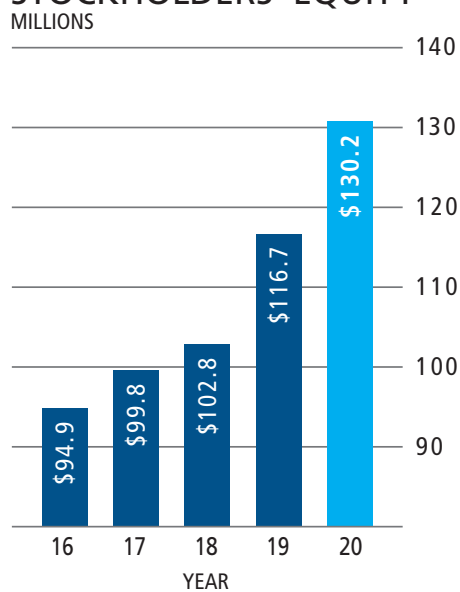
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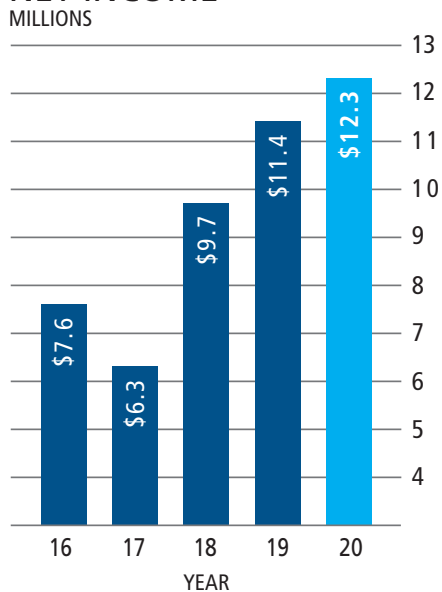
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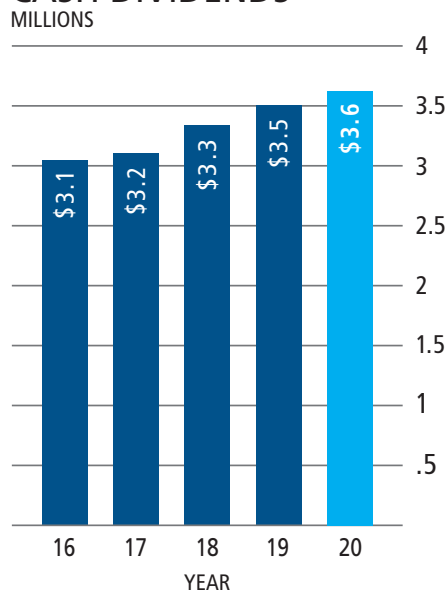
STOCKHOLDERS' EQUITY



NET INCOME



CASH DIVIDENDS



ENB FINANCIAL CORP MISSION

To remain an independent community bank of undisputed integrity, serving the communities of Lancaster County and beyond.

To offer state-of-the-art financial products and services of high quality and value at an affordable price.

To provide unsurpassed personal service, delivered by a highly dedicated professional team.



ENB VISION STATEMENT

Ephrata National Bank will help clients achieve financial success as defined by them by discovering their goals and dreams in order to provide helpful advice.

I write this letter to you on the state of our company after an extraordinary year. A global pandemic and the accompanying economic fallout combined with political and social strife have challenged our country, our communities, and our company in ways that were previously unimaginable. To slow the spread of the Coronavirus, businesses were asked to close and find new ways to serve their customers. As an essential business, Ephrata National Bank was permitted to stay open but doing so safely required some tough decisions and fast mobilization. I am proud to say the teams at ENB Financial Corp and its wholly owned subsidiary, Ephrata National Bank, were up to the task. We closed our community banking office lobbies and quickly mobilized to move many of our teammates to remotely work from home. To continue providing banking services to our customers, we leveraged our network of drive-thru facilities and ATMs in combination with online, mobile, and telephone banking. Banking needs that could not be met remotely, such as opening new accounts, were done by appointment in our office lobbies with enhanced safety measures in place. When circumstances required, we went to the homes and businesses of our customers. We also set to work on deploying new technology that would provide customers with additional safe banking options such as opening checking, savings, and money market accounts online and touchless payments through digital wallets like Apple Pay.

To stave off economic catastrophe, the CARES Act was signed into law authorizing the largest economic stimulus in the history of our country and establishing the Paycheck Protection Program (PPP), which authorized the Small Business Administration (SBA) to provide emergency funding to help businesses keep their employees at work and cover expenses. In response, ENB quickly mobilized and created a PPP Loan Team to review program guidance from the SBA. We then developed an online SBA Loan Resource Center to help customers understand application and documentation guidelines, eligibility and loan forgiveness requirements, and deadlines. Customers were directed to this resource through email and social media. Procedures were developed to collect, review, and submit applications and then disburse funds to customers upon application approval. To facilitate the submission of applications and supporting documentation,

an online portal was created, which also allowed communication between lender and borrower while allowing applicants to check the status of their application. Our efforts resulted in 990 approved applications for local businesses totaling \$77.7 million. As I write this, our team is hard at work helping customers through the latest round of the Paycheck Protection Program while helping prior applicants through the loan forgiveness process.

In my letter to you last year, I wrote that the hard work of our employees had laid the groundwork for a successful future. Their efforts in 2020 exponentially reinforced my confidence was justified. Although many resources were diverted to responding to the impact of the pandemic and providing PPP loans, we still made great strides in positioning the bank for future success. I could not be more proud of our team. I am also proud that despite all the challenges of 2020, ENB Financial Corp and its wholly owned subsidiary, Ephrata National Bank, posted our third consecutive year of record earnings. For the year ended December 31, 2020, earnings stood at \$12,299,000. This was a \$904,000, or 7.9%, increase over earnings of \$11,395,000 for the year ended December 31, 2019. Basic and diluted earnings per share for 2020 were \$2.20 compared to \$2.01 in 2019, representing a 9.5% increase.

To help minimize the economic harm created by the COVID-19 pandemic and set the stage for recovery, the Federal Open Market Committee cut the federal funds rate 150 basis points in March 2020. This resulted in a strong mortgage market as consumers looked to refinance higher-rate mortgages and buy homes. It also created an opportunity for ENB to lower interest expense. Both opportunities helped drive earnings to higher levels. Gains on the sale of mortgages increased \$3,914,000, or 202.2%, for the year while interest expense on deposits decreased \$1,412,000, or 39.8%. Partially offsetting these gains was an increased provision for loan loss of \$2,180,000, which brought the provision expense for the year ended December 31, 2020 to \$2,950,000 compared to \$770,000 for the year ended December 31, 2019.

As of December 31, 2020, total operating expenses stood at \$36,074,000, which was a \$2,441,000, or 7.3%, increase over 2019. Traditionally, salaries and benefits are the largest contributor to this expense.

In 2020, salaries and benefits increased \$1,030,000, or 4.9%, compared to 2019. Impacting these increases were elevated commission expenses paid out on mortgage volume, normal merit increases, additions to staff, and a performance bonus paid out in 2020 with no similar bonus paid in the prior year. A \$795,000 increase in business loan salary deferral associated with the cost to originate PPP loans offset some of the increase attributable to salaries. Benefit costs increased by \$171,000, or 3.1%, compared to the prior year. Other operating expenses were higher driven primarily by increases in software-related expenses, other outside services, operating supplies, and an increase in the provision for off balance sheet credit losses.

2020 was another year in which we experienced a transition in Executive Leadership with the retirements of Barry Harting and Jim Dull at the end of the year. Barry Harting started his ENB career in 1998 and most recently served as Executive Vice President, Chief Risk Officer. He was also Vice President and Corporate Secretary of ENB Financial Corp. Replacing Barry as Executive Vice President, Chief Risk Officer is Nick Klein. Nick has 9 years of experience at ENB having most recently served as Vice President, Senior Credit Review Officer. Adrienne Miller, Esq., will assume the role of Vice President and Corporate Secretary of ENB Financial Corp. Adrienne has been with ENB since 2014 and will continue her role there as Senior Vice President, Legal Counsel. Jim Dull started his 38-year career with Ephrata National Bank in 1982. Having held numerous positions in that time, he was last Executive Vice President, Chief Technology Officer. Also joining the ENB Management Team are Tim Doty and Randy Covington. Tim began his career with Ephrata National Bank in 2014 and will serve as Senior Vice President, Information Security Officer. Randy started with ENB in 2018 and will serve as Senior Vice President, Information and Technology Officer. Succession planning has been a key component of the Bank's strategy for several years, so it is with great pride and satisfaction that we are able to continue filling senior leadership positions with internal candidates. Their knowledge of banking as well as our culture, mission, and communities will ensure stability and continuity in leadership, strategy, and operations. I'm looking forward to working with these teammates in their new roles



and wish Barry and Jim a long and happy retirement.

Finally, I'd like to recognize Paul Wenger who retired from the ENB Financial Corp Board of Directors in May. Paul has enjoyed a long and distinguished career serving Ephrata National Bank and ENB Financial Corp since 1967. After retiring from the Bank as Senior Vice President, Corporate Secretary and Cashier in 2015, Paul remained on the ENB Financial Corp Board of Directors.

Through the challenges of the past year, our corporate values of stability, personal service, simplicity, dependability, and community served as guideposts to keep us focused on the task at hand. The following pages highlight the challenges we overcame and successes we enjoyed. Thank you to all of our employees, business partners, shareholders, and customers for your support. It is a pleasure serving you.

Sincerely,

Jeffrey S. Stauffer
Chairman of the Board
President and CEO
ENB Financial Corp

FINANCIAL HIGHLIGHTS

For the third straight year, Ephrata National Bank achieved record earnings. In addition to very strong growth in gains on the sale of mortgages, net interest income (NII) growth of \$1,630,000, or 4.5%, was a significant contributor to earnings. Driving NII growth was \$77.7 million in loans booked through the Small Business Administration Paycheck Protection Program (SBA PPP). These loans also contributed to \$69.8 million, or 9.3%, of overall loan growth, which helped offset the decline in interest earned on loans resulting from large interest rate declines early in the year. Net PPP fees realized during 2020 resulted in a \$1.7 million increase in interest and fee income on loans. Without these PPP fees, loan interest income would have declined for the year even though the Bank experienced overall growth in other areas of the loan portfolio. Total consumer real estate secured loans, which at 42.0% account for the largest portion of total gross loans in the Bank's portfolio, grew \$6.3 million, or 1.9%, as of December 31, 2020. Within this area, 1-4 family residential mortgages experienced growth of \$4.9 million, a 1.9% increase. Commercial real estate loans grew by \$30.4 million, or 9.7%. This segment of the Bank's loans accounted for 41.6% of gross loans as of December 31, 2020. The largest group of loans within this area is agricultural mortgages, which grew a modest \$0.6 million, or 0.4%. Commercial mortgages to non-agricultural businesses grew more rapidly with a \$22.5 million, or 18.7%, increase.

Deposit growth was extremely strong in 2020 as consumers and businesses built cash reserves in response to the Coronavirus pandemic. Ephrata National Bank's reputation as a safe and sound institution has historically made it attractive

to depositors during times of uncertainty. For the year ended December 31, 2020, deposit balances grew an unprecedented \$278.7 million, or 28.6%. Each primary segment of the Bank's non-maturity deposits grew with all forms of checking balances increasing \$231.7 million, or 36.9%, and savings accounts increasing \$63.1 million, or 29.9%. Time deposits decreased by \$16.1 million, or 11.9%. Despite this rapid growth in deposits, Ephrata National Bank was able to achieve savings on deposit interest expense of \$1.4 million, or 39.8%. This was the result of lower rates paid on all interest bearing accounts in response to the declining interest rate environment. An acceleration of funds transferred from maturing time deposits into non-interest bearing checking accounts and low-interest bearing NOW, MMDA, and savings accounts allowed the Bank to alter its deposit mix.

With deposit growth outpacing loan demand, the Bank invested excess deposits into its securities portfolio resulting in annual growth of \$168.7 million, which was a 53.6% increase over the prior year. This growth combined with declining market rates created an opportunity for Management to sell securities at higher gains compared to the prior year. Gains on securities transactions in 2020 were \$733,000 compared to \$499,000 in 2019 representing an increase of \$234,000, or 46.9%.

Deposit growth propelled significant asset growth of 24.8%, and at the end of 2020, total assets stood at \$1.46 billion. Lower interest rates, decreased loan demand, and lower returns on securities all combined to decrease the bank's net interest margin to 3.24% in 2020 vs. 3.53% in 2019. With lower returns on interest earning assets, the bank's return on average assets (ROA) declined to 0.96% at the end of 2020 vs. 1.01% in 2019.

COVID-19 RESPONSE

Like most industries, banking was significantly impacted by COVID-19. As an essential business, banks were not forced to close, but to protect staff and customers, service delivery was modified. Branch office lobbies were closed except by appointment. Office drive-through windows and digital channels became the central focus of delivering products and services. To keep



pace with customer demands, ENB accelerated digital strategic initiatives already in progress and implemented new ones that were previously unscheduled.

Although ENB enjoys a high percentage of customers using Online Banking, COVID-19 restrictions motivated customers previously reluctant to use this channel to enroll. To provide online access quickly, ENB introduced a streamlined enrollment process, which shortened the time from application to first login. The Online Banking application was also streamlined with most customers able to complete in less than one minute.

The ability to open accounts online also became vital as branch lobbies were closed. In July, ENB introduced an updated and streamlined online loan application for personal loans, and in October, customers began opening personal checking, savings and money market accounts online. Both processes are designed to be fast and intuitive allowing customers to open accounts anytime they find convenient. These resources also allow ENB to attract customers from local markets where they do not have a branch location.

As concerns about the virus spreading through contact with surfaces grew, demand for ways to make point of sale payments without touching payment terminals or signing receipts also grew. In response, ENB enabled its Debit MasterCard® to be compatible with Apple Pay, Google Pay and Samsung Pay digital wallets. Digital wallets are apps that allow customers to store credit and debit card information on their smart phone in order to make payments through a variety of methods. These wallets use Near-Field Communication technology, which enables the payment to be made by holding the phone near a reader, thus creating a contactless method of payment. When a payment is initiated, the wallet creates a token that authenticates the validity of the card allowing payment to be made without transmitting the card number. This method of payment not only helps prevent the spread of COVID-19 but also prevents a customer's card information from being compromised as a result of a data breach at a retailer.

As COVID-19 required moving a significant portion of our team to work remotely, securely maintaining connections with essential systems became our number one priority, and to facilitate this, laptops installed with secure access portals to the Bank's network were distributed to employees. ENB upgraded its bank-wide phone and video conference capability allowing team members to remain connected and business to be conducted via remote face-to-face meetings and discussions.

Individual departments also sought out ways to maintain their specific operations. As an example, the ENB Finance Team recognized the challenges a remote workforce would present in receiving and processing paper invoices and paying by check. In response, the team upgraded its accounts payable software. This enabled electronic submission of invoices for payment and eliminated the need for checks to be cut and sent by staff by moving more vendors to electronic payments and outsourcing



issuance of paper checks. The change not only allowed the accounts payable process to continue without interruption, it made daily, monthly, and quarterly accounting processes, including review and sign offs, fully electronic, which resulted in increased efficiency.

A CONTINUED DRIVE FOR EFFICIENCY

Despite the challenges of COVID-19, Ephrata National Bank did not lose focus on continuing to execute its 2019-2021 strategic plan. A key objective of the plan was improving efficiency and financial performance, which became even more essential in 2020. Driving this objective was a process and profit improvement study performed in 2018 that identified 73 areas where ENB could

save money or increase revenue by changing or eliminating an internal process. Execution of changes recommended in the study began in 2019 and continued throughout 2020. At the end of the year, 69% of recommended changes had been implemented with an additional 6%



not pursued as it was determined they did not provide significant improvements. Projected savings related to these changes is estimated to be \$623,300 per year. These cost reductions contributed to improving our Efficiency Ratio to 67.2% in 2020, which was down from 69.8% at the end of 2019.

Key initiatives completed during 2020 include:

- Upgrading to a new loan origination system in order to increase automation and reduce redundancies in the consumer credit underwriting process. This end-to-end solution allows data, documents, and pricing models to be built within one system eliminating inefficiencies that come with inputting data multiple times in multiple places. It also speeds the credit decision process. In some cases, customers applying online for a loan receive an approval instantaneously. Automated messaging provides customers with updates on their loan status in real time while robust reporting allows relationship managers to more quickly respond to questions about the status of applications. The result is a better customer experience from the moment customers apply until the moment they receive a decision.
- Installing teller image capture to quickly

complete transactions by converting paper checks and financial documents directly into digital images and sending electronically for processing. Teller image capture reduces the need for paper tickets involved with processing, which provides significant cost savings. It also improves accuracy and efficiency by reducing the manual entry required to assist customers with transactions. Reducing time spent on transactions allows relationship bankers to spend more time engaging in conversations with customers in order to provide an enhanced customer experience. In 2020, ENB began using teller image capture to process loan payments and deposits sent by mail. Deployment in community banking offices began in early 2021.

- Creating the ENB Office of Project Management to bring best practices to the implementation of new systems, processes, solutions, and products. By bringing structure to the prioritization, approval, and implementation of any new project, the Office enables more efficient coordination of both human and financial resources. Installing a group of focused professionals eliminates the need for different business leaders to become de facto product management experts, freeing up their time to focus on their particular area of expertise.

CREATING AN ORGANIZATIONAL STRUCTURE FOR THE FUTURE

In 2020, the Bank began a comprehensive analysis of the structure of each department throughout the organization. Roles and responsibilities were evaluated relative to key performance indicators and requirements for ENB to compete successfully in an ever-evolving industry requiring increased technological acumen. Current and proposed positions essential to future growth were identified creating an opportunity for current employees to fully leverage their skill sets in positions aligned with the strategic direction of ENB. This exercise also created an enterprise-wide hierarchy alignment and compensation structure consistent with our competitive market allowing

the bank to successfully retain high performing team members and recruit new ones.

As salaries and benefits are traditionally the Bank's largest non-interest expense, focusing on developing an efficient organizational structure that allows us to control these costs while preparing for future growth is essential. By aligning the skill sets of our employees with the needs of the company, ENB is better able to add new positions intended to drive additional revenue and improve efficiencies without a significant increase in salary or benefits expense. Employees benefit from having clear career paths that will help them understand their opportunities for advancement and potential to succeed retiring leaders.

HELPING OUR CUSTOMERS AND COMMUNITIES THROUGH THE CRISIS

The impact of COVID-19 on the communities in which we do business has been well-documented. ENB's proudest accomplishment of 2020 was our participation in the SBA Paycheck Protection Program as it helped many local businesses stay open and provide employment. Although this was the most visible form of assistance, it was not the only assistance we provided to our communities. Prior to the enactment of the PPP, ENB had already begun working to help our customers by offering consumer and business loan payment deferrals, emergency hardship loans, mortgage rate-lock extensions, and penalty-free early withdrawals from certificates of deposit. We also continued our support of various non-profit organizations in our communities through sponsorships, donations, and government-sponsored tax programs. In times of crisis, charitable giving budgets are often reduced or cut. Early in the crisis, ENB committed to maintaining our sponsorships and donations budget. As a result, we contributed \$595,000 to the prosperity of our communities. Beneficiaries included organizations that provide assistance in mental and physical health, human services, economic development, and education such as Lancaster Cares COVID-19 Response Fund, Wellspan Community Hospital, Lancaster

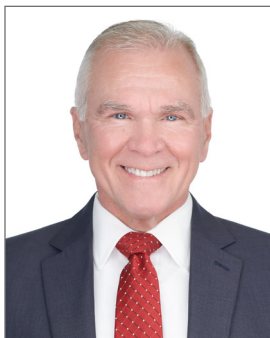
Housing Opportunity Partnership, and Good Samaritan Services. We also contributed to a variety of organizations that make Lancaster County and beyond a great place to live through cultural enrichment and leisure activities. Organizations we are proud to support include



Penn Square Music Festival and Conservatory, the Tree House Playground of Lititz, and Long's Park Amphitheater Foundation.

In the fall, ENB introduced Pigs in the Park; a contest designed to provide families with a fun outdoor activity during the pandemic while teaching kids about saving. The contest featured plastic piggy banks hidden in community parks throughout ENB's market area. Each pig contained a voucher that could be redeemed for a \$25 deposit into a new or current ENB Super Saver account. Pigs in the Park dates and locations were promoted through ENB's social media with hundreds participating. As a result, the Bank opened 105 new Super Saver accounts during the month of October. To keep spirits bright over the holiday season, ENB continued our Platinum Sponsorship of the Mainspring Christmas in Ephrata Tree Lighting & Santa's Arrival allowing this event to virtually usher in the start of the holiday season. The Bank also performed a 12 Days of Christmas Giveaway. For 12 days leading up to the holiday, ENB's Facebook followers were asked to share their favorite holiday memories. Respondents were placed into a random drawing with winners being awarded gift certificates purchased by ENB from local businesses.

Board of Directors—ENB Financial Corp and Ephrata National Bank



Aaron L. Groff, Jr.



Joshua E. Hoffman, CPA



Jay S. Martin



Susan Young
Nicholas, Esq.



Dr. Brian K. Reed



Jeffrey S. Stauffer



Mark C. Wagner



Judith A. Weaver

(not pictured) Willis R. Lefever

ENB Financial Corp Management



Jeffrey S. Stauffer
Chairman, President
and CEO



Adrienne L. Miller, Esq.
Vice President and
Corporate Secretary



Scott E. Lied, CPA
Treasurer

	2020	2019	2018	2020/2019	2019/2018
(\$ In thousands except per share data)	\$	\$	\$	% Change	

For the Year:

Net income	12,299	11,395	9,749	7.93%	16.88%
Net interest income	38,248	36,618	33,124	4.45%	10.55%
Cash dividends paid	3,573	3,518	3,282	1.56%	7.19%

Per Share:

Earnings per share (EPS) basic and diluted	2.20	2.01	1.71	9.45%	17.54%
Cash dividends paid	0.640	0.620	0.575	3.23%	7.83%
Book value per share	23.39	20.69	18.02	13.05%	14.82%

At Year End:

Assets	1,462,313	1,171,750	1,097,842	24.80%	6.73%
Loans	823,370	753,618	694,073	9.26%	8.58%
Deposits	1,252,811	974,088	919,734	28.61%	5.91%
Stockholders' equity	130,216	116,688	102,802	11.59%	13.51%

Key Ratios:

Return on average assets (ROA)	0.96%	1.01%	0.93%		
Return on average stockholders' equity (ROE)	10.16%	10.36%	9.94%		
Stockholders' equity to assets (ending)	8.90%	9.96%	9.36%		
Dividend payout ratio	29.09%	30.85%	33.63%		

2020

FINANCIAL
HIGHLIGHTS

TOTAL ASSETS

\$1.5B

CASH DIVIDENDS PAID

\$3.6M

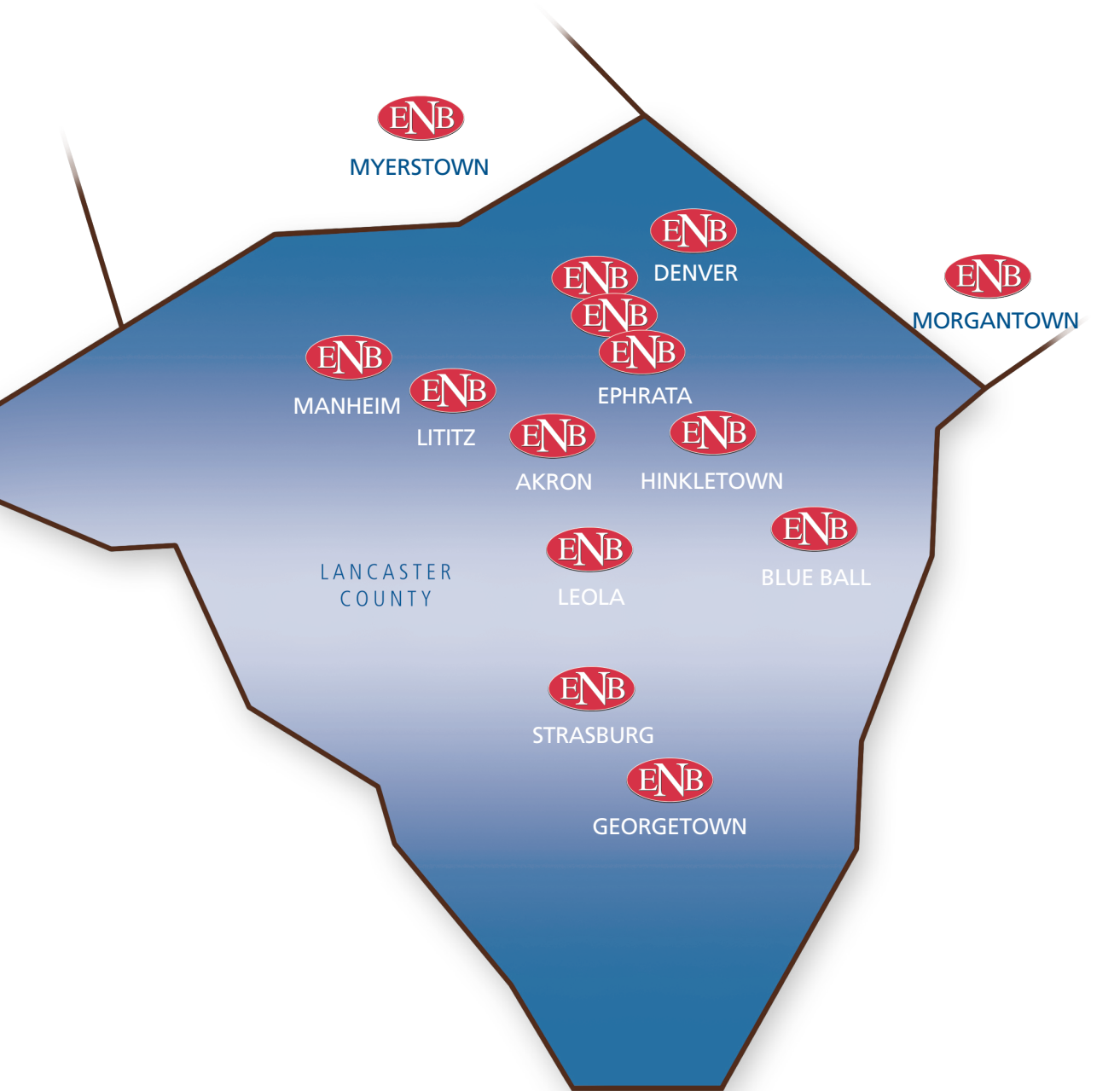
RETURN ON
AVERAGE ASSETS
(ROA)

0.96%

DIVIDEND
PAYOUT RATIO

29.09%

LOCATIONS



MAIN OFFICE
31 E Main St
Ephrata

DENVER
1 Main St
Denver

LITITZ
3190 Lititz Pike
Lititz

**MONEY MANAGEMENT
GROUP**
47 E Main St
Ephrata

AKRON
351 S Seventh St
Akron

**GEORGETOWN
DRIVE UP**
1298 Georgetown Rd
Quarryville

MANHEIM
1 N Penryn Rd
Manheim

MORGANTOWN
6296 Morgantown Rd
Morgantown

BLUE BALL
110 Marble Ave
East Earl

HINKLETOWN
935 N Railroad Ave
New Holland

MYERSTOWN
615 E Lincoln Ave
Myerstown

STRASBURG
60 Historic Drive
Strasburg

CLOISTER
809 Martin Ave
Ephrata

LEOLA
361 W Main St
Leola

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020

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 000-53297

ENB Financial Corp

(Exact name of registrant as specified in its charter)

Pennsylvania
State or other jurisdiction of incorporation or organization

51-0661129
(IRS Employer Identification No.)

31 E. Main St. Ephrata, PA
(Address of principal executive offices)

17522
(Zip Code)

Registrant's telephone number, including area code (717) 733-4181

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	N/A	N/A

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

Title of each class
Common Stock, Par Value \$0.20 Per Share

Indicate by check mark if 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

Large Accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☒

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. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2020, was approximately \$62,943,166.

The number of shares of the registrant's Common Stock outstanding as of March 15, 2021, was 5,561,499.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's Definitive Proxy Statement for its 2021 Annual Meeting of Shareholders to be held on May 11, 2021, is incorporated into Parts III and IV hereof.

ENB FINANCIAL CORP

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Part I

Forward-Looking Statements

The U.S. Private Securities Litigation Reform Act of 1995 provides safe harbor in regard to the inclusion of forward-looking statements in this document and documents incorporated by reference. Forward-looking statements pertain to possible or assumed future results that are made using current information. These forward-looking statements are generally identified when terms such as; “believe,” “estimate,” “anticipate,” “expect,” “project,” “forecast,” and other similar wordings are used. The readers of this report should take into consideration that these forward-looking statements represent management’s expectations as to future forecasts of financial performance, or the likelihood that certain events will or will not occur. Due to the very nature of estimates or predictions, these forward-looking statements should not be construed to be indicative of actual future results. Additionally, management may change estimates of future performance, or the likelihood of future events, as additional information is obtained. This document may also address targets, guidelines, or strategic goals that management is striving to reach but may not be indicative of actual results.

Readers should note that many factors affect this forward-looking information, some of which are discussed elsewhere in this document and in the documents that are incorporated by reference into this document. These factors include, but are not limited to, the following:

- Economic conditions
- Effects of economic conditions particularly with regard to the negative impact of severe, wide-ranging and continuing disruptions caused by the spread of coronavirus (COVID-19) and government and business responses thereto, specifically the effect on loan customers to repay loans
- Monetary and interest rate policies of the Federal Reserve Board
- Volatility of the securities markets
- Possible impacts of the capital and liquidity requirements of Basel III standards and other regulatory pronouncements
- Effects of short- and long-term federal budget and tax negotiations and their effects on economic and business conditions
- Effects of the failure of the Federal government to reach agreement to raise the debt ceiling and the negative effects on economic or business conditions as a result
- Effects of weak market conditions, specifically the effect on loan customers to repay loans
- Political changes and their impact on new laws and regulations
- Competitive forces
- Changes in deposit flows, loan demand, or real estate and investment securities values
- Changes in accounting principles, policies, or guidelines as may be adopted by the regulatory agencies, as well as the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, and other accounting standards setters
- Ineffective business strategy due to current or future market and competitive conditions
- Management’s ability to manage credit risk, liquidity risk, interest rate risk, and fair value risk
- Operation, legal, and reputation risk
- The risk that our analyses of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful
- The impact of new laws and regulations, including the impact of the Tax Cuts and Jobs Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 and the regulations issued thereunder

Readers should be aware if any of the above factors change significantly, the statements regarding future performance could also change materially. The safe harbor provision provides that ENB Financial Corp is not required to publicly update or revise forward-looking statements to reflect events or circumstances that arise after the date of this report. Readers should review any changes in risk factors in documents filed by ENB Financial Corp periodically with the Securities and Exchange Commission, including Item 1A. of this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K.

Item 1. Business

General

ENB Financial Corp (“the Corporation”) is a bank holding company that was formed on July 1, 2008. The Corporation’s wholly owned subsidiary, Ephrata National Bank (“the Bank”), also referred to as ENB, is a full service commercial bank organized under the laws of the United States. Presently, no other subsidiaries exist under the bank holding company. The Corporation and the Bank are both headquartered in Ephrata, Lancaster County, Pennsylvania. The Bank was incorporated on April 11, 1881, pursuant to The National Bank Act under a charter granted by the Office of the Comptroller of the Currency (OCC). The Federal Deposit Insurance Corporation (FDIC) insures deposit accounts to the maximum extent provided by law. The Corporation’s retail, operational, and administrative offices are predominantly located in Lancaster County, southeastern Lebanon County, and southern Berks County, Pennsylvania. Ten full service offices are located in Lancaster County with one full service office in Lebanon County and one full service office in Berks County, Pennsylvania.

The basic business of the Corporation is to provide a broad range of financial services to individuals and small-to-medium-sized businesses in Lancaster County as well as Berks and Lebanon Counties. The Corporation utilizes funds gathered through deposits from the general public to originate loans. The Corporation offers a range of demand accounts, in addition to savings and time deposits. The Corporation also offers secured and unsecured commercial, real estate, and consumer loans. Ancillary services that provide added convenience to customers include direct deposit and direct payments of funds through Electronic Funds Transfer, ATMs linked to the Star® network, telephone banking, MasterCard® debit cards, Visa® or MasterCard credit cards, and safe deposit box facilities. In addition, the Corporation offers internet banking including bill pay and wire transfer capabilities, remote deposit capture, and an ENB Bank on the Go! app for iPhones or Android phones. The Corporation also offers a full complement of trust and investment advisory services through ENB’s Money Management Group.

As of December 31, 2020, the Corporation employed 276 persons, consisting of 252 full-time and 24 part-time employees. The number of full-time employees decreased by two employees, and the number of part-time employees decreased by two from the previous year-end. The decrease in the number of full-time and part-time employees is attributable to streamlining processes across departments and restructuring initiatives that has resulted in improved headcount efficiency, a process that continues as of the date of this filing. The Bank expects to continue reviewing and implementing opportunities to align headcount with operational efficiencies in 2021. A collective bargaining agent does not represent the employees.

Operating Segments

The Corporation’s business is providing financial products and services. These products and services are provided through the Corporation’s wholly owned subsidiary, the Bank. The Bank is presently the only subsidiary of the Corporation, and the Bank only has one reportable operating segment, community banking, as described in Note A of the Notes to the Consolidated Financial Statements included in this Report. The segment reporting information in Note A is incorporated by reference into this Part I, Item 1.

Business Operations

Products and Services with Reputation Risk

The Corporation offers a diverse range of financial and banking products and services. In the event one or more customers and/or governmental agencies becomes dissatisfied with or objects to any product or service offered by the Corporation, negative publicity with respect to any such product or service, whether legally justified or not, could have a negative impact on the Corporation’s reputation. The discontinuance of any product or service, whether or not any customer or governmental agency has challenged any such product or service, could have a negative impact on the Corporation’s reputation.

Market Area and Competition

The Corporation’s primary market area is Lancaster County, Pennsylvania, where ten full service offices are located. However, the Corporation’s market area also extends into contiguous Lebanon and Berks Counties. The Corporation opened a full service office in southeastern Lebanon County in 2013 and a full service office in southern Berks County in 2016 to extend physical presence to those counties. The Corporation’s greater service

area is considered to be Lancaster, Lebanon, and southern and western Berks Counties of Pennsylvania. The area served by the Corporation is a mix of rural communities and small to mid-sized towns.

The Corporation's headquarters and main campus are located in Ephrata, Pennsylvania. The Corporation's main office and drive-up are located in downtown Ephrata, while the Cloister office is also located within Ephrata Borough. As such, the Corporation has a very strong presence in Ephrata Borough, a community with a population of approximately 14,000. When surrounding areas that also share an Ephrata address and zip code are included, the population is over 34,000 based on 2019 census data. The Corporation ranks a commanding first in deposit market share in the Ephrata area with 37.8% of deposits as of June 30, 2020, based on data compiled annually by the Federal Deposit Insurance Corporation (FDIC). The Corporation's deposit market share in the Ephrata area was 40.3% as of June 30, 2019. The Corporation's very high market share in the Ephrata area equates to a saturation of the local market that has led to the expansion of the Corporation's branch network.

In the past 15 years, the Corporation's market area has expanded beyond the greater Ephrata area to encompass most of northern Lancaster County, with the exception of the most western parts of the County. The majority of this expansion has occurred in recent history with the addition of eight new branch offices since 1999, bringing the total offices to twelve. Lancaster County ranks high nationally as a favored place to reside due to its scenic and fertile farmland, low cost of living, diverse local economy, and proximity to several large metropolitan areas. As a result, the area has experienced significant population growth and development. The population growth of Lancaster County has remained above both Pennsylvania and national growth levels over the past fifty years. Additionally, the population of Lancaster County has eclipsed half a million, with 2019 census information showing an estimated population of 546,000. The FDIC deposit market share data ranked the Corporation 4th in deposit market share in Lancaster County, with 7.4% of deposits as of June 30, 2020. The Corporation held 7.6% of deposit market share as of June 30, 2019.

In the course of attracting and retaining deposits and originating loans, the Corporation faces considerable competition. The Corporation competes with other commercial banks, savings and loan institutions, and credit unions for traditional banking products, such as deposits and loans. Based on FDIC summary of deposit data, there were 22 banks and savings associations and 13 credit unions operating in Lancaster County as of June 30, 2020, representing the same number of banks and one more credit union compared to the prior year. The Corporation competes with consumer finance companies for loans, mutual funds, and other investment alternatives for deposits. The Corporation competes for deposits based on the ability to provide a range of products, low fees, quality service, competitive rates, and convenient locations and hours. The competition for loan origination generally relates to interest rates offered, products available, quality of service, and loan origination fees charged. Several competitors within the Corporation's primary market have substantially higher legal lending limits that enable them to service larger loans and larger commercial customers.

The Corporation continues to assess the competition and market area to determine the best way to meet the financial needs of the communities it serves. Management also continues to pursue new market opportunities based on the strategic plan to efficiently grow the Corporation, improve earnings performance, and bring the Corporation's products and services to customers currently not being reached. Management strategically addresses growth opportunities versus competitive issues by determining the new products and services to be offered, expansion of existing footprint with new locations, as well as investing in the expertise of staffing for expansion of these services.

Concentrations and Seasonality

The Corporation does not have any portion of its businesses dependent on a single or limited number of customers, the loss of which would have a material adverse effect on its businesses. No substantial portion of loans or investments is concentrated within a single industry or group of related industries, although a significant amount of loans are secured by real estate located in northern Lancaster County, Pennsylvania. Agricultural purpose loans make up approximately 24% of the loan portfolio; however, these loans are further diversified according to type of agriculture, of which dairy is the largest component accounting for approximately 9% of the loan portfolio. Furthermore, no customer accounts for more than 2.0% of the outstanding total loans. The business activities of the Corporation are generally not seasonal in nature. The sizable agricultural portfolio has minority elements that are predominately seasonal in nature due to typical farming operations. Financial instruments with concentrations of credit risk are described in Note P of the Notes to Consolidated Financial Statements included in this Report. The concentration of credit risk information in Note P is incorporated by reference into this Part I, Item 1.

Supervision and Regulation

Bank holding companies operate in a highly regulated environment and are routinely examined by federal and state regulatory authorities. The following discussion concerns various federal and state laws and regulations and the potential impact of such laws and regulations on the Corporation and the Bank.

To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory or regulatory provisions themselves. Proposals to change laws and regulations are frequently introduced in Congress, the state legislatures, and before the various bank regulatory agencies. The Corporation cannot determine the likelihood or timing of any such proposals or legislation, or the impact they may have on the Corporation and the Bank. A change in law, regulations, or regulatory policy may have a material effect on the Corporation and the Bank's business.

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 subject to regulations of the OCC, the Consumer Financial Protection Bureau (CFPB), the Board of Governors of the Federal Reserve System, and the FDIC.

Bank Holding Company Supervision and Regulation

The Bank Holding Company Act of 1956

The Corporation is subject to the provisions of the Bank Holding Company Act of 1956, as amended, and to supervision by the Federal Reserve Board. The following restrictions apply:

General Supervision by the Federal Reserve Board

As a bank holding company, the Corporation's activities are limited to the business of banking and activities closely related or incidental to banking. Bank holding companies are required to file periodic reports with and are subject to examination by the Federal Reserve Board. The Federal Reserve Board has adopted a risk-focused supervision program for small shell bank holding companies that is tied to the examination results of the subsidiary bank. The Federal Reserve Board has issued regulations under the Bank Holding Company Act that require a bank holding company to serve as a source of financial and managerial strength to its subsidiary banks. As a result, the Federal Reserve Board may require that the Corporation stand ready to provide adequate capital funds to the Bank during periods of financial stress or adversity.

Restrictions on Acquiring Control of Other Banks and Companies

A bank holding company may not:

- acquire direct or indirect control of more than 5% of the outstanding shares of any class of voting stock, or substantially all of the assets of any bank, or
- merge or consolidate with another bank holding company, without prior approval of the Federal Reserve Board.

In addition, a bank holding company may not:

- engage in a non-banking business, or
- acquire ownership or control of more than 5% of the outstanding shares of any class of voting stock of any company engaged in a non-banking business,

unless the Federal Reserve Board determines the business to be so closely related to banking as to be a proper incident to banking. In making this determination, the Federal Reserve Board considers whether these activities offer benefits to the public that outweigh any possible adverse effects.

Anti-Tie-In Provisions

A bank holding company and its subsidiaries may not engage in tie-in arrangements in connection with any extension of credit or provision of any property or services. These anti-tie-in provisions state generally that a bank may not:

- extend credit,

- lease or sell property, or
- furnish any service to a customer,

on the condition that the customer provides additional credit or service to a bank or its affiliates, or on the condition that the customer not obtain other credit or service from a competitor of the bank.

Restrictions on Extensions of Credit by Banks to their Holding Companies

Subsidiary banks of a holding company are also subject to restrictions imposed by the Federal Reserve Act on:

- any extensions of credit to the bank holding company or any of its subsidiaries,
- investments in the stock or other securities of the Corporation, and
- taking these stock or securities as collateral for loans to any borrower.

Risk-Based Capital Guidelines

Bank holding companies must comply with the Federal Reserve Board's current risk-based capital guidelines, which are amended provisions of the Bank Holding Company Act of 1956. The required minimum ratio of total capital to risk-weighted assets, including some off-balance sheet activities, such as standby letters of credit, is 8%. At least half of the total capital is required to be Tier I Capital, consisting principally of common shareholders' equity, less certain intangible assets. The remainder, Tier II Capital, may consist of:

- some types of preferred stock,
- a limited amount of subordinated debt,
- some hybrid capital instruments,
- other debt securities, and
- a limited amount of the general loan loss allowance.

The risk-based capital guidelines are required to take adequate account of interest rate risk, concentrations of credit risk, and risks of nontraditional activities.

Capital Leverage Ratio Requirements

The Federal Reserve Board requires a bank holding company to maintain a leverage ratio of a minimum level of Tier I capital, as determined under the risk-based capital guidelines, equal to 3% of average total consolidated assets for those bank holding companies that have the highest regulatory examination rating and are not contemplating or experiencing significant growth or expansion. All other bank holding companies are required to maintain a ratio of at least 1% to 2% above the stated minimum. The Bank is subject to similar capital requirements pursuant to the Federal Deposit Insurance Act.

In 2019, the federal banking agencies issued a final rule to provide an optional simplified measure of capital adequacy for qualifying community banking organizations, including the community bank leverage ratio ("CBLR") framework. Generally, under the CBLR framework, qualifying community banking organizations with total assets of less than \$10 billion, and limited amounts of off-balance-sheet exposures and trading assets and liabilities, may elect whether to be subject to the CBLR framework if they have a CBLR of greater than 9%. Qualifying community banking organizations that elect to be subject to the CBLR framework and continue to meet all requirements under the framework would not be subject to risk-based or other leverage capital requirements and, in the case of an insured depository institution, would be considered to have met the well capitalized ratio requirements for purposes of the FDIC's Prompt Corrective Action framework. The CBLR framework was available for banks to use in their March 31, 2020, Call Report. The Corporation did not opt into the CBLR framework.

Restrictions on Control Changes

The Change in Bank Control Act of 1978 requires persons seeking control of a bank or bank holding company to obtain approval from the appropriate federal banking agency before completing the transaction. The law contains a presumption that the power to vote 10% or more of voting stock confers control of a bank or bank holding company. The Federal Reserve Board is responsible for reviewing changes in control of bank holding companies. In doing so, the Federal Reserve Board reviews the financial position, experience and integrity of the acquiring person, and the effect the change of control will have on the financial condition of the Corporation, relevant markets, and federal deposit insurance funds.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act (SOX), also known as the “Public Company Accounting Reform and Investor Protection Act,” was established in 2002 and introduced major changes to the regulation of financial practice. SOX was established as a reaction to the outbreak of corporate and accounting scandals, including Enron and WorldCom. SOX represents a comprehensive revision of laws affecting corporate governance, accounting obligations, and corporate reporting. SOX is applicable to all companies with equity or debt securities that are either registered, or file reports under the Securities Exchange Act of 1934.

Section 404 of SOX requires publicly held companies to document and test their internal controls that impact financial reporting and report on the findings. These requirements fall under two main sections, 404a and 404b. The provisions of these sections vary according to the size and market capitalization of public companies, referred to as accelerated or non-accelerated filers. For those companies subject to the requirements, external auditors must test and report on the effectiveness of a company’s internal controls to ensure accurate financial reporting. Companies must report any deficiencies or material weaknesses in their internal controls, as well as their remediation efforts. To ensure greater investor confidence in corporate disclosures from public companies, SOX restricts the services that public accounting firms can provide to publicly traded companies. The Corporation does not engage the same professional accounting firm for external and internal auditing.

In 2008, the SEC expanded the definitions of smaller public companies beyond non-accelerated filers to include a new definition of a smaller reporting company (SRC). The smaller reporting company definition was more favorable to smaller businesses that qualified under certain conditions. On July 1, 2008, the Corporation came into existence as ENB Financial Corp, which succeeded Ephrata National Bank. Companies could now be both a SRC and non-accelerated or accelerated filer. The Corporation continues to meet the definition of a non-accelerated filer as it has a public equity float of approximately \$62.9 million as of June 30, 2020.

While accelerated filers had to comply with Section 404a and 404b since 2004, with their auditors required to report on the effectiveness of internal controls, the Corporation only became subject to Section 404b in 2018 and 2019, after assets exceeded \$1 billion in 2017. The Corporation has always been subject to Section 404a.

In 2010, when the Dodd-Frank Act was signed into law, Section 404b was permanently deferred for all smaller reporting companies. However, effective December 2016, Statement of Auditing Standards (SAS) No. 130, *An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of the Financial Statements*, changed how annual reporting requirements under the Federal Deposit Insurance Corporation Improvement Act (FDICIA) Part 363 are applied. Insured Depository Institutions over the \$1 billion asset level became subject to a much more rigorous audit, similar to many public institutions subject to SEC oversight. The Corporation went over \$1 billion in assets in 2017 and became subject to this requirement in 2018, causing the Corporation to be subject to the SOX requirements or Section 404b for both 2018 and 2019. These requirements include:

- An assessment, as well as a report from Corporate management on the effectiveness of the Corporation’s internal controls over financial reporting (ICFR);
- An opinion from the Corporation’s external auditors on the effectiveness of the Corporation’s ICFR, in addition to the financial statement audit opinion; and
- All audit committee members must be outside directors that are independent of management.

After 2019, the SOX Section 404b requirement of including the opinion from the Corporation’s external auditors on the effectiveness of the Corporation’s ICFR in the Form 10-K, no longer applied to the Corporation. Therefore, this opinion is not included in the Corporation’s 2020 Form 10-K. However, the Corporation is now required to include the opinion from the Corporation’s external auditors on the effectiveness of the Corporation’s ICFR in the Corporation’s 2020 FDICIA filing.

Bank Supervision and Regulation***Safety and Soundness***

The primary regulator for the Bank is the OCC. The OCC has the authority under the Financial Institutions Supervisory Act and the Federal Deposit Insurance Act to prevent a national bank from engaging in any unsafe or unsound practice in conducting business or from otherwise conducting activities in violation of the law.

Federal and state banking laws and regulations govern, but are not limited to, the following:

- Scope of a bank's business
- Investments a bank may make
- Reserves that must be maintained against certain deposits
- Loans a bank makes and collateral it takes
- Merger and consolidation activities
- Establishment of branches

The Corporation is a member of the Federal Reserve System. Therefore, the policies and regulations of the Federal Reserve Board have a significant impact on many elements of the Corporation's operations, including:

- Loan and deposit growth
- Rate of interest earned and paid
- Types of securities
- Breadth of financial services provided
- Levels of liquidity
- Levels of required capital

Management cannot predict the effect of changes to such policies and regulations upon the Corporation's business model and the corresponding impact they may have on future earnings.

FDIC Insurance Assessments

The FDIC imposes a risk-related premium schedule for all insured depository institutions that results in the assessment of premiums based on the Bank's capital and supervisory measures. Under the risk-related premium schedule, the FDIC assigns, on a semi-annual basis, each depository institution to one of three capital groups, the best of these being "Well Capitalized." For purposes of calculating the insurance assessment, the Bank was considered "Well Capitalized" as of December 31, 2020, and December 31, 2019. This designation has benefited the Bank in the past and continues to benefit it in terms of a lower quarterly FDIC rate. The FDIC adjusts the insurance rates when necessary. FDIC insurance rates have been significantly higher in recent years compared to years prior to the financial crisis. In 2008, during the financial crisis, the FDIC insurance limit was increased from \$100,000 to \$250,000 along with unlimited insurance coverage on non-interest bearing deposits and interest bearing deposit balances with interest rates less than or equal to 0.50%. Significant increases in the FDIC insurance costs were assessed in 2009 to both cover the increased level of bank failures that were occurring and the higher level of coverage. Since then the number of bank failures has significantly declined and the FDIC has been able to decrease the cost of the insurance. The total FDIC assessments paid by the Bank in 2020 were \$232,000, compared to \$172,000 in 2019.

In addition to FDIC insurance costs, the Bank is subject to assessments to pay the interest on Financing Corporation Bonds. Congress created the Financing Corporation to issue bonds to finance the resolution of failed thrift institutions. These assessment rates are set quarterly. In 2020, the Corporation recorded a credit for Financing Corporation assessments due to credits received for prior periods in the amount of \$9,000. This compared to total Financing Corporation assessments paid by the Bank in 2019 of \$30,000.

In 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act made the temporary \$250,000 FDIC insurance coverage the permanent standard maximum deposit insurance amount. Additionally, in February 2011, the Board of Directors of the FDIC approved a final rule based on the Dodd-Frank Act that revises the assessment base from one based on domestic deposits to one based on assets. This change, which was effective in April 2011, saved the Corporation a significant amount of FDIC insurance premiums.

Community Reinvestment Act

Under the Community Reinvestment Act (CRA), as amended, the OCC is required to assess all financial institutions that it regulates to determine whether these institutions are meeting the credit needs of the community that they serve. The Act focuses specifically on low and moderate income neighborhoods. The OCC takes an institution's CRA record into account in its evaluation of any application made by any of such institutions for, among other things:

- Approval of a new branch or other deposit facility

- Closing of a branch or other deposit facility
- An office relocation or a merger
- Any acquisition of bank shares

The CRA, as amended, also requires that the OCC make publicly available the evaluation of a bank's record of meeting the credit needs of its entire community, including low and moderate income neighborhoods. This evaluation includes a descriptive rating of either outstanding, satisfactory, needs to improve, or substantial noncompliance, along with a statement describing the basis for the rating. These ratings are publicly disclosed. The Bank received a satisfactory rating on the most recent CRA Performance Evaluation completed on June 4, 2018.

The Federal Deposit Insurance Corporation Improvement Act of 1991

Capital Adequacy

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), institutions are classified in one of five defined categories as illustrated below:

Capital Category	Total Capital Ratio	Tier I Capital Ratio	Common Equity Tier I Capital Ratio	Leverage Ratio
Well Capitalized	≥ 10.0	> 8.0	≥ 6.5	≥ 5.0
Adequately Capitalized	≥ 8.0	> 6.0	≥ 4.5	≥ 4.0*
Undercapitalized	< 8.0	< 6.0	< 4.5	< 4.0*
Significantly Undercapitalized	< 6.0	< 4.0	< 3.5	< 3.0
Critically Undercapitalized				≤ 2.0

*3.0 for those banks having the highest available regulatory rating.

The Bank's and Corporation's capital ratios exceed the regulatory requirements to be considered well capitalized for Total Risk-Based Capital, Tier I Risk-Based Capital, Common Equity Tier I Capital, and Tier I Leverage Capital. The capital ratio table and Consolidated Financial Statement Note M – Regulatory Matters and Restrictions, are incorporated by reference herein, from Item 8, and made a part hereof. Note M discloses capital ratios for both the Bank and the Corporation, shown as Consolidated.

Regulatory Capital Changes

In July 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The phase-in period for community banking organizations began January 1, 2015, while larger institutions (generally those with assets of \$250 billion or more) began compliance on January 1, 2014. The final rules call for the following capital requirements:

- A minimum ratio of common equity tier I capital to risk-weighted assets of 4.5%
- A minimum ratio of tier I capital to risk-weighted assets of 6%
- A minimum ratio of total capital to risk-weighted assets of 8%
- A minimum leverage ratio of 4%

In addition, the final rules established a common equity tier I capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The phase-in period for the capital conservation and countercyclical capital buffers for all banking organizations began on January 1, 2016.

Under the initially proposed rules, accumulated other comprehensive income (AOCI) would have been included in a banking organization's common equity tier I capital. The final rules allowed community banks to make a one-time election not to include these additional components of AOCI in regulatory capital and instead use the existing treatment under the general risk-based capital rules that excludes most AOCI components from regulatory capital. The opt-out election was made by the Corporation with the filing of the first quarter Call Report as of March 31, 2015.

The final rules permanently grandfather non-qualifying capital instruments (such as trust preferred securities and cumulative perpetual preferred stock) issued before May 19, 2010 for inclusion in the tier I capital of banking organizations with total consolidated assets less than \$15 billion as of December 31, 2009, and banking organizations that were mutual holding companies as of May 19, 2010. The Corporation does not have trust preferred securities or cumulative perpetual preferred stock with no plans to add these to the capital structure.

The proposed rules would have modified the risk-weight framework applicable to residential mortgage exposures to require banking organizations to divide residential mortgage exposures into two categories in order to determine the applicable risk weight. In response to commenter concerns about the burden of calculating the risk weights and the potential negative effect on credit availability, the final rules do not adopt the proposed risk weights but retain the current risk weights for mortgage exposures under the general risk-based capital rules.

Consistent with the Dodd-Frank Act, the new rules replace the ratings-based approach to securitization exposures, which is based on external credit ratings, with the simplified supervisory formula approach in order to determine the appropriate risk weights for these exposures. Alternatively, banking organizations may use the existing gross-up approach to assign securitization exposures to a risk weight category or choose to assign such exposures a 1,250 percent risk weight. The Corporation does not securitize assets and has no plans to do so.

Under the new rules, mortgage servicing assets (MSAs) and certain deferred tax assets (DTAs) are subject to stricter limitations than those applicable under the current general risk-based capital rule. The new rules also increase the risk weights for past-due loans, certain commercial real estate loans, and some equity exposures, and makes selected other changes in risk weights and credit conversion factors.

Management has evaluated the impact of the above rules on levels of the Corporation's capital. The final rulings were highly favorable in terms of the items that would have a more significant impact to the Corporation and community banks in general. Specifically, the AOCI final ruling, which would have had the greatest impact, now provides the Corporation with an opt-out provision. The final ruling on the risk weightings of mortgages was favorable and did not have a material negative impact. The rulings as to trust preferred securities, preferred stock, and securitization of assets are not applicable to the Corporation, and presently the revised treatment of MSAs is not material to capital. The remaining changes to risk weightings on several items mentioned above such as past-due loans and certain commercial real estate loans do not have a material impact to capital presently, but could change as these levels change.

Real Estate Lending Standards

Pursuant to the FDICIA, federal banking agencies adopted real estate lending guidelines which would set loan-to-value ("LTV") ratios for different types of real estate loans. The LTV ratio is generally defined as the total loan amount divided by the appraised value of the property at the time the loan is originated. If the institution does not hold a first lien position, the total loan amount would be combined with the amount of all junior liens when calculating the ratio. In addition to establishing the LTV ratios, the guidelines require all real estate loans to be based upon proper loan documentation and a recent appraisal or certificate of inspection of the property.

Prompt Corrective Action

In the event that an institution's capital deteriorates to the Undercapitalized category or below, FDICIA prescribes an increasing amount of regulatory intervention, including:

- Implementation of a capital restoration plan and a guarantee of the plan by a parent institution
- Placement of a hold on increases in assets, number of branches, or lines of business

If capital reaches the significantly or critically undercapitalized level, further material restrictions can be imposed, including restrictions on interest payable on accounts, dismissal of management, and (in critically undercapitalized situations) appointment of a receiver. For well-capitalized institutions, FDICIA provides authority for regulatory intervention where they deem the institution to be engaging in unsafe or unsound practices, or if the institution receives a less than satisfactory examination report rating for asset quality, management, earnings, liquidity, or sensitivity to market risk.

Other FDICIA Provisions

Each depository institution must submit audited financial statements to its primary regulator and the FDIC, whose reports are made publicly available. In addition, the audit committee of each depository institution must consist of outside directors and the audit committee at "large institutions" (as defined by FDIC regulation) must include

members with banking or financial management expertise. The audit committee at “large institutions” must also have access to independent outside counsel. In addition, an institution must notify the FDIC and the institution’s primary regulator of any change in the institution’s independent auditor, and annual management letters must be provided to the FDIC and the depository institution’s primary regulator. The regulations define a “large institution” as one with over \$500 million in assets, which does include the Bank. Also, under the rule, an institution’s independent public accountant must examine the institution’s internal controls over financial reporting and perform agreed-upon procedures to test compliance with laws and regulations concerning safety and soundness.

Under the FDICIA, each federal banking agency must prescribe certain safety and soundness standards for depository institutions and their holding companies. Three types of standards must be prescribed:

- asset quality and earnings
- operational and managerial, and
- compensation

Such standards would include a ratio of classified assets to capital, minimum earnings, and, to the extent feasible, a minimum ratio of market value to book value for publicly traded securities of such institutions and holding companies. Operational and managerial standards must relate to:

- internal controls, information systems and internal audit systems
- loan documentation
- credit underwriting
- interest rate exposure
- asset growth, and
- compensation, fees and benefits

The FDICIA also sets forth Truth in Savings disclosure and advertising requirements applicable to all depository institutions.

USA PATRIOT Act of 2001/Bank Secrecy Act

In October 2001, the USA Patriot Act of 2001 (Patriot Act) was enacted in response to the terrorist attacks in New York, Pennsylvania and Washington, D.C., which occurred on September 11, 2001. The Patriot Act is intended to strengthen U.S. law enforcement’s and the intelligence communities’ abilities to work cohesively to combat terrorism on a variety of fronts. The impact of the Patriot Act on financial institutions of all kinds is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Under the Bank Secrecy Act (BSA), banks and other financial institutions are required to report to the Internal Revenue Service currency transactions of more than \$10,000 or multiple transactions of which a bank is aware in any one day that aggregate in excess of \$10,000 and to report suspicious transactions under specified criteria. 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.

Loans to Insiders/Regulation O

Regulation O, also known as Loans to Insiders, governs the permissible lending relationships between a bank and its executive officers, directors, and principal shareholders and their related interests. The primary restriction of Regulation O is that loan terms and conditions, including interest rates and collateral coverage, can be no more favorable to the insider than loans made in comparable transactions to non-covered parties. Additionally, the loan may not involve more than normal risk. The regulation requires quarterly reporting to regulators of the total amount of credit extended to insiders.

Under Regulation O, a bank is not required to obtain approval from the bank’s Board of Directors prior to making a loan to an executive officer or Board of Director member as long as a first lien on the executive officer’s residence secures the loan. The Corporation’s policy requires prior Board of Director approval of any Executive Officer or Director loan that when aggregated with other outstanding extensions of credit to the Insider and their related interests exceeds \$500,000. Loans to any Executive Officer or Director with aggregate exposure of under \$500,000

must be reported at the next scheduled Board of Director meeting. Further amendments allow bank insiders to take advantage of preferential loan terms that are available to substantially all employees. Regulation O does permit an insider to participate in a plan that provides more favorable credit terms than the bank provides to non-employee customers provided that the plan:

- Is widely available to employees
- Does not give preference to any insider over other employees

The Bank has a policy in place that offers general employees more favorable loan terms than those offered to non-employee customers. The Bank's policy on loans to insiders allows insiders to participate in the same favorable rate and terms offered to all other employees; however, any loan to an insider that does not fall within permissible regulatory exceptions must receive the prior approval of the Bank's Board of Directors.

Dodd-Frank Wall Street Reform and Consumer Protection Act

Dodd-Frank Act, was the culmination of the legislative efforts in response to the financial crisis of 2007 - 2008. The act reshaped Wall Street and the American banking industry by bringing the most significant changes to financial regulation in the United States since the regulatory reform that followed the Great Depression. The Act's numerous provisions were to be implemented over a period of several years and were intended to decrease various risks in the U.S. financial system. Dodd-Frank created a new Financial Stability Oversight Council to identify systemic risks in the financial system and gave federal regulators new authority to take control of and liquidate financial firms. Dodd-Frank was expected to and did have an impact on the Corporation's business operations as its provisions began to take effect. To date the provisions that did go into effect, or began to phase in, did at a minimum increase the Corporation's operating and compliance costs.

Holding Company Capital Requirements

Dodd-Frank requires the Federal Reserve to apply consolidated capital requirements to bank holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier I capital unless such securities were issued prior to May 19, 2010, by a bank holding company with less than \$15 billion in assets. Dodd-Frank additionally requires that bank regulators issue countercyclical capital requirements so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, are consistent with safety and soundness.

Corporate Governance

Dodd-Frank requires publicly traded companies to give stockholders a non-binding vote on executive compensation at least every three years, a non-binding vote regarding the frequency of the vote on executive compensation at least every six years, and a non-binding vote on "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders. The SEC has finalized the rules implementing these requirements which took effect on January 21, 2011. The Corporation was exempt from these requirements until January 21, 2013, due to its status as a smaller reporting company. Additionally, Dodd-Frank directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1 billion, regardless of whether the company is publicly traded. Dodd-Frank also gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Consumer Financial Protection Bureau (CFPB)

Dodd-Frank created a new, independent federal agency called the Consumer Financial Protection Bureau (CFPB), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy Provisions of the Gramm-Leach-Bliley Act, and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with \$10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive, or abusive practices in connection with the offering of consumer financial products. Dodd-Frank authorized the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, Dodd-Frank allows borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. Dodd-Frank permits states to adopt consumer protection

laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Ability-to-Repay and Qualified Mortgage Rule

Pursuant to the Dodd-Frank Act, the CFPB issued a final rule on January 10, 2013 (effective on January 10, 2014), amending Regulation Z as implemented by the Truth in Lending Act, requiring mortgage lenders to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Mortgage lenders are required to determine consumers' ability to repay in one of two ways. The first alternative requires the mortgage lender to consider the following eight underwriting factors when making the credit decision: (1) current or reasonably expected income or assets; (2) current employment status; (3) the monthly payment on the covered transaction; (4) the monthly payment on any simultaneous loan; (5) the monthly payment for mortgage-related obligations; (6) current debt obligations, alimony, and child support; (7) the monthly debt-to-income ratio or residual income; and (8) credit history. Alternatively, the mortgage lender can originate "qualified mortgages," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a "qualified mortgage" is a mortgage loan without negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. In addition, to be a qualified mortgage the points and fees paid by a consumer cannot exceed 3% of the total loan amount. Loans which meet these criteria will be considered qualified mortgages, and as a result generally protect lenders from fines or litigation in the event of foreclosure. Qualified mortgages that are "higher-priced" (e.g. subprime loans) garner a rebuttable presumption of compliance with the ability-to-repay rules, while qualified mortgages that are not "higher-priced" (e.g. Prime loans) are given a safe harbor of compliance. The final rule, as issued, is not expected to have a material impact on the Corporation's lending activities and on the Corporation's Consolidated Financial Statements.

Interchange Fees

Under the Durbin Amendment to the Dodd-Frank Act, the Federal Reserve adopted rules establishing standards for assessing whether the interchange fees that may be charged with respect to certain electronic debit transactions are "reasonable and proportional" to the costs incurred by issuers for processing such transactions.

Interchange fees or "swipe" fees, are charges that merchants pay to the Corporation and other card-issuing banks for processing electronic payment transactions. The Federal Reserve Board has ruled that for financial institutions with assets of \$10 billion or more the maximum permissible interchange fee for an electronic debit transaction is the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction. The Federal Reserve Board also has rules governing routing and exclusivity that require issuers to offer two unaffiliated networks for routing transactions on each debit or prepaid product. While the Corporation's asset size is presently under \$10 billion, there is concern that these requirements impacting financial institutions over \$10 billion in assets will eventually be pushed down to either financial institutions over \$1 billion or to all financial institutions. This would negatively impact the Corporation's non-interest income.

TILA/RESPA Integrated Disclosure (TRID) Rules

The TRID rules were mandated by Dodd-Frank to address the problem of the sometimes duplicative and overlapping disclosures required by the Truth in Lending Act (TILA) and Real Estate Settlement Procedures Act (RESPA) involving consumer purpose, closed end loans secured by real property. The CFPB was tasked with developing the new disclosures, defining the regulatory compliance parameters, and implementation. The timing elements built around these new disclosures were established to provide the consumer with ample time to consider the credit transaction and its associated costs. The final rules were implemented by amending the Truth in Lending Act; however implementation proved to be difficult as this marked the first time in thirty years that these standard disclosures were changed. Much reliance was placed on third party providers to the financial institutions to make all the necessary changes to the disclosures. After one delay, the rules became effective October 3, 2015. The Corporation partnered with its loan document software providers to ensure timely, compliant implementation.

Department of Defense Military Lending Rule

In 2015, the U.S. Department of Defense issued a final rule which restricts pricing and terms of certain credit extended to active duty military personnel and their families. This rule, which was implemented effective October 3, 2016, caps the interest rate on certain credit extensions to an annual percentage rate of 36% and restricts other fees. The rule requires financial institutions to verify whether customers are military personnel subject to the rule. The impact of this final rule, and any subsequent amendments thereto, on the Corporation's lending activities

and the Corporation's statements of income or condition has had little or no impact; however, management will continue to monitor the implementation of the rule for any potential side effects on the Corporation's business.

Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act was signed into law in December 2017. Among other changes, the Tax Cuts and Jobs Act reduced the federal corporate tax rate from 35% to 21% effective January 1, 2018. This tax rate change reduced the Corporation's income tax liability in 2018 and future years.

Cybersecurity

In March 2015, federal regulators issued two related statements regarding cybersecurity. One statement instructed financial institutions to design multiple layers of security controls to establish lines of defense and to ensure that their risk management practices cover the risk of compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. The other statement indicates that a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack involving malware. Financial institutions are expected to develop appropriate processes to enable recovery of data and business operations and address the rebuilding of network capabilities and restoring data if the institution or its critical service providers are victim to a cyber-attack. The Corporation could be subject to fines or penalties if it fails to observe this regulatory guidance. See Item 1A. Risk Factors for further discussion of risks related to cybersecurity.

Ongoing Legislation

As a consequence of the extensive regulation of the financial services industry and specifically commercial banking activities in the United States, the Corporation's business is particularly susceptible to changes in federal and state legislation and regulations. Over the course of time, various federal and state proposals for legislation could result in additional regulatory and legal requirements for the Corporation. Management cannot predict if any such legislation will be adopted, or if adopted, how it would affect the business of the Corporation. Past history has demonstrated that new legislation or changes to existing legislation usually results in a heavier compliance burden and generally increases the cost of doing business.

Management believes that the effect of any current legislative proposals on the liquidity, capital resources and the results of operations of the Corporation and the Bank will be minimal. It is possible that there will be regulatory proposals which, if implemented, could have a material effect upon our liquidity, capital resources and results of operations. In addition, the general cost of compliance with numerous federal and state laws does have, and in the future may have, a negative impact on our results of operations. As with other banks, the status of the financial services industry can affect the Bank. Consolidations of institutions are expected to continue as the financial services industry seeks greater efficiencies and market share. Bank management believes that such consolidations may enhance the Bank's competitive position as a community bank. See Item 1A. Risk Factors for more information.

Statistical Data

The statistical disclosures required by this item are incorporated by reference herein, from Item 6 on page 31 and the Consolidated Statements of Income on page 83 as found in this Form 10-K filing.

Available Information

A copy of the Corporation's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, as required to be filed with the Securities and Exchange Commission pursuant to Securities Exchange Act Rule 13a-1, may be obtained, without charge, from our website: www.enbfc.com or by request via e-mail to amiller@epnb.com. This information may also be obtained via written request to Adrienne L. Miller, Esq., Vice President and Corporate Secretary at ENB Financial Corp, 31 East Main Street, P.O. Box 457, Ephrata, PA, 17522.

The Corporation's reports, proxy statements, and other information are available for inspection and copying at the SEC Public Reference Room at 100 F Street, N.E., Washington, DC, 20549 at prescribed rates. The public may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. The Corporation is an electronic filer with the Commission. The Commission maintains a website that contains

reports, proxy and information statements, and other information regarding registrants that file electronically with the Commission. The address of the Commission's website is <http://www.sec.gov>.

Item 1A. Risk Factors

An investment in the Corporation's common stock is subject to risks inherent to the banking industry and the equity markets. The material risks and uncertainties that management believes affect the Corporation are described below. Before making an investment decision, you should carefully consider the risks and uncertainties described below together with all of the other information included or incorporated by reference in this report. The risks and uncertainties described below are not the only ones facing the Corporation. Additional risks and uncertainties that management is not aware of or is not focused on, or currently deems immaterial, may also impair the Corporation's business operations. This report is qualified in its entirety by these risk factors.

If any of the following risks actually occur, the Corporation's financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Corporation's common stock could decline significantly, and you could lose all or part of your investment.

Risks Related To The Corporation's Business

The Corporation Is Subject To Interest Rate Risk

The Corporation's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest earning assets, such as loans and securities, and interest expense paid on interest bearing liabilities, such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Corporation's control, including general economic conditions and policies of various governmental and regulatory agencies, particularly, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Corporation receives on loans and securities, but also the amount of interest it pays on deposits and borrowings. Changes in interest rates could also affect:

- The Corporation's ability to originate loans and obtain deposits
- The fair value of the Corporation's financial assets and liabilities
- The average duration of the Corporation's assets and liabilities
- The future liquidity of the Corporation

If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other securities, the Corporation's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other securities fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Corporation's results of operations, any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation Is Subject To Lending Risk

There are inherent risks associated with the Corporation's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Corporation operates, as well as those across the Commonwealth of Pennsylvania and the United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Corporation is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Corporation to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Corporation.

As of December 31, 2020, 41.5% of the Corporation's loan portfolio consisted of commercial, industrial, and construction loans secured by real estate. Another 12.7% of the Corporation's loan portfolio consisted of commercial loans not secured by real estate. These types of loans are generally viewed as having more risk of default than consumer real estate loans or other consumer loans. These types of loans are also typically larger than

consumer real estate loans and other consumer loans. Because the Corporation's loan portfolio contains a significant number of commercial and industrial, construction, and commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for possible loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Corporation's financial condition and results of operations.

An Accounting Standard Will Result In A Significant Change In How We Recognize Credit Losses And May Have A Material Impact On Our Financial Condition Or Results Of Operations.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. On October 16, 2019, the FASB voted to defer the effective date for ASC 326, *Financial Instruments – Credit Losses*, for smaller reporting companies to fiscal years beginning after December 15, 2022, and interim periods within those fiscal years. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

The Corporation's Allowance For Possible Loan Losses May Be Insufficient

The Corporation maintains an allowance for possible loan losses, which is a reserve established through a provision for loan losses, charged to expense. The allowance represents management's best estimate of expected losses inherent in the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the allowance reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political, and regulatory conditions, and unidentified losses inherent in the current loan portfolio. Determining the appropriate level of the allowance for possible loan losses understandably involves a high degree of subjectivity and requires the Corporation to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of the Corporation's control, may require an increase in the allowance for possible loan losses. In addition, bank regulatory agencies periodically review the Corporation's allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for possible loan losses, the Corporation will need additional provisions to increase the allowance for possible loan losses. Any increases in the allowance for possible loan losses will result in a decrease in net income, and may have a material adverse effect on the Corporation's financial condition and results of operations.

The Basel III Capital Requirements May Require Us To Maintain Higher Levels Of Capital, Which Could Reduce Our Profitability

Basel III targets higher levels of base capital, certain capital buffers, and a migration toward common equity as the key source of regulatory capital. Although the new capital requirements are phased in over the next decade, Basel III signals a growing effort by domestic and international bank regulatory agencies to require financial institutions, including depository institutions, to maintain higher levels of capital. As Basel III is implemented, regulatory viewpoints could change and require additional capital to support our business risk profile. If the Corporation and the Bank are required to maintain higher levels of capital, the Corporation and the Bank may have fewer opportunities to invest capital into interest-earning assets, which could limit the profitable business operations available to the Corporation and the Bank and adversely impact our financial condition and results of operations.

Future Credit Downgrades Of The United States Government Due To Issues Relating To Debt And The Deficit May Adversely Affect The Corporation

As a result of past difficulties of the federal government to reach agreement over federal debt and issues connected with the debt ceiling, certain rating agencies placed the United States Government's long-term sovereign debt rating on their equivalent of negative watch and announced the possibility of a rating downgrade. The rating agencies, due to constraints related to the rating of the United States, also placed government-sponsored enterprises in which the Corporation invests and receives lines of credit on negative watch and a downgrade of the United States credit rating would trigger a similar downgrade in the credit rating of these government-sponsored enterprises. Furthermore, the credit rating of other entities, such as state and local governments, may also be downgraded should the United States credit rating be downgraded. Credit downgrades often cause a lower valuation of the Corporation's securities.

The Corporation Is Subject To Environmental Liability Risk Associated With Lending Activities

A significant portion of the Corporation's loan portfolio is secured by real property. During the ordinary course of business, the Corporation may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Corporation may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Corporation to incur substantial expenses and may materially reduce the affected property's value or limit the Corporation's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws, may increase the Corporation's exposure to environmental liability. Although the Corporation has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Corporation's financial condition and results of operations.

If The Corporation Concludes That The Decline In Value Of Any Of Its Investment Securities Is Other Than Temporary, The Corporation Is Required To Write Down The Value Of That Security Through A Charge To Earnings

The Corporation reviews the investment securities portfolio at each quarter-end reporting period to determine whether the fair value is below the current carrying value. When the fair value of any of the investment securities has declined below its carrying value, the Corporation is required to assess whether the decline is other than temporary. If it concludes that the decline is other than temporary, it is required to write down the value of that security through a charge to earnings. Changes in the expected cash flows of these securities and/or prolonged price declines have resulted and may result in concluding in future periods that there is additional impairment of these securities that is other than temporary, which would require a charge to earnings to write down these securities to their fair value. Due to the complexity of the calculations and assumptions used in determining whether an asset is impaired, the impairment disclosed may not accurately reflect the actual impairment in the future.

The Corporation's Profitability Depends Significantly On Economic Conditions In The Commonwealth Of Pennsylvania And Its Market Area

The Corporation's success depends primarily on the general economic conditions of the Commonwealth of Pennsylvania, and more specifically, the local markets in which the Corporation operates. Unlike larger national or other regional banks that are more geographically diversified, the Corporation provides banking and financial services to customers primarily located in Lancaster County, as well as Berks, Chester, and Lebanon Counties. The local economic conditions in these areas have a significant impact on the demand for the Corporation's products and services as well as the ability of the Corporation's customers to repay loans, the value of the collateral securing loans, and the stability of the Corporation's deposit funding sources. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreak of hostilities or other international or domestic occurrences, unemployment, changes in securities markets, or other factors could impact these local economic conditions and, in turn, have a material adverse effect on the Corporation's financial condition and results of operations.

The Earnings Of Financial Services Companies Are Significantly Affected By General Business And Economic Conditions

The Corporation's operations and profitability are impacted by general business and economic conditions in the United States and abroad. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets, broad trends in industry and finance, and the strength of the U.S. economy and the local economies in which the Corporation

operates, all of which are beyond the Corporation's control. Deterioration in economic conditions could result in an increase in loan delinquencies and non-performing assets, decreases in loan collateral values and a decrease in demand for the Corporation's products and services, among other things, any of which could have a material adverse impact on the Corporation's financial condition and results of operations.

The Corporation Operates In A Highly Competitive Industry And Market Area

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources. Such competitors primarily include national, regional, and community banks within the various markets in which the Corporation operates. Additionally, various out-of-state banks have begun to enter or have announced plans to enter the market areas in which the Corporation currently operates. The Corporation also faces competition from many other types of financial institutions, including, without limitation, online banks, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes, and continued consolidation. Banks, securities firms, and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting), and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Corporation's competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than the Corporation can offer.

The Corporation's ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain, and build upon long-term customer relationships based on quality service, high ethical standards, and safe, sound management practices
- The ability to expand the Corporation's market position
- The scope, relevance, and pricing of products and services offered to meet customer needs and demands
- The rate at which the Corporation introduces new products and services relative to its competitors
- Customer satisfaction with the Corporation's level of service
- Industry and general economic trends

Failure to perform in any of these areas could significantly weaken the Corporation's competitive position, which could adversely affect the Corporation's growth and profitability and have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation Is Subject To Extensive Government Regulation And Supervision

The Corporation is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds, and the banking system as a whole, not shareholders. These regulations affect the Corporation's lending practices, capital structure, investment practices, dividend policy, and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations, and policies for possible changes. Changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer, and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on the Corporation's business, financial condition, and results of operations. While the Corporation has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

Future Governmental Regulation And Legislation Could Limit The Corporation's Future Growth

The Corporation is a registered bank holding company, and its subsidiary bank is a depository institution whose deposits are insured by the FDIC. As a result, the Corporation is subject to various regulations and examinations by various regulatory authorities. In general, statutes establish the corporate governance and eligible business activities for the Corporation, certain acquisition and merger restrictions, limitations on inter-company transactions such as loans and dividends, capital adequacy requirements, requirements for anti-money laundering programs and

other compliance matters, among other regulations. The Corporation is extensively regulated under federal and state banking laws and regulations that are intended primarily for the protection of depositors, federal deposit insurance funds and the banking system as a whole. Compliance with these statutes and regulations is important to the Corporation's ability to engage in new activities and consummate additional acquisitions.

In addition, the Corporation is subject to changes in federal and state tax laws as well as changes in banking and credit regulations, accounting principles and governmental economic and monetary policies. The Corporation cannot predict whether any of these changes may adversely and materially affect it. Federal and state banking regulators also possess broad powers to take supervisory actions as they deem appropriate. These supervisory actions may result in higher capital requirements, higher insurance premiums and limitations on the Corporation's activities that could have a material adverse effect on its business and profitability. While these statutes are generally designed to minimize potential loss to depositors and the FDIC insurance funds, they do not eliminate risk, and compliance with such statutes increases the Corporation's expense, requires management's attention and can be a disadvantage from a competitive standpoint with respect to non-regulated competitors.

The Regulatory Environment For The Financial Services Industry Is Being Significantly Impacted By Financial Regulatory Reform Initiatives In The United States And Elsewhere, Including Dodd-Frank And Regulations Promulgated To Implement It

Dodd-Frank, which was signed into law on July 21, 2010, comprehensively reforms the regulation of financial institutions, products and services. Dodd-Frank requires various federal regulatory agencies to implement numerous rules and regulations. Because the federal agencies are granted broad discretion in drafting these rules and regulations, many of the details and the impact of Dodd-Frank may not be known for many months or years. While much of how the Dodd-Frank and other financial industry reforms will change our current business operations depends on the specific regulatory reforms and interpretations, many of which have yet to be released or finalized, it is clear that the reforms, both under Dodd-Frank and otherwise, will have a significant effect on our entire industry. Although Dodd-Frank and other reforms will affect a number of the areas in which we do business, it is not clear at this time the full extent of the adjustments that will be required and the extent to which we will be able to adjust our businesses in response to the requirements. Although it is difficult to predict the magnitude and extent of these effects at this stage, we believe compliance with Dodd-Frank and implementing its regulations and initiatives will negatively impact revenue and increase the cost of doing business, both in terms of transition expenses and on an ongoing basis, and it may also limit our ability to pursue certain business opportunities.

The Corporation's Banking Subsidiary May Be Required To Pay Higher FDIC Insurance Premiums Or Special Assessments Which May Adversely Affect Its Earnings

Future bank failures may prompt the FDIC to increase its premiums above the current levels or to issue special assessments. The Corporation generally is unable to control the amount of premiums or special assessments that its subsidiary is required to pay for FDIC insurance. Any future changes in the calculation or assessment of FDIC insurance premiums may have a material adverse effect on the Corporation's results of operations, financial condition, and the ability to continue to pay dividends on common stock at the current rate or at all.

The Corporation's Controls And Procedures May Fail Or Be Circumvented

Management regularly reviews and updates the Corporation's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Corporation's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation's business, results of operations, and financial condition.

New Lines Of Business Or New Products And Services May Subject The Corporation To Additional Risks

From time to time, the Corporation may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, the Corporation may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Corporation's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or

services could have a material adverse effect on the Corporation's business, results of operations, and financial condition.

The Corporation's Ability To Pay Dividends Depends On Earnings And Is Subject To Regulatory Limits

The Corporation's ability to pay dividends is also subject to its profitability, financial condition, capital expenditures, and other cash flow requirements. Dividend payments are subject to legal and regulatory limitations, generally based on net profits and retained earnings, imposed by the various banking regulatory agencies. There is no assurance that the Corporation will have sufficient earnings to be able to pay dividends or generate adequate cash flow to pay dividends in the future. The Corporation's failure to pay dividends on its common stock could have a material adverse effect on the market price of its common stock.

Future Acquisitions May Disrupt The Corporation's Business And Dilute Stockholder Value

The Corporation may use its common stock to acquire other companies or make investments in corporations and other complementary businesses. The Corporation may issue additional shares of common stock to pay for future acquisitions, which would dilute the ownership interest of current shareholders of the Corporation. Future business acquisitions could be material to the Corporation, and the degree of success achieved in acquiring and integrating these businesses into the Corporation could have a material effect on the value of the Corporation's common stock. In addition, any acquisition could require the Corporation to use substantial cash or other liquid assets or to incur debt. In those events, the Corporation could become more susceptible to economic downturns and competitive pressures.

The Corporation May Need To Or Be Required To Raise Additional Capital In The Future, And Capital May Not Be Available When Needed And On Terms Favorable To Current Shareholders

Federal banking regulators require the Corporation and its subsidiary bank to maintain adequate levels of capital to support their operations. These capital levels are determined and dictated by law, regulation, and banking regulatory agencies. In addition, capital levels are also determined by the Corporation's management and board of directors based on capital levels that they believe are necessary to support the Corporation's business operations.

If the Corporation raises capital through the issuance of additional shares of its common stock or other securities, it would likely dilute the ownership interests of current investors and could dilute the per share book value and earnings per share of its common stock. Furthermore, a capital raise through issuance of additional shares may have an adverse impact on the Corporation's stock price. New investors also may have rights, preferences and privileges senior to the Corporation's current shareholders, which may adversely impact its current shareholders.

The Corporation's ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside of its control, and on its financial performance. Accordingly, the Corporation cannot be certain of its ability to raise additional capital on acceptable terms and acceptable time frames or to raise additional capital at all. If the Corporation cannot raise additional capital in sufficient amounts when needed, its ability to comply with regulatory capital requirements could be materially impaired. Additionally, the inability to raise capital in sufficient amounts may adversely affect the Corporation's financial condition and results of operations.

The Corporation May Not Be Able To Attract And Retain Skilled People

The Corporation's success highly depends on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Corporation can be intense and the Corporation may not be able to hire people or to retain them. The unexpected loss of services of one or more of the Corporation's key personnel could have a material adverse impact on the Corporation's business because of their skills, knowledge of the Corporation's market, years of industry experience, and the difficulty of promptly finding qualified replacement personnel. The Corporation does not currently have employment agreements or non-competition agreements with any of its senior officers.

The Corporation's Information Systems May Experience An Interruption Or Breach In Security

The Corporation relies heavily on communications and information systems to conduct its business. Any failure, interruption, or breach in security of these systems could result in failures or disruptions in the Corporation's customer relationship management, general ledger, deposit, loan, and other systems. While the Corporation has policies and procedures designed to prevent or limit the effect of the failure, interruption, or security breach of its information systems, there can be no assurance that any such failures, interruptions, or security breaches will not occur or, if they do occur, that they will be adequately addressed. Further, while the Corporation maintains insurance coverage that may, subject to policy terms and conditions including significant self-insured deductibles, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses. The occurrence

of any failures, interruptions, or security breaches of the Corporation's information systems could damage the Corporation's reputation, adversely affecting customer or consumer confidence, result in a loss of customer business, subject the Corporation to additional regulatory scrutiny and possible regulatory penalties, or expose the Corporation to civil litigation and possible financial liability, any of which could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation Continually Encounters Technological Change

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Corporation's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation's operations. Many of the Corporation's competitors have substantially greater resources to invest in technological improvements. The Corporation may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Corporation's business, financial condition, and results of operations.

The Corporation's Operations Of Its Business, Including Its Interaction With Customers, Are Increasingly Done Via Electronic Means, And This Has Increased Its Risks Related To Cyber Security

The Corporation is exposed to the risk of cyber-attacks in the normal course of business. In general, cyber incidents can result from deliberate attacks or unintentional events. The Corporation has observed an increased level of attention in the industry focused on cyber-attacks that include, but are not limited to, gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, corrupting data, or causing operational disruption. To combat against these attacks, policies and procedures are in place to prevent or limit the effect on the possible security breach of its information systems. While the Corporation maintains insurance coverage that may, subject to policy terms and conditions including significant self-insured deductibles, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses. While the Corporation has not incurred any material losses related to cyber-attacks, nor is it aware of any specific or threatened cyber-incidents as of the date of this report, it may incur substantial costs and suffer other negative consequences if it falls victim to successful cyber-attacks. Such negative consequences could include remediation costs that may include liability for stolen assets or information and repairing system damage that may have been caused; deploying additional personnel and protection technologies, training employees, and engaging third party experts and consultants; lost revenues resulting from unauthorized use of proprietary information or the failure to retain or attract customers following an attack; disruption or failures of physical infrastructure, operating systems or networks that support our business and customers resulting in the loss of customers and business opportunities; additional regulatory scrutiny and possible regulatory penalties; litigation; and reputational damage adversely affecting customer or investor confidence.

The Increasing Use Of Social Media Platforms Presents New Risks And Challenges And Our Inability Or Failure To Recognize, Respond To And Effectively Manage The Accelerated Impact Of Social Media Could Materially Adversely Impact Our Business

There has been a marked increase in the use of social media platforms, including weblogs (blogs), social media websites, and other forms of Internet-based communications which allow individuals access to a broad audience of consumers and other interested persons. Social media practices in the banking industry are evolving, which creates uncertainty and risk of noncompliance with regulations applicable to our business. Consumers value readily available information concerning businesses and their goods and services and often act on such information without further investigation and without regard to its accuracy. Many social media platforms immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests and/or may be inaccurate. The dissemination of information online could harm our business, prospects, financial condition, and results of operations, regardless of the information's accuracy. The harm may be immediate without affording us an opportunity for redress or correction.

Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about our business, exposure of personally identifiable information, fraud, out-of-date information, and improper use by employees and customers. The inappropriate use of social media by our customers or employees could result in negative consequences including remediation costs including training for employees, additional

regulatory scrutiny and possible regulatory penalties, litigation or negative publicity that could damage our reputation adversely affecting customer or investor confidence.

The Corporation Is Subject To Claims And Litigation Pertaining To Fiduciary Responsibility

From time to time, customers make claims and take legal action pertaining to the Corporation's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Corporation's performance of its fiduciary responsibilities are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Corporation, they may result in significant financial liability and/or adversely affect the market perception of the Corporation and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Corporation's business, financial condition, and results of operations.

Financial Services Companies Depend On The Accuracy And Completeness Of Information About Customers And Counterparties

In deciding whether to extend credit or enter into other transactions, the Corporation may rely on information furnished by, or on behalf of, customers and counterparties, including financial statements, credit reports, and other financial information. The Corporation may also rely on representations of those customers, counterparties, or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports, or other financial information could have a material adverse impact on the Corporation's business and, in turn, the Corporation's financial condition and results of operations.

Consumers May Decide Not To Use Banks To Complete Their Financial Transactions

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on the Corporation's financial condition and results of operations.

A Change In Control Of The United States Government And Issues Relating To Debt And The Deficit May Adversely Affect The Corporation

The outcome of future elections could result in changes in control of the federal government and bring significant changes (or uncertainty) in governmental policies, regulatory environments, spending sentiment and many other factors and conditions, some of which could adversely impact the Corporation's business, financial condition and results of operations.

Risks Related to COVID-19

The COVID-19 Pandemic Has Adversely Impacted Our Business And Financial Results, And The Ultimate Impact Will Depend On Future Developments, Which Are Highly Uncertain And Cannot Be Predicted, Including The Scope And Duration Of The Pandemic And Actions Taken By Governmental Authorities In Response To The Pandemic.

The COVID-19 pandemic has negatively impacted the global, national and local economies, disrupted global and national supply chains, lowered equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities and may result in the same or similar restrictions in the future. As a result, the demand for our products and services have been and may continue to be significantly impacted, which could adversely affect our revenue and results of operations. Furthermore, the pandemic could continue to result in the recognition of credit losses in our loan portfolios and increases in our allowance for credit losses, particularly if businesses remain closed or are required to operate at diminished capacities or are required to close again, the impact on the global, national and local economies worsen, or more customers draw on their lines of credit or seek additional loans to help finance their businesses. Similarly, because of changing economic and market conditions affecting issuers, we may be required to recognize further impairments on the securities we hold as well as reductions in other comprehensive income. Our business operations may also be disrupted if significant portions of our workforce are unable to work effectively, including because of illness, quarantines, government actions, or other restrictions in connection with

the pandemic. The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic.

We continue to closely monitor the COVID-19 pandemic and related risks as they evolve. The magnitude, duration and likelihood of the current outbreak of COVID-19, further outbreaks of COVID-19, future actions taken by governmental authorities and/or other third parties in response to the COVID-19 pandemic, and its future direct and indirect effects on the global, national and local economy and our business and results of operation are highly uncertain. The COVID-19 pandemic may cause prolonged global or national recessionary economic conditions or longer lasting effects on economic conditions than currently exist, which could have a material adverse effect on our business, results of operations and financial condition.

Due to the Corporation's participation in the U.S. Small Business Administration ("SBA") Paycheck Protection Program ("PPP"), the Corporation is subject to additional risks of litigation from its clients or other parties regarding the processing of loans for the PPP and risks that the SBA may not fund some or all PPP loan guaranties.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted, which included a \$349 billion loan program administered through the SBA referred to as the PPP. Under the PPP, small businesses and other entities and individuals could apply for loans from existing SBA lenders and other approved regulated lenders. The Corporation participated as a lender in the PPP. Because of the short timeframe between the passing of the CARES Act and the opening of the PPP, there was some ambiguity in the laws, rules and guidance regarding the operation of the PPP along with the continually evolving nature of SBA the rules, interpretations and guidelines concerning this program, which exposes us to risks relating to noncompliance with the PPP. Since the launch of the PPP, several large banks have been subject to litigation regarding the process and procedures that such banks used in processing applications for the PPP. As such, we may be exposed to the risk of litigation, from both clients and non-clients that approached the Corporation regarding PPP loans, regarding its process and procedures used in processing applications for the PPP. If any such litigation is filed against us and is not resolved in a manner favorable to us, it may result in significant financial liability or adversely affect our reputation. In addition, litigation can be costly, regardless of outcome. Any financial liability, litigation costs or reputational damage caused by PPP related litigation could have a material adverse impact on our business, financial condition and results of operations.

The Corporation also has credit risk on PPP loans if a determination is made by the SBA that there is a deficiency in the manner in which the loan was originated, underwritten, certified by the borrower, funded, or serviced by the Corporation, such as an issue with the eligibility of a borrower to receive a PPP loan, which may or may not be related to the ambiguity in the laws, rules and guidance regarding the operation of the PPP. In the event of a loss resulting from a default on a PPP loan and a determination by the SBA that there was a deficiency in the manner in which the PPP loan was originated, certified by the borrower, funded, or serviced by the Corporation, the SBA may deny its liability under the guaranty, reduce the amount of the guaranty, or, if it has already paid under the guaranty, seek recovery of any loss related to the deficiency from us.

Other Events

Natural Disasters, Acts Of War Or Terrorism, Pandemics, and Other External Events Could Significantly Impact The Corporation's Business

Severe weather, natural disasters, acts of war or terrorism, pandemics, and other adverse external events could have a significant impact on the Corporation's ability to conduct business. Such events could affect the stability of the Corporation's deposit base; impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue, and/or cause the Corporation to incur additional expenses. Severe weather or natural disasters, acts of war or terrorism, pandemics, or other adverse external events, may occur in the future. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Corporation's business, financial condition, and results of operations.

Risks Associated With The Corporation's Common Stock

The Corporation's Stock Price Can Be Volatile

Stock price volatility may make it more difficult for shareholders to resell their shares of common stock when they desire and at prices they find attractive. The Corporation's stock price can fluctuate significantly in response to a variety of factors including, among other things:

- Actual or anticipated variations in quarterly results of operations
- Recommendations by securities analysts
- Operating and stock price performance of other companies that investors deem comparable to the Corporation
- News reports relating to trends, concerns, and other issues in the financial services industry
- Perceptions in the marketplace regarding the Corporation and/or its competitors
- New technology used, or services offered, by competitors
- Significant acquisitions or business combinations, strategic partnerships, joint ventures, or capital commitments by, or involving, the Corporation or its competitors
- Changes in government regulations
- Geopolitical conditions such as acts or threats of terrorism or military conflicts

General market fluctuations, industry factors, and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes, or credit loss trends, could also cause the Corporation's stock price to decrease regardless of operating results.

The Trading Volume In The Corporation's Common Stock Is Less Than That Of Other Larger Financial Services Companies

The Corporation's common stock is listed for trading on the OTCQX Best Market (OTCQX) under the symbol ENBP. The trading volume in its common stock is a fraction of that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity, and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Corporation's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Corporation has no control. Given the lower trading volume of the Corporation's common stock, significant sales of the Corporation's common stock, or the expectation of these sales, could cause the Corporation's stock price to fall.

An Investment In The Corporation's Common Stock Is Not An Insured Deposit

The Corporation's common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund, or by any other public or private entity. Investment in the Corporation's common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, an investor in the Corporation's common stock may lose some or all of their investment.

The Corporation's Articles Of Incorporation And Bylaws, As Well As Certain Banking Laws, May Have An Anti-Takeover Effect

Provisions of the Corporation's articles of incorporation and bylaws, federal banking laws, including regulatory approval requirements, and the Corporation's stock purchase rights plan, could make it more difficult for a third party to acquire the Corporation, even if doing so would be perceived to be beneficial to the Corporation's shareholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination that could adversely affect the market price of the Corporation's common stock.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

ENB Financial Corp's headquarters and main office of Ephrata National Bank are located at 31 East Main Street, Ephrata, Pennsylvania.

Listed below are the office locations of properties owned or leased by the Corporation. No mortgages, liens, or encumbrances exist on any of the Corporation's owned properties. As of December 31, 2020, the Corporation leased three properties.

ENB FINANCIAL CORP

Property Location	Owned or Leased	Location Acreage	Bldg Sq Ftg
Corporate Headquarters/Main Office 31 East Main Street Ephrata, Pennsylvania	Owned	0.50	42,539
ENB's Money Management Group 47 East Main Street Ephrata, Pennsylvania	Owned	0.17	11,156
Technology Center 31 East Franklin Street Ephrata, Pennsylvania	Owned	0.43	12,208
Administrative Offices 124 East Main Street, 4th Floor Ephrata, Pennsylvania	Leased	N/A	13,656
Main Street Drive-In 42 East Main Street Ephrata, Pennsylvania	Owned	0.41	700
Cloister Office 809 Martin Avenue Ephrata, Pennsylvania	Owned	2.00	7,393
Hinkletown Office 935 North Railroad Avenue New Holland, Pennsylvania	Owned	1.30	4,563
Denver Office 1 Main Street Denver, Pennsylvania	Owned	1.40	5,181
Akron Office 351 South 7th Street Akron, Pennsylvania	Owned	1.50	5,861
Lititz Office 3190 Lititz Pike Lititz, Pennsylvania	Owned	3.53	5,555
Blue Ball Office 110 Marble Avenue East Earl, Pennsylvania	Owned	2.27	5,900
Manheim Office 1 North Penryn Road Manheim, Pennsylvania	Owned	2.81	5,148
Leola Office 361 West Main Street Leola, Pennsylvania	Leased	N/A	3,736
Myerstown Office 615 East Lincoln Avenue Myerstown, Pennsylvania	Owned	2.07	4,426
Morgantown Office 6296 Morgantown Road Morgantown, Pennsylvania	Owned	0.52	3,520
Georgetown Drive-Thru Office 1298 Georgetown Road Quarryville, Pennsylvania	Leased	N/A	252
Strasburg Office 60 Historic Drive Strasburg, Pennsylvania	Owned	1.86	3,712

In addition to the above properties, the Corporation owns an additional property located on the Corporation's Ephrata Main Street Campus. This property was acquired in 2002, when a group of properties adjacent to and surrounding the Corporation's Main Office was purchased. The Corporation owns another 4.7 acre property located off the Main Street Campus but still within Ephrata Borough. These two properties are being held for future use or possible sale. The other properties purchased in 2002 have been remodeled as office or operational space and are reflected in the offices shown above.

Item 3. Legal Proceedings

The nature of the Corporation's business generates a certain amount of litigation involving matters arising in the ordinary course of business; however, in the opinion of management, there are no material proceedings pending to which the Corporation is a party to, or which would be material in relation to the Corporation's undivided profits or financial condition. There are no proceedings pending other than ordinary routine litigation incident to the business of the Corporation. In addition, no material proceedings are pending, known to be threatened, or contemplated against the Corporation by governmental authorities.

Item 4. Mine Safety Disclosures – Not Applicable

Part II

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

On April 17, 2019, ENB Financial Corp announced the Board of Directors declared a two-for-one stock split of the Corporation's issued and outstanding common stock pursuant to which one (1) additional share of common stock was issued for each share of common stock held by shareholders of record as of the close of business on May 31, 2019. The additional shares were issued on June 28, 2019. The stock split was effected pursuant to articles of amendment to the articles of incorporation to reduce the par value of the common stock from \$0.20 to \$0.10 and increase the authorized shares of common stock proportionately from 12,000,000 to 24,000,000. The Corporation has only one class of stock authorized, issued, and outstanding, which now consists of common stock with a par value of \$0.10 per share. As of December 31, 2020, there were 24,000,000 shares of common stock authorized with 5,739,114 shares issued, and 5,566,230 shares outstanding to 1,328 shareholders. The Corporation's common stock is traded on a limited basis on the OTCQX Best Market under the symbol "ENBP." Prices presented in the table below reflect high and low prices of actual transactions known to management. Prices and dividends per share are adjusted for stock splits. Market quotations reflect inter-dealer prices, without retail mark up, mark down, or commission and may not reflect actual transactions.

	2020			2019		
	High	Low	Dividend	High	Low	Dividend
First quarter	\$ 23.25	\$ 17.73	\$ 0.160	\$ 18.04	\$ 17.11	\$ 0.150
Second quarter	21.50	18.25	0.160	20.13	17.63	0.155
Third quarter	19.50	17.55	0.160	21.50	18.90	0.155
Fourth quarter	19.25	17.60	0.160	20.88	20.16	0.160

Dividends

Since 1973, the Corporation, and before it the Bank, has paid quarterly cash dividends on or around March 15, June 15, September 15, and December 15 of each year. The Corporation currently expects to continue the practice of paying quarterly cash dividends to its shareholders for the foreseeable future. However, future dividends are dependent upon future earnings. The dividend payments reflected above amount to 29.1% and 30.8% dividend payout ratio for 2020 and 2019, respectively. The dividend payout ratio is only one element of management's plan for managing capital. Certain laws restrict the amount of dividends that may be paid to shareholders in any given year. In addition, under Pennsylvania corporate law, the Corporation may not pay a dividend if, after issuing the dividend (1) the Corporation would be unable to pay its debts as they become due, or (2) the Corporation's total

assets would be less than its total liabilities plus the amount needed to satisfy any preferential rights of shareholders. In addition, as declared by the Board of Directors, Ephrata National Bank's dividend restrictions apply indirectly to ENB Financial Corp because cash available for dividend distributions will initially come from dividends Ephrata National Bank pays to ENB Financial Corp. See Note M to the consolidated financial statements in this Form 10-K filing, for information that discusses and quantifies this regulatory restriction.

ENB Financial Corp offers its shareholders the convenience of a Dividend Reinvestment Plan (DRP) and the direct deposit of cash dividends. The DRP gives shareholders registered with the Corporation the opportunity to have their quarterly dividends invested automatically in additional shares of the Corporation's common stock. Shareholders who prefer a cash dividend may have their quarterly dividends deposited directly into a checking or savings account at their financial institution. For additional information on either program, contact the Corporation's stock registrar and dividend paying agent, Computershare Shareholder Services, P.O. Box 505000, Louisville, KY 40233-5000.

Purchases

The following table details the Corporation's purchase of its own common stock during the three months ended December 31, 2020.

Issuer Purchase of Equity Securities				
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans *	Maximum Number of Shares that May Yet be Purchased Under the Plan *
October 2020	10,000	\$18.70	10,000	190,000
November 2020	-	-	-	190,000
December 2020	-	-	-	190,000
Total	<u>10,000</u>			

* On October 21, 2020, the Board of Directors of the Corporation approved a plan to repurchase, in the open market and privately renegotiated transactions, up to 200,000 shares of its outstanding common stock. This plan replaces the 2019 plan. The first purchase of common stock under this plan occurred on October 28, 2020. By December 31, 2020, a total of 10,000 shares were repurchased at a total cost of \$187,008, for an average cost per share of \$18.70.

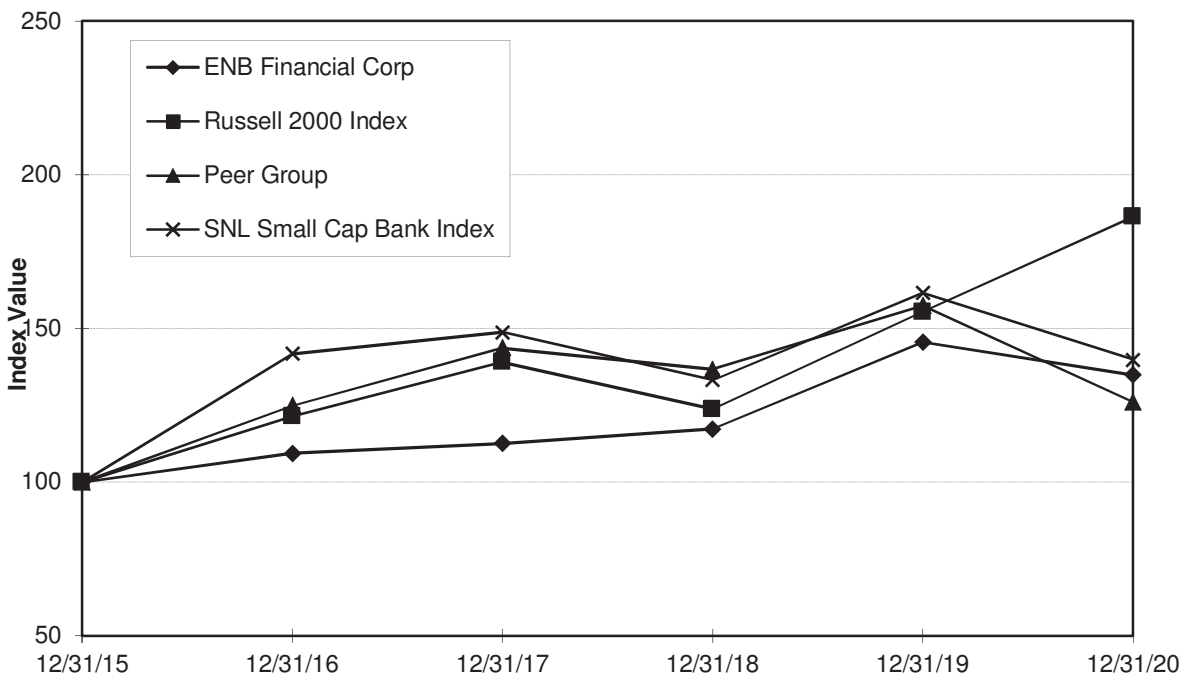
Recent Sales of Unregistered Securities and Equity Compensation Plan

The Corporation does not have an equity compensation plan and has not sold any unregistered securities.

Shareholder Performance Graph

Set forth below is a line graph comparing the yearly change in the cumulative total shareholder return on ENB Financial Corp's common stock against the cumulative total return of the Russell 2000 Index, the Mid-Atlantic Custom Peer Group Index, and the SNL Small Cap Bank Index for the period of five fiscal years commencing December 31, 2015, and ending December 31, 2020. The graph shows that the cumulative investment return to shareholders, based on the assumption that a \$100 investment was made on December 31, 2015, in each of the following: the Corporation's common stock, the Russell 2000 Index, the Mid-Atlantic Custom Peer Group Index, and the SNL Small Cap Bank Index and that all dividends were reinvested in those securities over the past five years, the cumulative total return on such investment would be \$134.84, \$186.36, \$126.08, and \$139.75, respectively. The shareholder return shown on the graph below is not necessarily indicative of future performance.

Total Return Performance



Index	Period Ending					
	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20
ENB Financial Corp	100.00	109.42	112.56	117.29	144.55	134.84
Russell 2000	100.00	121.31	139.08	123.76	155.35	186.36
Peer Group*	100.00	124.85	143.60	136.60	157.42	126.08
SNL Small Bank	100.00	141.78	148.70	133.26	161.62	139.75

Peer Group consists of Mid-Atlantic commercial banks with assets between \$1B - \$3B as of 12/31/2020

Source: S&P Global Market Intelligence

ENB FINANCIAL CORP

Item 6 - Selected Financial Data

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

The selected financial data set forth below should be read in conjunction with the Corporation's financial statements and their accompanying notes presented elsewhere herein.

	Year Ended December 31,				
	2020	2019	2018	2017	2016
	\$	\$	\$	\$	\$
INCOME STATEMENT DATA					
Interest income	42,094	41,737	36,498	33,117	28,341
Interest expense	3,846	5,119	3,374	2,939	3,054
Net interest income	38,248	36,618	33,124	30,178	25,287
Provision for loan losses	2,950	770	660	940	325
Other income	15,360	11,306	11,037	10,321	11,144
Other expenses	36,074	33,633	32,446	30,877	27,200
Income before income taxes	14,584	13,521	11,055	8,682	8,906
Provision for federal income taxes	2,285	2,126	1,306	2,338	1,353
Net income	12,299	11,395	9,749	6,344	7,553
PER SHARE DATA					
Net income (basic and diluted)	2.20	2.01	1.71	1.12	1.33
Cash dividends paid	0.640	0.620	0.575	0.560	0.545
Book value at year-end	23.39	20.69	18.02	17.51	16.66
BALANCE SHEET DATA					
Total assets	1,462,313	1,171,750	1,097,842	1,033,622	984,253
Total loans	823,370	753,618	694,073	597,553	571,567
Securities	483,533	314,805	299,999	319,661	308,111
Deposits	1,252,811	974,088	919,734	866,477	817,491
Total long-term debt	74,391	77,872	65,386	65,850	61,257
Stockholders' equity	130,216	116,688	102,802	99,759	94,939
SELECTED RATIOS					
Return on average assets	0.96%	1.01%	0.93%	0.63%	0.80%
Return on average stockholders' equity	10.16%	10.36%	9.94%	6.46%	7.74%
Average equity to average assets ratio	9.46%	9.76%	9.36%	9.79%	10.36%
Dividend payout ratio	29.09%	30.85%	33.63%	50.22%	41.13%
Efficiency ratio	67.19%	69.82%	71.58%	73.23%	75.12%
Net interest margin	3.24%	3.53%	3.46%	3.46%	3.12%

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

The following discussion and analysis represents management's view of the financial condition and results of operations of the Corporation. This discussion and analysis should be read in conjunction with the consolidated financial statements and other financial schedules included in this annual report. The financial condition and results of operations presented are not indicative of future performance.

Strategic Overview

ENB Financial Corp and its wholly owned subsidiary, Ephrata National Bank, are committed to remaining an independent community bank serving the greater communities surrounding Lancaster County, Pennsylvania. The Corporation's roots date back to the April 11, 1881 charter granted to Ephrata National Bank by the Office of the Comptroller of the Currency. The Bank's growth has been entirely organic over 139 years of existence. The Board and Management are committed to the principals and values that have served the company well over its long history. In order to remain an independent bank of undisputed integrity, the Board and Management's desire is to produce strong financial results that will ensure trust from the Bank's depositors and favorable returns to the shareholders over the long term.

Every three years Management and the Board evaluate and revise the strategic plan to ensure the continuing success of the Corporation into the future. This endeavor is designed to continually sharpen the products and services the Bank provides in a manner that best serves the customer and attains the financial performance that shareholders expect. In the most recent strategic plan that covers the years 2019 to 2021, the Board and Management laid out a five-point plan laying a foundation for success during the next three years and beyond. Succession planning and managing leadership changes were a key element of this strategic plan. The Board and Management also set into place bold goals to further strengthen the Corporation's financial performance ratios so the Corporation is in a position to outperform the local peer group. The most visible of those targets is to meet and exceed a return on assets of 1.00% and to maintain a return on stockholder's equity of over 10.0%, with a target range of 10.5% to 11.0%. Management also desired to reduce the efficiency ratio under 70% for 2020. Management views return on assets as the best overall indicator of a financial institution's performance. Management and the Board believe that achieving a higher return on assets will directly correlate to improved earnings per share and dividends per share, and higher book value of common stock, which in the end will produce higher returns to the shareholder.

Results of Operations

Overview

The year of 2020 was impacted by a number of unprecedented items caused by the onset of the COVID-19 pandemic. The spread of COVID-19 quickly became global and impacted the global economy. This impact was felt rather quickly due to China's large role in the world economy, second in GDP, but first in terms of supply chain impact for basic goods. The immediate impact and forward risk posed by the pandemic caused the Federal Reserve to take the unusual step of reducing the Federal Funds rate by 50 basis points to 1.25% on March 3, 2020, at a special Fed meeting ahead of the regularly scheduled March 18, 2020 meeting. On March 11, 2020, the World Health Organization (WHO) recognized COVID-19 as a pandemic. The quick further expansion of the pandemic then caused the Federal Reserve to take an unprecedented step of a second special meeting on Sunday afternoon of March 15, 2020, to further reduce the Federal Funds rate 100 basis points to 0.25%. This move took the Federal Funds rate to the same historic low of 0.25% that occurred due to the Financial Crisis of 2008. On March 15, 2020, the Fed also reduced the Discount Window rate by 150 basis points, which took this rate down to 0.25%. This move importantly gave all banks easy access to very low cost funds. On March 16, 2020, the Fed also announced action to inject more liquidity into the financial system by purchasing up to \$500 billion of U.S. Treasuries and \$200 billion of mortgage-backed securities. All major stock exchanges experienced dramatic sell-offs. The DOW, which had peaked at 29,568 in February, closed on Friday, March 20, 2020 at 19,174, down 10,394 points, or 35%. NASDAQ was down 30%, while the S&P 500 was down 32%. Even with a significant equity market recovery since the initial impact of COVID-19, economic conditions remain uncertain. With the closing of non-essential businesses throughout various parts of the country for a number of months and a continued impact to consumer spending, it is anticipated that the financial impact will be long-term. The Coronavirus Aid Relief and Economic Security Act, also known as the CARES Act, was a \$2.2 trillion economic stimulus bill passed by Congress and signed into law on March 27, 2020, by President Donald Trump. The major provisions of the CARES Act were direct small business aid for employers with fewer than 500 employees; direct deposit stimulus payments to American households; enhanced unemployment compensation benefits; and direct aid to hospitals and health care

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providers. The Paycheck Protection Program (PPP) was part of this legislation, which provided relief to businesses and organizations provided they would retain their workforce and act within the provisions of the plan. The PPP was responsible for the Corporation generating \$77.7 million of loans by September 30, 2020, which was the highpoint in PPP loans for 2020. By December 31, 2020, PPP loan balances declined to \$48.0 million, as a result of loan forgiveness and payoffs.

After December 31, 2020, but prior to the filing of this Form 10-K, legislation for a second round of PPP loans was passed, which resulted in the Corporation's total PPP loans increasing again in early 2021. Consistent with the marketplace, the impact of the second round of PPP was not near as large as the first round. Management anticipated that \$25 million to \$30 million of PPP loans would be generated in the second round. Prior to the filing of this report, the Corporation's total PPP loans had again started to decline due to further loan forgiveness and payoffs.

The economic impact of COVID-19 had both negative and positive impacts on the Corporation's financial results. The Corporation was able to achieve a higher level of earnings in 2020 than in 2019, but the efficiency of these earnings was reduced. The pandemic caused a very low interest rate environment, which in turn caused a much larger balance sheet with a historic increase in deposits, increasing the Corporation's net interest income, despite a lower net interest margin. The Corporation's net interest income was also increased by the recognition of PPP loan fee income. Offsetting the increase in net interest income was a larger increase in the provision for loan losses. As a result of the pandemic, management was guarded about expected increases in loan losses and higher associated provision for loan losses. Management did incur \$2.2 million more provision for loan loss expense in 2020 than it did in 2019, however much of the provision increase was focused on a very small number of commercial loans. It remains to be determined what the long-term economic impact of COVID-19 will be on the Corporation's borrowers and how it will affect the Corporation's forward earnings.

The Corporation recorded net income of \$12,299,000 for the year ended December 31, 2020, a 7.9% increase from the \$11,395,000 earned during the same period in 2019. The 2019 net income was 16.9% higher than the 2018 net income of \$9,749,000. Earnings per share, basic and diluted, were \$2.20 in 2020, compared to \$2.01 in 2019, and \$1.71 in 2018.

The increase in the Corporation's 2020 earnings was caused primarily by an increase in mortgage gains from selling mortgage assets on the secondary market. These gains increased by \$3,914,000, or 202.2% in 2020 compared to 2019 due to a high volume of mortgage refinancings stemming from the very low interest rate environment as well as high margins received on loans sold on the secondary market.

The Corporation's 2020 earnings were also aided by an increase in net interest income of \$1,630,000, or 4.5%. Net interest income accounts for 71% of the gross income stream of the Corporation. The Corporation's net interest margin decreased in 2020 to 3.24%, from 3.53% in 2019. Loan yields decreased as a result of the Federal Reserve rate decrease in the first quarter of 2020, immediately impacting the yields on the Corporation's variable rate loans. The decline in interest expense helped to partially offset the declining asset yields, but to a much smaller degree.

The financial services industry uses two primary performance measurements to gauge performance: return on average assets (ROA) and return on average equity (ROE). ROA measures how efficiently a bank generates income based on the amount of assets or size of a company. ROE measures the efficiency of a company in generating income based on the amount of equity or capital utilized. The latter measurement typically receives more attention from shareholders. The Corporation's 2020 ROA was 0.96%, compared to 1.01% in 2019. ROE decreased from 10.36% in 2019 to 10.16% in 2020. The decrease in ROA and ROE was primarily due to much higher levels of assets in 2020 compared to 2019 with only moderate growth in earnings.

The below table highlights the Corporation's key performance ratios for the years ended December 31, 2020, 2019, and 2018.

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Key Performance Ratios

	Year ended December 31,		
	2020	2019	2018
Return on Average Assets	0.96%	1.01%	0.93%
Return on Average Equity	10.16%	10.36%	9.94%

The results of the Corporation's operations are best explained by addressing in further detail the five major sections of the income statement, which are as follows:

- Net interest income
- Provision for loan losses
- Other income
- Operating expenses
- Income taxes

The following discussion analyzes each of these five components.

Net Interest Income

Net interest income (NII) represents the largest portion of the Corporation's operating income. In 2020, NII generated 71.3% of the Corporation's gross revenue stream, compared to 76.4% in 2019, and 75.0% in 2018. Since NII comprises a significant portion of the operating income, the direction and rate of increase or decrease will often indicate the overall performance of the Corporation.

The following table shows a summary analysis of NII on a fully taxable equivalent (FTE) basis. For analytical purposes and throughout this discussion, yields, rates, and measurements such as NII, net interest spread, and net yield on interest earning assets, are presented on an FTE basis. This differs from the NII reflected on the Corporation's Consolidated Statements of Income, where the NII is simply the interest earned on loans and securities less the interest paid on deposits and borrowings. By calculating the NII on an FTE basis, the added benefit of having tax-free loans and securities is factored in to more accurately represent what the Corporation earns through the NII. The FTE adjustment shows the benefit these tax free loans and securities bring in a dollar amount because the Corporation does not pay tax on the income they generate. As a result, the FTE NII shown in both tables below will exceed the NII reported on the consolidated statements of income. The amount of FTE adjustment totaled \$814,000 for 2020, \$749,000 for 2019, and \$880,000 for 2018.

Net Interest Income
(DOLLARS IN THOUSANDS)

	Year ended December 31,		
	2020	2019	2018
	\$	\$	\$
Total interest income	42,094	41,737	36,498
Total interest expense	3,846	5,119	3,374
Net interest income	38,248	36,618	33,124
Tax equivalent adjustment	814	749	880
Net interest income (fully taxable equivalent)	39,062	37,367	34,004

NII is the difference between interest income earned on assets and interest expense incurred on liabilities. Accordingly, two factors affect NII:

- The rates charged on interest earning assets and paid on interest bearing liabilities

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- The average balance of interest earning assets and interest bearing liabilities

The Federal funds rate, the Prime rate, the shape of the U.S. Treasury curve, and other wholesale funding curves, all affect NII. The Federal Reserve controls the Federal funds rate, which is one of a number of tools available to the Federal Reserve to conduct monetary policy. The Federal funds rate, and guidance on when the rate might be changed, is often the focal point of discussion regarding the direction of interest rates. During 2020, the Federal funds rate was decreased by 150 basis points in March taking the rate to 0.25% by March 31, 2020. With the declines in the Federal funds rate, the U.S. Treasury yield curve became flatter. Long-term rates like the ten-year U.S. Treasury were 232 basis points under the 3.25% Prime rate as of December 31, 2020. Long-term Treasury rates remained low throughout 2020, and with the decreases in the Federal Reserve short-term rates, the yield curve remained essentially flat throughout the year. Management had not anticipated the Fed rate decreases in the first quarter of 2020. With the current flat yield curve throughout most of 2020, it did make increasing asset yield much more difficult, which added strain to NII and NIM.

The Prime rate is generally used by commercial banks to extend variable rate loans to business and commercial customers. For many years, the Prime rate has been set at 300 basis points, or 3.00% higher, than the Federal funds rate and typically moves when the Federal funds rate changes. As such, the Prime rate decreased to 3.25% in March of 2020 after the 150 basis point Fed rate decline. The Corporation's Prime-based loans generally reprice a day after the Federal Reserve rate movement.

As a result of a larger balance sheet in 2020, even with much lower asset yields, the Corporation's NII on a tax equivalent basis increased with the Corporation's margin decreasing to 3.24% for the year, compared to 3.53% in 2019. Loan yields were lower in 2020 due to the 150 basis point Fed rate decline during the first quarter. The Corporation's NII for 2020 increased over 2019, by \$1,630,000, or 4.5%. Management's asset liability sensitivity measurements continue to show a benefit to both margin and NII given Federal Reserve rate increases. Actual results over the past two years have confirmed the asset sensitivity of the Corporation's balance sheet. However, in a down-rate environment, the margin and NII would suffer unless balance sheet growth is enough to offset lower asset yields.

Security yields will generally fluctuate more rapidly than loan yields based on changes to the U.S. Treasury rates and yield curve. With lower Treasury rates in 2020 compared to 2019, security reinvestment has generally been occurring at lower yield levels. Because of the lower market interest rates and very flat yield curve, it is difficult to achieve substantially higher yields in the securities portfolio but there have been some pockets of opportunities to reposition the portfolio by selling securities at gains and reinvesting in slightly higher yielding instruments to benefit the Corporation's earnings going forward.

The Corporation's loan portfolio yield has decreased from the prior years' period as the variable rate portion of the loan portfolio repriced lower with each Federal Reserve rate movement and some fixed rate borrowers requested loan modifications to reset their rates lower in the current record low market rate environment. The vast majority of the Corporation's commercial Prime-based loans were priced at the Prime rate, which was 4.75% to start 2020, and then 4.25% as of March 4, 2020, and 3.25% as of March 16, 2020 through December 31, 2020. The pricing for the most typical five-year fixed rate commercial loans is currently in line with the Prime rate. With the significant March Federal Reserve rate reductions, adding variable rate loans to the portfolio means they will be priced at very low rates to start but can reprice lower if the Federal Reserve lowers rates any further and would reprice higher if the Federal Reserve would increase rates. There are elements of the Corporation's Prime-based commercial loans priced above the Prime rate based on the level of credit risk of the borrower. Management does price a portion of consumer variable rate loans above the Prime rate, which also helps to improve loan yield. Both commercial and consumer Prime-based pricing continues to be influenced by local competition.

Mid-term and long-term interest rates on average were much lower in 2020 compared to 2019. The average rate of the 10-year U.S. Treasury was 0.89% in 2020 compared to 2.14% in 2019, and it stood at 0.93% on December 31, 2020, compared to 1.92% on December 31, 2019. The slope of the yield curve has been compressed throughout 2019 and 2020. As of March 31, 2019, the U.S. Treasury curve was inverted with the 10-year U.S. Treasury rate 50 basis points lower than the Fed funds rate. As of December 31, 2020, the 10-year U.S. Treasury rate was only 68 basis points higher than the Fed funds rate. The slope of the yield curve has fluctuated many times in the past two years with the 10-year U.S. Treasury yield as high as 1.88% in 2020 and 2.79% in 2019, and as low as 0.52% in 2020, and 1.47% in 2019.

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The Corporation's overall cost of funds, including non-interest bearing funds, remained stable through the first quarter of 2020 at 48 basis points, and then decreased throughout the remainder of the year influenced by lower costs on deposits and the payoff of higher FHLB long-term advances at above-market rates. The Corporation's cost of funds steadily declined during the remainder of the year ending at 20 basis points. The Corporation's costs on borrowings included \$306,000 of prepayment penalties recorded on FHLB long-term advances paid off early during 2020. Management expects the cost of funds will decline slightly and then stabilize throughout 2021 as deposits reprice to lower rates but this decline should level out as continued savings become more difficult to achieve. Core deposit interest rates were reduced nine times throughout 2020 and time deposit rates have also decreased resulting in maturing time deposits repricing at lower levels or moving into core deposit products. Management does not anticipate significant deposit rate movements in 2021 as deposits are now priced at very low rates. Typically, financial institutions will make small systematic moves on core interest bearing accounts while making larger rate movements in the pricing of new or reissued time deposits. Borrowing costs, and the wholesale borrowing curves that they are based on, generally follow the direction and slope of the U.S. Treasury curve. However, these curves can be quicker to rise and slower to fall as the providers of these funds seek to protect themselves from rate movements. The Corporation prepaid a number of FHLB advances in 2020 accelerating the interest expense, but achieving savings in future time periods.

The following table provides an analysis of year-to-year changes in net interest income by distinguishing what changes were a result of average balance increases or decreases and what changes were a result of interest rate increases or decreases.

RATE/VOLUME ANALYSIS OF CHANGES IN NET INTEREST INCOME
(TAXABLE EQUIVALENT BASIS, DOLLARS IN THOUSANDS)

	2020 vs. 2019			2019 vs. 2018		
	Increase (Decrease)			Increase (Decrease)		
	Due To Change In			Due To Change In		
	Average Balances \$	Interest Rates \$	Net Increase (Decrease) \$	Average Balances \$	Interest Rates \$	Net Increase (Decrease) \$
INTEREST INCOME						
Interest on deposits at other banks	179	(410)	(231)	17	(38)	(21)
Securities available for sale:						
Taxable	542	(1,479)	(937)	6	223	229
Tax-exempt	559	(191)	368	(499)	(53)	(552)
Total securities	1,101	(1,670)	(569)	(493)	170	(323)
Loans	3,929	(2,610)	1,319	3,999	1,347	5,346
Regulatory stock	2	(99)	(97)	53	54	107
Total interest income	5,211	(4,789)	422	3,576	1,533	5,109
INTEREST EXPENSE						
Deposits:						
Demand deposits	137	(1,298)	(1,161)	132	993	1,125
Savings deposits	17	(60)	(43)	4	-	4
Time deposits	(118)	(91)	(209)	(63)	419	356
Total deposits	36	(1,449)	(1,413)	73	1,412	1,485
Borrowings:						
Total borrowings	(137)	277	140	74	187	261
Total interest expense	(101)	(1,172)	(1,273)	147	1,599	1,746
NET INTEREST INCOME	5,312	(3,617)	1,695	3,429	(66)	3,363

In 2020, the Corporation's NII on an FTE basis increased by \$1,695,000, a 4.5% increase over 2019. Total interest income increased \$422,000, or 1.0%, while interest expense decreased \$1,273,000, or 24.9%, from 2019 to 2020.

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The FTE interest income from the securities portfolio decreased by \$569,000, or 7.0%, while loan interest income increased \$1,319,000, or 3.9%. During 2020, additional loan volume added \$3,929,000 to net interest income, and lower yields primarily due to the Prime rate decreases in the first quarter of 2020, caused a \$2,610,000 decrease, resulting in a net increase of \$1,319,000. Higher balances in the securities portfolio caused an increase of \$1,101,000 in net interest income, while lower yields on securities caused a \$1,670,000 decrease, resulting in a net decrease of \$569,000.

The average balance of interest bearing liabilities increased by 6.7% during 2020, driven by the growth in deposit balances. Deposit rates decreased significantly throughout 2020 more than offsetting the slightly higher interest expense caused by much higher balances of deposits. Lower interest rates contributed to \$1,449,000 of interest expense reduction while higher balances only caused \$36,000 of increased expense, resulting in a total decline in interest expense of \$1,413,000.

Out of all the Corporation's deposit types, interest-bearing demand deposits reprice the most rapidly, as these rates can be adjusted lower after a Federal Reserve rate decrease. Demand deposit interest expense decreased a total of \$1,161,000 in 2020, with \$1,298,000 due to lower rates, offsetting the higher balances that caused an increase of \$137,000. Interest expense on savings deposits and time deposit balances decreased to a lesser degree. Higher balances in savings accounts caused an increase of \$17,000, while lower rates caused a decrease of \$60,000, resulting in the net decrease in interest expense of \$43,000 on savings deposits. Time deposit balances declined throughout 2020, resulting in lower interest expense of \$118,000, while lower rates caused a decline of \$91,000, resulting in a net decrease of \$209,000.

The average balance of total borrowings decreased by \$6.6 million, or 8.7%, from December 31, 2019, to December 31, 2020. The decrease in total borrowings decreased interest expense by \$137,000. The Corporation paid off FHLB long-term advances during 2020, which resulted in accelerated interest expense causing a \$277,000 increase in interest expense associated with higher rates. The aggregate of these amounts was an increase in interest expense of \$140,000 related to total borrowings.

The following table shows a more detailed analysis of net interest income on an FTE basis shown with all the major elements of the Corporation's balance sheet, which consists of interest earning and non-interest earning assets and interest bearing and non-interest bearing liabilities. Additionally, the analysis provides the net interest spread and the net yield on interest earning assets. The net interest spread is the difference between the yield on interest earning assets and the interest rate paid on interest bearing liabilities. The net interest spread has the deficiency of not giving credit for the non-interest bearing funds and capital used to fund a portion of the total interest earning assets. For this reason, management emphasizes the net yield on interest earning assets, also referred to as the net interest margin (NIM). The NIM is calculated by dividing net interest income on an FTE basis into total average interest earning assets. The NIM is generally the benchmark used by analysts to measure how efficiently a bank generates NII.

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COMPARATIVE AVERAGE BALANCE SHEETS AND NET INTEREST INCOME

(TAXABLE EQUIVALENT BASIS, DOLLARS IN THOUSANDS)

	December 31,								
	2020			2019			2018		
	Average	Interest	Yield/	Average	Interest	Yield/	Average	Interest	Yield/
	Balance		Rate	Balance		Rate	Balance		Rate
	\$	\$	%	\$	\$	%	\$	\$	%
ASSETS									
Interest earning assets:									
Federal funds sold and deposits at other banks	35,261	140	0.40	19,596	371	1.89	18,772	392	2.09
Securities available for sale:									
Taxable	238,995	4,144	1.73	214,160	5,082	2.37	213,907	4,853	2.27
Tax-exempt	108,154	3,382	3.13	90,539	3,014	3.33	105,513	3,566	3.38
Total securities (d)	347,149	7,526	2.17	304,699	8,096	2.66	319,420	8,419	2.64
Loans (a)	815,563	34,805	4.27	726,210	33,485	4.61	638,524	28,139	4.41
Regulatory stock	7,010	437	6.23	6,978	534	7.65	6,246	427	6.84
Total interest earning assets	1,204,983	42,908	3.56	1,057,483	42,486	4.02	982,962	37,377	3.80
Non-interest earning assets (d)	74,391			69,599			64,607		
Total assets	1,279,374			1,127,082			1,047,569		
LIABILITIES & STOCKHOLDERS' EQUITY									
Interest bearing liabilities:									
Demand deposits	279,280	512	0.18	256,564	1,673	0.65	213,037	548	0.26
Savings accounts	242,572	61	0.03	204,179	104	0.05	196,392	100	0.05
Time deposits	126,742	1,566	1.24	136,075	1,774	1.30	142,125	1,418	1.00
Borrowed funds	69,830	1,707	2.44	76,461	1,568	2.05	72,282	1,307	1.81
Total interest bearing liabilities	718,424	3,846	0.54	673,279	5,119	0.76	623,836	3,373	0.54
Non-interest bearing liabilities:									
Demand deposits	435,495			340,130			322,733		
Other	4,409			3,688			2,899		
Total liabilities	1,158,328			1,017,097			949,468		
Stockholders' equity	121,046			109,985			98,101		
Total liabilities & stockholders' equity	1,279,374			1,127,082			1,047,569		
Net interest income (FTE)	39,062			37,367			34,004		
Net interest spread (b)		3.02			3.26			3.26	
Effect of non-interest bearing funds		0.22			0.27			0.20	
Net yield on interest earning assets (c)		3.24			3.53			3.46	

- (a) Includes balances of non-accrual loans and the recognition of any related interest income. Average balances also include net deferred loan costs of \$1,277,000 in 2020, \$1,753,000 in 2019, and \$1,429,000 in 2018. Such fees recognized through income and included in the interest amounts totaled \$993,000 in 2020, (\$523,000) in 2019, and (\$534,000) in 2018.
- (b) Net interest spread is the arithmetic difference between the yield on interest earning assets and the rate paid on interest bearing liabilities.
- (c) Net yield, also referred to as net interest margin, is computed by dividing net interest income (FTE) by total interest earning assets.
- (d) Securities recorded at amortized cost. Unrealized holding gains and losses are included in non-interest earning assets.

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The Corporation's interest income increased primarily due to increased interest income on loans, but the increase in income was the result of loan growth, not an increase in asset yield, resulting in a lower NIM of 3.24% for 2020, compared to 3.53% for 2019. The yield earned on assets decreased by 46 basis points during the year, while the rate paid on liabilities decreased by 22 basis points when comparing both years. This resulted in a 23 basis point decrease in interest spread, and the effect of non-interest bearing deposits decreased by six basis points during the year, resulting in the decrease in NIM of 29 basis points. Management anticipates further declines in NIM during 2021 driven by continued pressure on the Corporation's asset yields, which was first fully felt in the second half of 2020. Loan yields decreased in 2020 compared to the prior year primarily as a result of the 75 basis points of Prime decline experienced in the second half of 2019 and the 150 basis points of Prime decline in the first quarter of 2020. Growth in the loan portfolio would help to offset a declining asset yield moving through 2021. The Corporation's loan yield decreased 34 basis points in 2020 compared to 2019. Loan interest income increased \$1,319,000, or 3.9%, for this time period as a result of the growth in balances as well as PPP fees that caused an increase in interest and fees on loans.

Loan pricing was challenging in 2020 as a result of the very low rate environment and competition resulting in fixed-rate loans being priced at very low levels and variable-rate loans priced at the Prime rate or below. The Prime rate was 4.75% as of December 31, 2019, and was moderately higher than the typical business or commercial five-year fixed rates being extended at that time. The Prime rate decreased by 1.50% in March of 2020 to 3.25%, which is now comparable to the typical rate of a five-year fixed-rate loan. The commercial or business fixed rates do increase with longer fixed terms or lower credit quality. In terms of the variable rate pricing, nearly all variable rate loans offered are Prime-based. Management is able to price loan customers with higher levels of credit risk at Prime plus pricing, such as Prime plus 0.75%, which amounted to 4.00% at December 31, 2020, still a relatively low rate. However, only a small minority of the loans in the commercial and agricultural portfolios are at these higher rates due to the strong credit quality of the Corporation's borrowers and market competition. Competition in the immediate market area has been pricing select shorter-term fixed-rate commercial and agricultural lending rates below 3.25% for the strongest loan credits.

Tax equivalent yields on the Corporation's securities decreased by 49 basis points for the year ended December 31, 2020, compared to 2019. The Corporation's securities portfolio consists of approximately 79% fixed income debt instruments and 21% variable rate product as of December 31, 2020. The Corporation's taxable securities experienced a 64 basis-point decrease in yield for the year ended December 31, 2020, compared to 2019. Security reinvestment in 2020 has been occurring at lower rates due to the significant decline in U.S. Treasury rates. The sharp growth in the investment portfolio during a period of very low rates also contributed to the decline in average security yield. This large amount of new investment was caused by the significant influx of deposits, which caused excess liquidity. The sharpest growth in the securities portfolio occurred in the fourth quarter. In addition to these negative influences, the Corporation's U.S. agency mortgage-backed securities and collateralized mortgage obligations experience faster principal prepayments as market rates decrease, causing the amortization of premium to increase, effectively decreasing the yield.

The yield on tax-exempt securities decreased by 20 basis points in 2020 compared to 2019. For the Corporation, these bonds consist entirely of tax-free municipal bonds. While the tax-exempt yields on municipal bonds declined with the tax rate change at the end of 2017, yields became more attractive again during the latter part of 2019 and throughout 2020. Management began investing in more of these bonds in 2020 as yields stood out and provided better returns than other sectors of the portfolio.

The interest rate paid on deposits decreased for the year ended December 31, 2020, from the same period in 2019. Management follows a disciplined pricing strategy on core deposit products that are not rate sensitive, meaning that the balances do not fluctuate significantly when interest rates change. Rates on interest-bearing checking accounts and money market accounts were decreased in 2020, resulting in a decrease in the cost of funds on these accounts of 47 basis points. Savings account rates were also decreased during the year resulting in a two basis point reduction in the cost of funds associated with these accounts. Additionally, the cost of funds on time deposits decreased by six basis points during 2020. Typically, the Corporation sees increases in core deposit products during periods when consumers are not confident in the stock market and economic conditions deteriorate. During these periods, there is a "flight to safety" to federally insured deposits. This trend occurred in 2020. As the rate between time deposits and core deposits narrowed, many customers chose to transfer funds from maturing time deposits into checking and savings accounts.

Since the financial crisis, depositors have been more concerned about the financial health of their financial institution. This concern affects their desire to obtain the best possible market interest rates. This trend benefits the Corporation

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due to its high capital levels and track record of strong and stable earnings. The Corporation's Bauer Financial rating of 5, the highest level of their rating scale, has assisted the Bank in gaining core deposits over the past several years.

The Corporation's average rate on borrowed funds increased by 39 basis points from 2019 to 2020, as FHLB borrowings were paid off early throughout the year accelerating \$234,000 of interest expense.

Provision for Loan Losses

The allowance for credit losses provides for losses inherent in the loan portfolio as determined by a quarterly analysis and calculation of various factors related to the loan portfolio. The amount of the provision reflects the adjustment that management determines is necessary to ensure that the allowance for credit losses is adequate to cover any losses inherent in the loan portfolio. The Corporation gives special attention to the level of underperforming loans when calculating the necessary provision for loan losses. The analysis of the credit loss allowance takes into consideration, among other things, the following factors:

- levels and trends in delinquencies, non-accruals, and charge-offs,
- levels of classified loans,
- trends within the loan portfolio,
- changes in lending policies and procedures,
- experience of lending personnel and management oversight,
- national and local economic trends,
- concentrations of credit,
- external factors such as legal and regulatory requirements,
- changes in the quality of loan review and Board oversight, and
- changes in the value of underlying collateral.

A provision expense of \$2,950,000 was recorded in 2020, compared to \$770,000 in 2019, and \$660,000 in 2018. The increase in provision expense was primarily due to a specific allocation related to a commercial customer with ongoing business concerns as well as a decline in economic and business conditions related to COVID-19, which caused an increase in the qualitative factors regarding outside market conditions for the entire loan portfolio. This increase in qualitative factors caused a higher required provision as credit losses may be incurred as businesses deal with the challenges presented by COVID-19 and the change in business practice. As of December 31, 2020, total delinquencies represented 0.34% of total loans, compared to 0.91% as of December 31, 2019. These ratios are very low compared to local and national peer groups. The vast majority of the Corporation's loan customers have remained very steadfast in making their loan payments and avoiding delinquency, even during challenging economic conditions. The delinquency ratios speak to the long-term health, conservative nature, and, importantly, the character of the Corporation's customers and lending practices. Classified loans are primarily determined by loan-to-value and debt-to-income ratios. The level of classified loans has decreased from December 31, 2019 to December 31, 2020, from 19.3% of regulatory capital to 15.0% of regulatory capital. The delinquency and classified loan information is utilized in the quarterly allowance for credit loss calculation, which directly affects the provision expense. A sharp increase or decrease in delinquencies and/or classified loans during the year would be cause for management to increase or decrease the provision expense. The allowance as a percentage of loans increased from 1.25% at December 31, 2019, to 1.50% at December 31, 2020. It is anticipated that the Corporation will record a provision expense again in 2021 based on projected loan growth and continued economic concerns.

Management also continues to provide for estimated losses on pools of similar loans based on historical loss experience. Management employs qualitative factors every quarter in addition to historical loss experience to take into consideration the current trends in loan volume, concentrations of credit, delinquencies, changes in lending practices, and the quality of the Corporation's underwriting, credit analysis, lending staff, and Board oversight. National and local economic trends and conditions are also considered when calculating an appropriate credit loss allowance for each loan pool. Qualitative factors increased for all loan pools except agriculture dairy in 2020 primarily due to deteriorating economic conditions due to the COVID-19 pandemic.

Management continues to evaluate the allowance for credit losses in relation to the growth or decline of the loan portfolio and its associated credit risk, and believes the provision and the allowance for credit losses are adequate to provide for future losses. For further discussion of the calculation, see the "Allowance for Credit Losses" section.

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Other Income

Other income for 2020 was \$15,360,000, an increase of \$4,054,000, or 35.9%, compared to the \$11,306,000 earned in 2019. The following table details the categories that comprise other income.

OTHER INCOME

(DOLLARS IN THOUSANDS)

	2020 vs. 2019				2019 vs. 2018			
	2020	2019	Increase (Decrease)		2019	2018	Increase (Decrease)	
	\$	\$	\$	%	\$	\$	\$	%
Trust and investment services	1,974	2,042	(68)	(3.3)	2,042	1,959	83	4.2
Service charges on deposit accounts	1,047	1,376	(329)	(23.9)	1,376	1,351	25	1.9
Other fees	1,615	1,368	247	18.1	1,368	1,578	(210)	(13.3)
Commissions	2,963	2,889	74	2.6	2,889	2,596	293	11.3
Net realized gains (losses) on sales of securities available for sale	733	499	234	46.9	499	(291)	790	(271.5)
Gains on sale of mortgages	5,850	1,936	3,914	202.2	1,936	1,602	334	20.8
Earnings on bank-owned life insurance	829	731	98	13.4	731	1,638	(907)	(55.4)
Other miscellaneous income	349	465	(116)	(24.9)	465	604	(139)	(23.0)
Total other income	15,360	11,306	4,054	35.9	11,306	11,037	269	2.4

Trust and investment services income decreased by \$68,000, or 3.3%, from 2019 to 2020, after increasing 4.2% from 2018 to 2019. In 2020, trust and investment services revenue accounted for 3.7% of the Corporation's gross revenue stream, including gains and losses on securities and mortgages, compared to 4.3% in 2019 and 4.4% in 2018. Trust and investment services revenue consists of income from traditional trust services and income from investment services provided through a third party. In 2020, the traditional trust business accounted for \$1,245,000, or 63.1%, of total trust and investment services income, with the investment services totaling \$728,000, or 36.9%. In 2020, traditional trust services income increased by \$10,000, or 0.9%, from 2019 levels, while investment services income decreased \$78,000, or 9.7%. The amount of customer investment activity drives the investment services income. A slowdown in activity as a result of COVID-19 caused the decrease in investment services income. The trust and investment services area continues to be an area of strategic focus for the Corporation. Management believes there is a great need for retirement, estate, and small business planning in the Corporation's service area. Management also sees these services as being a necessary part of a comprehensive line of financial solutions across the organization.

Service charges on deposit accounts for the year ended December 31, 2020, decreased by \$329,000, or 23.9%, compared to 2019. Overdraft service charges for 2020, which comprise 78.9% of the total deposit service charges, decreased to \$826,000, from \$1,119,000 in 2019, a 26.2% decrease. This decrease was primarily driven by a change in customer behavior throughout 2020 due to COVID-19 variables. Several other categories of fees increased or decreased by lesser amounts.

Other fees increased by \$247,000, or 18.1%, for the year ended December 31, 2020, compared to 2019. The increase is primarily due to an increase in loan administration fees that were higher by \$238,000, or 78.3%, in 2020 compared to 2019. This was a result of increased secondary market mortgage activity due to the very low interest rate environment. Additionally, loan modification fees were higher by \$219,000, for the year ended December 31, 2020, compared to the prior year. Partially offsetting these increases, fees on an off-balance sheet cash management product decreased by \$270,000, or 65.3%. Various other fee income categories increased or decreased to lesser degrees making up the remainder of the variance compared to the prior year.

Commissions increased by \$74,000, or 2.6%, for the year ended December 31, 2020, compared to the prior year. The increase was primarily caused by commissions from Banker's Settlement Services, which increased by \$86,000, or 125.4%, due to increased settlement activity during 2020. Other categories of commissions increased or decreased by smaller amounts making up the remainder of the variance.

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Gains/losses on security transactions were higher for the year ended December 31, 2020, with a total of \$733,000 of gains recorded compared to \$499,000 in 2019, a \$234,000, or 46.9% increase in income. Gains or losses taken on securities fluctuate based on market conditions including:

- large swings in market pricing, utilizing volatility and market timing to the Corporation's advantage,
- appreciation or deterioration of securities values due to changes in interest rates, credit risk, financial performance, or market dynamics such as spread and liquidity,
- sale of securities at gains or losses to fund loan growth,
- opportunities to reposition the securities portfolio to improve long-term performance, or
- management's asset liability goals to improve liquidity or reduce interest rate or fair value risk.

The gains or losses recorded depend on management's active trades based on the above as well as unrealized gains or losses on equity securities that are adjusted through income. Losses on debt securities can be in the form of active sales of securities, or impairment of securities, which involve writing the security down to a lower value based on anticipated credit losses. There were no impairment charges in 2018, 2019, or 2020, therefore all security gains and losses incurred during these years were active sales of debt securities designed to either take gains or losses, or reposition the portfolio, and unrealized gains or losses on equity securities due to market value movements.

The number of debt securities sold in 2020 was higher because of the very low interest rate environment that presented many opportunities to sell securities at gains. During 2019, the rate environment was not quite as conducive to taking gains so the gains received were at slightly lower levels. Loan growth was strong in 2019 and PPP loan growth fueled growth in 2020. It continues to be one of the core elements of Management's plan to increase asset yield and protect margin, by converting securities into loans and improving the Corporation's loan-to-deposit ratio.

Gains on the sale of mortgages in 2020 increased \$3,914,000, or 202.2%, from 2019. Mortgage activity was significantly higher in 2020 compared to the prior year as a result of historically low interest rates and a surge in mortgage refinancing activity. The level of gains from the sale of mortgages tends to be aided by a steady decline in interest rates, which has been the case. Should the direction of interest rates reverse in 2021 and start to steadily climb, it is likely the level of gains on the sale of mortgages would also decline. Future mortgage volume will be driven largely by interest rates and the strength of the local economy.

Earnings on bank-owned life insurance (BOLI) increased by \$98,000, or 13.4%, for the year ended December 31, 2020, compared to the prior year. Increases and decreases in BOLI income depend on insurance cost components on the Corporation's BOLI policies, the actual annual return of the policies, and any benefits paid upon death that exceed the policy's cash surrender value. There were no insurance proceeds received in 2020 or 2019, however the higher income recorded in 2018 was due to \$913,000 of insurance proceeds received in the first quarter of 2018 due to the death of a participant. Increases in cash surrender value are a function of the return of the policy net of all expenses.

The miscellaneous income category decreased by \$116,000, or 24.9%, for the year ended December 31, 2020, compared to the same period in 2019. The primary reason for the decrease in miscellaneous income was a decrease in net mortgage servicing income of \$140,000, or 296.3%. Mortgage servicing right amortization was elevated in 2020 due to the very low interest rate environment resulting in lower valuations.

Operating Expenses

The following table provides details of the Corporation's operating expenses for the last three years along with the percentage increase or decrease compared to the previous year.

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OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

	2020 vs. 2019				2019 vs. 2018			
	2020	2019	Increase (Decrease)		2019	2018	Increase (Decrease)	
	\$	\$	\$	%	\$	\$	\$	%
Salaries and employee benefits	22,062	21,032	1,030	4.9	21,032	20,240	792	3.9
Occupancy expenses	2,407	2,432	(25)	(1.0)	2,432	2,475	(43)	(1.7)
Equipment expenses	1,196	1,172	24	2.0	1,172	1,129	43	3.8
Advertising & marketing expenses	894	820	74	9.0	820	773	47	6.1
Computer software & data processing expenses	3,148	2,637	511	19.4	2,637	2,341	296	12.6
Shares tax	1,060	930	130	14.0	930	901	29	3.2
Professional services	2,317	2,088	229	11.0	2,088	1,974	114	5.8
Other operating expenses	2,990	2,522	468	18.6	2,522	2,613	(91)	(3.5)
Total operating expenses	36,074	33,633	2,441	7.3	33,633	32,446	1,187	3.7

Salaries and employee benefits are the largest category of operating expenses. In general, they comprise 61% of the Corporation's total operating expenses. For the year 2020, salaries and benefits increased \$1,030,000, or 4.9%, compared to 2019. Salaries increased by \$859,000, or 5.5%, and employee benefits increased by \$171,000, or 3.1%, for 2020, compared to 2019. Salary costs were higher for the year due to higher commissions paid out on mortgage production, which were partially offset by higher deferred costs on loan originations, which are recorded as a contra salary expense. Additionally, salary costs were higher due to a performance bonus paid out in the first quarter of 2020. Employee benefits expense was at a higher level due to higher health insurance costs, which increased by \$207,000, or 7.7%, for 2020 compared to 2019.

The Corporation has a 401(k) Savings Plan under which the Corporation makes an employer matching contribution, a non-elective safe harbor contribution and a discretionary non-elective profit sharing contribution. The employer matching contribution is made on the compensation of all eligible employees, up to a maximum of 2.5% of an eligible employee's compensation, at \$0.50 for every \$1.00 of employee contribution up to 5% of an eligible employee's salary. The employer non-elective safe harbor contribution is 3% of all employee compensation for the year. Based on the performance of the Corporation, the Compensation Committee determined the discretionary non-elective profit sharing contribution would be 2% of all eligible employee compensation. For the Corporation, the expense of the 401(k) matching contribution will be smaller than the non-elective safe harbor and the discretionary non-elective profit sharing expenses, as the Corporation is matching a maximum of up to 2.5% of salary, depending on employee contributions, compared to contributing up to 5.0% of eligible employee's salaries in the safe harbor and discretionary profit sharing contributions. The 401(k) matching contribution expense of the 401(k) Savings Plan increased \$35,000, or 9.6% in 2020, a function of greater employee participation.

Occupancy expenses consist of the following:

- Depreciation of bank buildings
- Real estate taxes and property insurance
- Utilities
- Building repair and maintenance
- Lease expense

Occupancy expenses have decreased by \$25,000, or 1.0%, for 2020 compared to 2019. Utilities costs decreased by \$21,000, or 3.0% in 2020 compared to 2019, primarily a result of lower electricity and oil costs. Various other occupancy categories increased or decreased to lesser amounts making up the remainder of the variance.

Equipment expenses increased by \$24,000, or 2.0%, for 2020 compared to 2019. Equipment repair and maintenance costs increased by \$64,000, or 118.6% in 2020 compared to the prior year, offset by lower equipment depreciation expenses and lower service contract expenses, which declined by \$47,000, or 6.3%, and \$36,000, or 13.2%, respectively. Other equipment-related expenses increased or decreased to lesser degrees making up the remainder of the variance.

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Advertising and marketing expenses for the year increased by \$74,000, or 9.0%, from 2019 levels. These expenses can be further broken down into two categories, marketing expenses and public relations. The marketing expenses alone totaled \$686,000 in 2020, which was a \$150,000, or 28.1% increase, over 2019. Marketing expenses support the overall business strategies of the Corporation; therefore, the timing of these expenses is dependent upon those strategies. Public relations, the smaller category of advertising and marketing expenses, totaled \$208,000 for 2020, compared to \$284,000 for 2019, a decrease of \$76,000, or 26.8%. Fairs and expos, promotional items, and sponsorships make up this category.

Computer software and data processing expenses increased by \$511,000, or 19.4%, for 2020 compared to 2019. Software-related expenses were up by \$393,000, or 26.6%, for the year ended December 31, 2020, compared to the prior year, primarily because of increased software maintenance agreement expenses, which support the overall strategy of the Corporation to gain efficiency. Management conducts internal studies showing rates of return on investment on all major software initiatives to ensure total cost savings that more than offset the total cost of implementation over the life of the software. Management's goal on all software investments is to improve processes, to provide better customer service, while also resulting in lower net salary and overhead costs. Software expenses are likely to continue to increase in 2021, but the actual increase will be dependent on how quickly new software platforms are identified, analyzed, approved and placed into service. Data processing fees were up \$119,000, or 10.2%, for the year ended December 31, 2020, compared to the same period in 2019. These fees increase with the increase in customer transactions as well as any increases in debit card related fraud/charge-off expenses.

Bank shares tax expense was \$1,060,000 for 2020, an increase of \$130,000, or 14.0%, from 2019. Two main factors determine the amount of bank shares tax: the ending value of shareholders' equity and the ending value of tax-exempt U.S. obligations. The shares tax calculation uses a period-end balance of shareholders' equity and a tax rate of 0.95%. The increase in 2020 can be primarily attributed to the Corporation's growing value of shareholders' equity.

Professional services expense increased \$229,000, or 11.0%, for 2020, compared to 2019. These services include accounting and auditing fees, legal fees, and fees for other third-party services. The Corporation began using contracted employees in 2020 to fill some temporary employment positions. These fees amounted to \$70,000 with no corresponding expense in 2019. Additionally, legal fees increased by \$56,000, or 54.8%, for 2020 compared to 2019, primarily driven by legal fees related to the subordinated debt transaction that occurred in December of 2020. Outside services costs increased by \$42,000, or 4.3%, and accounting and auditing fees increased by \$40,000, or 11.2%, for 2020 compared to the prior year. Other professional services expense categories increased or decreased to lesser degrees making up the remainder of the variance.

Other operating expenses increased by \$468,000, or 18.6%, for the year ended December 31, 2020, compared to the same period in 2019. Contributing to this increase, loan-related expenses increased by \$405,000, or 74.7% for the year, driven primarily by an increase in the provision for off balance sheet credit losses that was impacted by higher qualitative factors in 2020. Additionally, FDIC insurance costs increased by \$81,000, or 57.3% in 2020 compared to the prior year. Operating supplies and fraud-related charge-offs increased by \$93,000, or 34.4%, and \$44,000, or 254.8% respectively, for the year ended December 31, 2020, compared to the prior year. Partially offsetting these increases, travel-related costs were down \$140,000, or 62.6%. Several other operating expense categories increased or decreased by smaller amounts making up the remainder of this variance.

Management uses the efficiency ratio as one metric to evaluate the Corporation's level of operating expenses. The efficiency ratio measures the efficiency of the Corporation in producing one dollar of revenue. For example, an efficiency ratio of 70% means it costs seventy cents to generate one dollar of revenue. A lower ratio represents better operational efficiency. The formula for calculating the efficiency ratio is total operating expenses, excluding foreclosed property and OREO expenses, divided by net interest income on an FTE basis, prior to the provision for loan losses, plus other income, excluding gain or loss on the sale of securities. A higher level of operating expenses may be justified if the Corporation is growing interest earning assets and is increasing net interest income and other income at faster levels. This was the case in 2020 as the Corporation's efficiency ratio was 67.2%, compared to 69.8% for 2019. Management has been successful in increasing both net interest income and fee income during this period, as well as holding operating expenses to lower growth rates, resulting in improved efficiency. In 2021, management anticipates possible compression in net interest margin, which could result in lower net interest income making improvements in efficiency more difficult to achieve. While management desires a lower efficiency ratio, the desire to capture additional market share in the near future and the interest rate environment, including the timing of the Federal Reserve's rate actions, will play a large part in determining when the Corporation's efficiency ratio improves further and the degree to which additional improvements can be made.

Income Taxes

Nearly all of the Corporation's income is taxed at a corporate rate of 21% for Federal income tax purposes. The Corporation is also subject to Pennsylvania Corporate Net Income Tax; however, very limited taxable activity is conducted at the corporate level. The Corporation's wholly owned subsidiary, Ephrata National Bank, is not subject to state income tax, but does pay Pennsylvania Bank Shares Tax. The Bank Shares Tax expense appears on the Corporation's Consolidated Statements of Income under operating expenses.

Certain items of income are not subject to Federal income tax, such as tax-exempt interest income on loans and securities, and increases in the cash surrender value of life insurance; therefore, the effective income tax rate for the Corporation is lower than the stated tax rate. The effective tax rate is calculated by dividing the Corporation's provision for income tax by the pre-tax income for the applicable period.

For the year ended December 31, 2020, the Corporation recorded a tax provision of \$2,285,000, compared to \$2,126,000 for 2019. This increase in tax expense can be attributed to higher pretax earnings. The effective tax rate for the Corporation was 15.7% for 2020 and 2019. The Corporation's effective tax rate is lower than the 21% corporate rate as a result of tax-free assets that the Corporation holds on its balance sheet. The majority of the Corporation's tax-free assets are in the form of obligations of states and political subdivisions, referred to as municipal bonds. The Corporation also has a relatively small component of tax-free municipal loans.

Financial Condition

Cash and Cash Equivalents

Cash and cash equivalents consist of the cash on hand in the Corporation's vaults, operational transaction accounts with the Federal Reserve Bank (FRB), and deposits in other banks. The FRB requires a specified amount of cash available either in vault cash or in an FRB account. Known as cash reserves, these funds provide for the daily clearing house activity of the Corporation and fluctuate based on the volume of each day's transactions. Beyond these requirements, the Corporation maintains additional cash levels as part of Management's active asset liability and liquidity strategy. Management has been carrying larger cash balances as a result of the large increase in deposit balances during 2020 with lower levels of loan growth. Additionally, higher cash balances provide an immediate hedge against interest rate risk and liquidity risk. As of December 31, 2020, the Corporation had \$94.9 million in cash and cash equivalents, compared to \$41.1 million as of December 31, 2019.

The overnight rate that the Federal Reserve Bank pays on excess cash balances fluctuates as the overnight Federal Funds rate fluctuates and as of December 31, 2020, it stood at 0.10%. The Corporation does not aim to keep excess cash at the FRB as the overnight rate is much less than rates received on balances held in correspondent money market accounts. Management invests excess cash in three money market accounts at other financial institutions. The money market accounts yielded a return of 0.15%, 0.31%, and 0.35% at December 31, 2020, all more than the return received from the FRB. This diversification alters the mix of cash and cash equivalents to more interest bearing deposits in banks and less Federal funds sold. The cash and cash equivalents represent only one element of liquidity. For further discussion on liquidity management, refer to Item 7A Quantitative and Qualitative Disclosures about Market Risk.

Sources and Uses of Funds

The following table shows an overview of the Corporation's primary sources and uses of funds. This table utilizes average balances to explain the change in the sources and uses of funding. Management uses this analysis tool to evaluate changes in each balance sheet category. For purposes of this analysis, securities available for sale are shown based on book value and not fair market value. Additionally, short-term investments only include interest-bearing funds. Trends identified from past performance assist management with decisions concerning future growth.

Some conclusions drawn from the following table are as follows:

- Balance sheet growth rate was 13.9% in 2020 compared to 7.6% in 2019.
- Balance sheet mix changed with average balances of securities growing at a rate of 13.9%, compared to a 4.6% decrease in 2019.
- Interest bearing demand deposits and savings deposits grew in 2020 compared to a decline in time deposits.
- Interest bearing demand deposits experienced a slowed growth, up 8.9% in 2020, compared to 20.4% in 2019.
- Savings deposits experienced the most growth out of all deposit segments, up 18.8%.
- Non-interest bearing deposits, the most beneficial deposits, grew at a rate of 28.0% in 2020, compared to 5.4% growth in 2019.
- Time deposits continue to decline both in amount and as a percentage of total deposits with a 6.9% decrease in 2020 compared to a 4.3% decline in 2019.
- Borrowings decreased by 8.8% in 2020, compared to an increase of 5.8% in 2019.
- The Corporation issued \$20 million in 10-year fixed-to-floating rate subordinated debt on December 30, 2020 with an initial rate of 4.00%

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SOURCES AND USES OF FUNDS

(DOLLARS IN THOUSANDS)

	2020 vs. 2019				2019 vs. 2018			
	2020	2019	Increase (Decrease)		2019	2018	Increase (Decrease)	
Average Balances	\$	\$	\$	%	\$	\$	\$	%
Short-term investments	35,261	19,596	15,665	79.9	19,596	18,772	824	4.4
Securities available for sale	347,149	304,699	42,450	13.9	304,699	319,420	(14,721)	(4.6)
Regulatory stock	7,010	6,978	32	0.5	6,978	6,245	733	11.7
Loans	815,563	726,210	89,353	12.3	726,210	638,525	87,685	13.7
Total Uses	1,204,983	1,057,483	147,500	13.9	1,057,483	982,962	74,521	7.6
Interest bearing demand	279,280	256,564	22,716	8.9	256,564	213,037	43,527	20.4
Savings accounts	242,572	204,179	38,393	18.8	204,179	196,392	7,787	4.0
Time deposits	126,742	136,075	(9,333)	(6.9)	136,075	142,125	(6,050)	(4.3)
Borrowings	69,722	76,461	(6,739)	(8.8)	76,461	72,282	4,179	5.8
Subordinated Debt	107	-	107	-	-	-	-	-
Non-interest bearing demand	435,495	340,130	95,365	28.0	340,130	322,733	17,397	5.4
Total Sources	1,153,918	1,013,409	140,509	13.9	1,013,409	946,569	66,840	7.1

Investment Securities

The Corporation classifies all of its debt securities as available for sale and reports the portfolio at fair market value. As of December 31, 2020, the Corporation had \$483.5 million of investment securities, which accounted for 33.1% of assets, compared to 26.9% as of December 31, 2019. The securities portfolio increased in size and as a percentage of the balance sheet in 2020 due to the redeployment of excess cash from an increase in deposits. While the ending balance of securities increased 53.6% from December 31, 2019 to December 31, 2020, the average balance of securities increased 13.9% for the year compared to 2019.

Each quarter management sets portfolio allocation guidelines and adjusts security portfolio strategy generally based upon the following factors:

- Performance of the various instruments including spreads over U.S. Treasury rates
- Slope of the U.S. Treasury yield curve
- Level of and projected direction of interest rates
- ALCO positions as to liquidity, interest rate risk, and net portfolio value
- Changes in credit risk of the various instruments
- State of the economy and projected economic trends

The securities policy of the Corporation imposes guidelines to ensure diversification within the portfolio. The diversity specifications are designed to control the level of risk presented by each security type. The amount of diversity permitted through the policy allows management to pursue security types with better total return profiles or securities with higher yields. However, those securities that can provide higher levels of return will often bring higher elements of duration or credit risk. Management's goal is to optimize portfolio total return performance over the long term while staying within portfolio policy guidelines. The composition of the securities portfolio at year-end based on fair market value is shown in the following table.

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SECURITIES PORTFOLIO

(DOLLARS IN THOUSANDS)

	December 31,					
	2020		2019		2018	
	\$	%	\$	%	\$	%
U.S. government agencies	54,361	11.2	32,624	10.5	30,120	10.0
U.S. agency mortgage-backed securities	71,052	14.7	48,626	15.4	44,639	14.9
U.S. agency collateralized mortgage obligations	35,035	7.2	60,253	19.1	54,090	18.0
Asset-backed securities	60,475	12.5	23,262	7.4	11,399	3.8
Corporate bonds	61,723	12.8	54,880	17.4	59,192	19.7
Obligations of states and political subdivisions	193,782	40.1	88,452	28.1	94,625	31.6
Total debt securities, available for sale	476,428	98.5	308,097	97.9	294,065	98.0
Marketable equity securities	7,105	1.5	6,708	2.1	5,934	2.0
Total securities	483,533	100.0	314,805	100.0	299,999	100.0

The Corporation typically invests excess liquidity into securities, both fixed-rate and variable-rate bonds which account for 98.5% of all securities, with equity securities accounting for the other 1.5%. The securities portfolio provides interest and dividend income to supplement the interest income on loans. Additionally, the securities portfolio assists in the management of both liquidity risk and interest rate risk. Refer to Item 7A Quantitative and Qualitative Disclosures about Market Risk for further discussion of risk strategies. To provide maximum flexibility for management of liquidity and interest rate risks, the securities portfolio is classified as available for sale and reported at fair value. Management adjusts the value of the portfolio on a monthly basis to fair market value as determined in accordance with U.S. generally accepted accounting principles. Management has the ability and intent to hold all debt securities until maturity, and does not generally record impairment on the bonds that are currently valued below book value.

The Corporation's marketable equity securities include an investment in qualified Community Reinvestment Act (CRA) mutual funds and a small portfolio of bank stocks held at the holding company level. A total of \$6,176,000 has been invested into one qualified CRA fund that carried an AAA credit rating as of December 31, 2020. The fund is a Small Business Administration (SBA) CRA fund with a \$6,176,000 book value and market value as it has a stable dollar price. The current guideline used by management for the minimum amount to be invested in CRA-approved investments is approximately 0.5% of assets. The current \$6,176,000 of CRA investments is equivalent to 0.4% of assets. The small portfolio of bank stocks included in marketable equity securities had a book value of \$981,000 and a fair market value of \$929,000 as of December 31, 2020.

Overall, the tax equivalent yield on all of the Corporation's securities decreased from 2.66% for 2019, to 2.17% for 2020. On the taxable segment of the portfolio, Treasury rates were lower in 2020 compared to 2019, so the majority of securities that matured or were sold had lower yields compared to the securities purchased to replace them. The Corporation's securities portfolio underwent a number of changes during 2020 including an increase in all categories except collateralized mortgage obligations which decreased. The fair market value of the Corporation's securities portfolio increased by \$168.7 million, or 53.6%, from December 31, 2019 to December 31, 2020, and the portfolio accounted for a larger amount of the Corporation's assets at 33.1% as of December 31, 2020, compared to 26.9% as of December 31, 2019.

During the first quarter of 2020, the Federal Reserve decreased short-term rates two times for a total of 150 basis points. Market conditions during 2020 were very unpredictable and fast changing due to the start of and continuing impact of COVID-19 and the declaration of a global pandemic on March 11, 2020. The Fed's reduction of interest rates was in response to this pandemic and caused short-term and long-term Treasury rates to decline at a rapid pace to reach all-time lows. This pandemic continued to have far-reaching impacts on local, national, and global economies and supply chains throughout all of 2020 impacting Treasury rates.

Management views the U.S. government agency sector as foundational to the building of the securities portfolio. U.S. agencies have very low risk and high liquidity, and depending on structure, are fairly predictable in terms of their performance. Non-callable agencies have a set maturity date with no principal payments until maturity. Callable agencies offer a higher yield but carry option risk, the risk that the agency could call the issue after it reaches the call date. This typically occurs if interest rates decline. The non-callable structures have lower yield but a better total return

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profile when considering all rate scenarios, however given a slow progression of higher rates the callable structure would outperform given the higher yield. As a result, management uses a blend of non-callable and callable instruments to enhance yield performance but ensure a predictable cash flow ladder is built out into the future. Management prefers to use corporate bonds to supplement U.S. agencies in building a ladder of steady maturities in the one-year to five-year time frame. Corporate bonds provide better return than U.S. agencies, especially in this shorter time frame, since they provide better yields and are generally not callable. While corporate bonds do carry substantially more credit risk than U.S. agencies, the credit risk of corporate bonds is greatly mitigated by maintaining shorter maturities and investing in A-rated Fortune 500 companies.

Investments in MBS and CMOs assist management in adding to and maintaining a stable five-year ladder of cash flows, which is important in providing stable liquidity and interest rate risk positions. Unlike U.S. agency bonds, corporate bonds, and obligations of states and political subdivisions, which only pay principal at final maturity, the U.S. agency MBS and CMO securities pay monthly principal and interest. The combined effect of all of these instruments paying monthly principal and interest provides the Corporation with a significant and reasonably stable cash flow. Cash flows coming off of MBS and CMOs do slow down and speed up as interest rates increase or decrease. During the majority of 2020, cash flows from these securities were higher than the prior year as a result of lower Treasury rates. Management desires and pursues those MBS and CMO securities that do not experience significant changes in prepayment speeds given changes in interest rates. Since nearly all of these securities are purchased at a premium, management is most concerned with how quickly that premium will be amortized based on the average life of the security. Therefore, management attempts to guard against those securities with fast or volatile prepayment speeds in favor of those that demonstrate more consistent principal payments.

Management invests in asset-backed securities in the form of student loan floaters in an effort to provide an instrument that will perform well in a rates-up environment and offset the interest rate risk of the longer fixed-rate municipal bonds. The investment in this segment grew throughout 2019 and 2020 and continues to be a good defensive structure to balance rates-up risk.

Obligations of states and political subdivisions, often referred to as municipal bonds, are tax-free and taxable securities that generally provide the highest yield in the securities portfolio on a tax-equivalent basis. In the continued prolonged period of historically low interest rates and with a lower Corporate tax rate, the municipal bond sector has lost some of its benefit compared to other segments of the portfolio. Municipal tax-equivalent yields generally start above other taxable bonds; however, they generally carry the longest duration and highest interest rate risk exposure out of all the Corporation's securities. Due to the lower tax rate in 2019 and 2020, municipal bonds do not provide yields as high as previous years, but they still are an important component of the Corporation's portfolio. The Corporation also began purchasing some taxable municipal securities that added to the value of this sector. The municipal bond portfolio had an unrealized gain position of \$6,650,000 as of December 31, 2020, compared to an unrealized gain position of \$2,236,000 as of December 31, 2019.

The vast majority of the municipal bonds held by the Corporation on December 31, 2020 carried between an A and an AA credit rating, with 5.0% carrying the highest AAA rating. These are stronger ratings on average than the ratings on the corporate bonds held by the Corporation. These ratings reflect the final rating or the rating with any insurance backing or credit enhancements. The Corporation's securities policy requires that municipal bonds not carrying insurance have a minimum S&P credit rating of A- or a minimum Moody's credit rating of A3 at the time of purchase. It is possible that municipalities have an underlying rating of S&P BBB+ or Moody's Baa1 rating prior to insurance or credit enhancement while having a final rating of S&P A- or Moody's A3 with the insurance and/or credit enhancement. In the current environment, the major rating services have tightened their credit underwriting procedures and are more apt to downgrade municipalities. Additionally, the weaker economy has reduced revenue streams for many municipalities and has called into question the basic premise that municipalities have unlimited power to tax, i.e. the ability to raise taxes to compensate for revenue shortfalls. Therefore, management closely monitors any municipal bonds that have their credit ratings downgraded below initial purchase guidelines. The Corporation has not experienced any losses due to defaults or bankruptcies of states or political subdivisions. As of December 31, 2020, all of the municipal bonds carried credit ratings within the Corporation's initial purchase policy requirements.

As of December 31, 2020, the Corporation held corporate bonds with a total book value of \$60.4 million and fair market value of \$61.7 million. U.S. corporate bonds, consisting of bonds issued by U.S. public companies as unsecured credit, carry a 100% risk weighting for capital purposes and therefore are viewed as a higher risk security. Corporate bonds issued as foreign sovereign debt carry a 20% risk weighting. Approximately 41% of the Corporation's corporate bond portfolio is in the form of foreign sovereign debt and carries that lower 20% risk weighting. Because of the higher risk

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posed by the majority of the Corporation's corporate bonds, the Corporation has a policy that limits corporates to 20% of the portfolio book value. As of December 31, 2020, this \$60.4 million book value of corporate debt amounted to 12.5% of the portfolio book value, compared to \$54.6 million book value, or 17.5% of portfolio book value as of December 31, 2019.

Like any security, corporate bonds have both positive and negative qualities and management must evaluate these securities on a risk versus reward basis. Corporate bonds add diversity to the portfolio and provide strong relative yields for short maturities; however, by their very nature, corporate bonds carry a high level of credit risk should the entity experience financial difficulties. Management stands to possibly lose the entire principal amount if the entity that issued the corporate paper fails. As a result of the higher level of credit risk taken on by purchasing a corporate bond, management has in place certain minimal credit ratings that must be met in order for management to purchase a corporate bond. The financial performance of any corporate bond being considered for purchase is analyzed both prior to and after purchase. Management conducts periodic monitoring throughout the year including an internal financial analysis. An independent credit review is conducted at least annually in addition to management's periodic monitoring. Additionally, the Corporation's securities policy calls for corporate bonds purchased to not have maturities greater than six years with the preferred maturity range of two to five years. Credit risk grows exponentially with length. The shorter the maturity the more assurance the company's financial position will remain sufficiently strong to ensure full payment of the bond at maturity. The longer the time horizon the more difficult it is to project the financial health of the company.

Management closely monitors the unrealized gain or loss positions of all the corporate bonds to identify any potential weakness. The trading levels of these securities are closely linked to the financial performance and health of the entity. Significant declines in the valuations of these securities, beyond what can be attributed to movement in interest rates, are generally an indication of higher credit risk. Management reviews all securities with unrealized losses approaching 10% or those carrying unrealized losses for prolonged periods of time, for possible impairment. As of December 31, 2020, the highest percentage of unrealized losses for any corporate bond was 0.5%. Most Corporate bonds had unrealized gains as of December 31, 2020. All but two of the corporate bonds had at least an A credit rating by one of the major credit rating services, with all corporate bonds considered investment grade. In addition, the Corporation purchased \$1,000,000 of a 4% subordinated debt note in the fourth quarter of 2020 which is unrated. This is considered a corporate bond as it is subordinated debt of a domestic community bank but is unrated because it is not a typical corporate issuance. Currently, there are no indications that any of these bonds would discontinue contractual payments.

The entire securities portfolio is reviewed monthly for credit risk and evaluated quarterly for possible impairment. Corporate bonds have the most potential credit risk out of the Corporation's debt instruments. Due to the rapidly changing credit environment and improving but sluggish economic conditions, management is closely monitoring all corporate bonds. For further information on impairment see Note B. For further details regarding credit risk see Note P.

The following table shows the weighted-average life and yield on the Corporation's securities by maturity intervals as of December 31, 2020, based on amortized cost. All of the Corporation's securities are classified as available for sale and are reported at fair value; however, for purposes of this schedule they are shown at amortized cost.

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SECURITIES PORTFOLIO MATURITY ANALYSIS

(DOLLARS IN THOUSANDS)

	Within 1 Year		1 - 5 Years		5 - 10 Years		Over 10 Years		Total	
	\$	% Yield	\$	% Yield	\$	% Yield	\$	% Yield	\$	% Yield
U.S. government agencies	35,497	0.06	11,227	0.58	7,500	1.45	-	-	54,224	0.36
U.S. agency mortgage-backed securities	19,080	0.62	29,223	1.13	8,369	1.57	13,105	1.79	69,777	1.17
U.S. agency collateralized mortgage obligations	14,208	0.14	13,550	1.77	5,586	0.98	1,105	0.82	34,449	0.94
Corporate bonds	13,030	2.15	39,922	1.75	7,435	2.04	-	-	60,387	1.87
Obligations of states and political subdivisions	1,308	3.12	542	3.46	14,667	3.17	170,615	2.70	187,132	2.74
Asset-backed securities	2,062	0.97	11,142	0.94	15,117	0.94	32,066	1.07	60,387	1.01
Marketable equity securities	-	-	-	-	-	-	7,157	1.54	7,157	1.54
Total securities available for sale	85,185	0.59	105,606	1.38	58,674	1.80	224,048	2.37	473,513	1.76

Securities are assigned to categories based on stated contractual maturity except for MBS and CMOs, which are based on anticipated payment periods.

The yield on the securities portfolio, including equity securities, was 1.76% as of December 31, 2020, compared to 2.48% as of December 31, 2019. The reduction in yield was primarily due to the decline in market interest rates during 2020. Management also purchased \$35.5 million in FHLB discount notes at a rate of 0.06% in an effort to use excess liquidity to reduce PA Bank shares tax expense. This purchase caused a reduction in overall security yield. As of December 31, 2020, the effective duration of the Corporation's fixed income security portfolio was 2.7 years for the base case or rates unchanged scenario, compared to 2.2 years as of December 31, 2019. Effective duration is the estimated duration or length of a security or portfolio, which is implied by the price volatility. Effective duration is calculated by converting price volatility to a standard measurement representing length, expressed in years. It is a measurement of price sensitivity, with lower durations being advantageous in periods of rising rates and longer durations benefiting the holder in periods of declining rates. An effective duration of 3.0 years would approximate the duration of a three-year U.S. Treasury, a security that has no option risk or call provisions. Management receives effective duration and price volatility information quarterly on an individual security basis. Management's target base case, or rates unchanged effective duration, is 3.0 years. The Corporation manages duration, along with interest rate sensitivity and fair value risk, across the entire balance sheet. Currently, assets are repricing quicker than liabilities, meaning the Corporation is asset sensitive and benefits by higher interest rates. Regardless of the Corporation's asset sensitive balance sheet position, management anticipates that the portfolio's effective duration will increase toward the 3.0 target throughout 2021.

Effective duration is only one measurement of the length of the securities portfolio. Management receives and monitors a number of other measurements. In general, a shorter portfolio will adjust more quickly in a rising interest rate environment, whereas a longer portfolio will tend to generate more return over the long-term and will outperform a shorter portfolio when interest rates decline. Because the Corporation's securities portfolio is now shorter than it has been historically and shorter than the average peer bank, it will generally outperform the average peer bank given static rates or an increase in interest rates, and will generally underperform given lower interest rates. Additionally, with fixed rate instruments, the longer the term of the security, generally the more fair value risk there is when interest rates rise. The converse is true when interest rates decline. The securities portfolio is a significant piece of the Corporation's assets, but there are other crucial elements that management also uses to manage the Corporation's asset liability position such as cash and cash equivalents and borrowings. Beyond these, management also utilizes other elements of the Corporation's balance sheet to reduce exposure to higher interest rates. Prime-based loans account for approximately 17% of the Corporation's total loans which results in this segment of the portfolio having very minimal exposure to interest rate risk because these loans reprice to the new Prime rate whenever there is a Federal Reserve rate movement. The unusually extended period of historically low rates also caused the Corporation's deposits to undergo major changes in consistency with non-interest bearing accounts and savings accounts responsible for a larger percentage of deposits while time deposits have declined markedly. This has benefited the Corporation's asset liability position with more core deposits which model with longer lives causing liabilities to extend. The combination of Prime-based loans and longer core deposits has allowed management to historically take on more duration in the securities portfolio. See Item 7A Quantitative and Qualitative Disclosures about Market Risk for further discussion on the Corporation's management of asset liability risks including interest rate risk and fair value risk.

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The majority of the Corporation's securities are held at the bank level with only a very small portfolio of bank stocks held at the holding company level. With only \$981,000 of book value as of December 31, 2020, the non-maturity nature of the Corporation's bank stock portfolio is not material to the duration of the Corporation's securities portfolio or assets. The decision to purchase these equity securities at the holding company level took into account tax strategies, market conditions, and other strategic decisions.

Loans

Net loans outstanding increased \$66.8 million, or 9.0%, from \$744.2 million at December 31, 2019, to \$811.0 million at December 31, 2020. The following table shows the composition of the loan portfolio as of December 31 for each of the past five years.

LOANS BY MAJOR CATEGORY
(DOLLARS IN THOUSANDS)

	December 31,									
	2020		2019		2018		2017		2016	
	\$	%	\$	%	\$	%	\$	%	\$	%
Commercial real estate										
Commercial mortgages	142,698	17.4	120,212	16.0	101,419	14.6	90,072	15.1	86,434	15.2
Agriculture mortgages	176,005	21.4	175,367	23.3	165,926	24.0	152,050	25.5	163,753	28.7
Construction	23,441	2.9	16,209	2.2	18,092	2.6	18,670	3.1	24,880	4.4
Total commercial real estate	342,144	41.7	311,788	41.5	285,437	41.2	260,792	43.7	275,067	48.3
Consumer real estate (a)										
1-4 family residential mortgages	263,569	32.0	258,676	34.4	219,037	31.6	176,971	29.7	150,253	26.3
Home equity loans	10,708	1.3	9,770	1.3	10,271	1.5	11,181	1.9	10,391	1.8
Home equity lines of credit	71,290	8.7	70,809	9.4	64,413	9.3	61,104	10.2	53,127	9.3
Total consumer real estate	345,567	42.0	339,255	45.1	293,721	42.4	249,256	41.8	213,771	37.4
Commercial and industrial										
Commercial and industrial	97,896	11.9	58,019	7.7	61,043	8.8	41,426	6.9	42,471	7.4
Tax-free loans	10,949	1.3	16,388	2.2	22,567	3.3	20,722	3.5	13,091	2.3
Agriculture loans	20,365	2.5	20,804	2.8	20,512	3.0	18,794	3.2	21,630	3.8
Total commercial and industrial	129,210	15.7	95,211	12.7	104,122	15.1	80,942	13.6	77,192	13.5
Consumer	5,155	0.6	5,416	0.7	9,197	1.3	5,320	0.9	4,537	0.8
Total loans	822,076	100.0	751,670	100.0	692,477	100.0	596,310	100.0	570,567	100.0
Less:										
Deferred loan costs, net	(1,294)		(1,948)		(1,596)		(1,243)		(1,000)	
Allowance for loan losses	12,327		9,447		8,666		8,240		7,562	
Total net loans	811,043		744,171		685,407		589,313		564,005	

(a) Residential real estate loans do not include mortgage loans serviced for others. These loans totaled \$235,437,000 as of December 31, 2020, \$154,577,000 as of December 31, 2019, \$126,916,000 as of December 31, 2018, \$98,262,000 as of December 31, 2017, and \$66,767,000 as of December 31, 2016.

There was significant growth in the loan portfolio since December 31, 2019. Most major loan categories showed an increase in balances. Loan growth in 2020 was driven primarily by the funding of Payroll Protection Program (PPP) loans to local businesses.

The composition of the loan portfolio has remained relatively stable in recent years, with the one major trend being the growth in 1-4 family residential lending. The total of all categories of real estate loans comprised 83.7% of total loans as of December 31, 2020, compared to 86.6% of total loans as of December 31, 2019. Consumer real estate has been the largest category of the loan portfolio for the past two years, with commercial real estate being the second largest category.

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Commercial real estate consists of 41.7% of total loans as of December 31, 2020, compared to 41.5% of total loans as of December 31, 2019. Commercial real estate loans increased to \$342.1 million at December 31, 2020, from \$311.8 million at December 31, 2019, a 9.7% increase. The increase in commercial real estate occurred in all sectors, however 2020 was characterized as a better year for commercial real estate loans outside of agriculture, with solid growth as a number of businesses moved ahead on commercial projects. This was evident in terms of the construction commercial real estate which had the sharpest growth as a percentage. Commercial mortgages increased by \$22.5 million, or 18.7%, agriculture mortgages increased by \$638,000, or 0.4%, and commercial construction loans increased by \$7.2 million, or 44.6% from December 31, 2019, to December 31, 2020. The agricultural mortgages, along with agricultural loans not secured by real estate, accounted for 23.9% of the entire loan portfolio as of December 31, 2020, compared to 26.1% as of December 31, 2019. Management expects both commercial and agricultural loans to increase in 2021. Management believes as economic conditions stabilize in 2021, other elements of the local diversified economy outside of the agriculture industry will expand and cause commercial mortgages to continue to grow as well.

The Corporation's largest element of commercial real estate loans remains agricultural mortgages. The Corporation views itself as a leading agricultural lender in the greater Lancaster County marketplace. Agricultural purpose loans have averaged approximately 25% of the Corporation's total loans over the past five-year period, and had experienced a period of slow growth in 2016 followed by declines in 2017, and then growth again in 2018, 2019, and 2020. In 2016 the growth rate slowed as economic conditions, namely weaker commodity prices, became more difficult and changes occurred in the Corporation's agricultural lending team. The reduction in agricultural mortgages in 2017 was caused by a general slowing of the growth rate in the local agricultural industry, a more challenging year for dairy farmers, which account for approximately half the Corporation's agricultural loans, and a reduction in the pipeline of new agricultural loans caused by the prior changes in the agricultural lending staff. The Corporation has a history of an agricultural focus, which coincides with the market area and type of customers that we serve. In 2018 and 2019, agricultural loan growth picked up due to the Corporation's renewed commitment to and more agricultural relationships proceeding with projects. In 2020, agricultural loan growth was modest with concerns about economic stability and future economic concerns. Management believes the agricultural loan portfolio will continue to grow in 2021, but is also closely tracking the impact of weaker commodity prices on the Corporation's farmers.

The other area of commercial lending is non-real estate secured commercial lending, referred to as commercial and industrial lending. Commercial and industrial loans not secured by real estate accounted for 15.7% of total loans as of December 31, 2020, compared to 12.7% as of December 31, 2019. In scope, the commercial and industrial loan sector, at 15.7% of total loans, is significantly smaller than the commercial real estate sector at 41.7% of total loans. This is consistent with management's credit preference for obtaining real estate collateral when making commercial loans. The balance of total commercial and industrial loans increased from \$95.2 million at December 31, 2019, to \$129.2 million at December 31, 2020, a 35.7% increase, primarily attributable to the funding of PPP loans in 2020. Outside of PPP loans, the commercial and industrial category generally includes unsecured lines of credit, truck, equipment, and receivable and inventory loans, in addition to tax-free loans to municipalities. Based on current levels of demand for these types of loans and the higher level of commercial and industrial expertise that the Corporation now has, management anticipates that these loans will experience moderate growth in 2021. However, commercial and industrial loans in total will likely show a decline as forgiveness of PPP loans proceeds with new PPP loan originations much slower than levels in 2020.

The Corporation provides credit to many small and medium-sized businesses. Much of this credit is in the form of Prime-based lines of credit to local businesses where the line may not be secured by real estate, but is based on the health of the borrower with other security interests on accounts receivable, inventory, equipment, or through personal guarantees. Additionally, PPP loans are included in this category resulting in the commercial and industrial loans increasing to \$97.9 million at December 31, 2020, a \$39.9 million, or 68.8% increase, from the \$58.0 million at December 31, 2019. As of December 31, 2020, the Corporation had total PPP loans of \$48.0 million, representing the full amount of annual growth in the commercial and industrial loan category. Outside of PPP loans, the remaining loans in this category actually experienced a decline in 2020.

As a result of the regulatory concerns regarding commercial real estate (CRE) lending that arose out of the financial crisis of 2008, there has been a renewed focus on the amount of CRE loans as a percentage of total risk-based capital. The CRE loans are viewed as having more risk due to the specific types of commercial loans that fall into this category and their heavy reliance on the value of real estate that is used as collateral. During the financial crisis and years immediately after, many financial institutions had CRE loans in excess of 400% of total risk-based capital. Regulators were warning banks of concentrations in CRE loans and the increased risk that they could potentially bring. The Corporation's level of CRE loans has been low relative to other community banks and the CRE profile has not materially changed over the past several years. The Corporation remains well below the CRE guidelines of 100% of

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total risk-based capital for construction and development loans, and 300% of risk-based capital for total CRE loans. There are nine categories of CRE loans by definition; however the Corporation only has seven of those types.

The following chart details the Corporation's CRE loans as of December 31, 2020 and December 31, 2019.

CRE SUMMARY BY CATEGORY
(DOLLARS IN THOUSANDS)

CRE Description	December 31,			
	2020		2019	
	Total Committed Loan Amount \$	Risk-Based Capital %	Total Committed Loan Amount \$	Risk-Based Capital %
Land Development Loans	673	0.4	2,074	1.7
1-4 Family Residential Construction Loans	1,168	0.8	1,731	1.4
Commercial Construction Loans	22,248	14.5	19,550	15.6
Other Land Loans	-	-	-	-
Multi-Family Property	9,391	6.1	8,428	6.7
Nonfarm, Nonresidential Property	43,598	28.3	22,021	17.6
Unsecured Loans to Developers	603	0.4	853	0.7
	<u>77,681</u>	<u>50.5</u>	<u>54,657</u>	<u>43.7</u>
Corporation's Risk-Based Capital	<u>153,801</u>		<u>124,970</u>	

The Corporation's level of CRE loans is low relative to other financial institutions in its peer group and as a percentage of risk-based capital, with 50.5% as of December 31, 2020. Management does not believe the Corporation's CRE profile will change significantly during 2021. Management is closely monitoring all CRE loan types to be able to determine any negative trends that may occur. Management does internally monitor the delinquencies and risk ratings of these loans on a monthly basis and has established internal policy guidelines to restrict the amount of each of the above seven types of CRE loans as a percentage of capital. As of December 31, 2020, the Corporation was well under internal guidelines for all of the above CRE loan types.

The consumer residential real estate category represents the largest group of loans for the Corporation. The consumer residential real estate category of total loans increased from \$339.3 million on December 31, 2019, to \$345.6 million on December 31, 2020, a 1.9% increase. This category includes closed-end fixed rate or adjustable rate residential real estate loans secured by 1-4 family residential properties, including first and junior liens, and floating rate home equity loans. The 1-4 family residential mortgages account for the vast majority of residential real estate loans with fixed and floating home equity loans making up the remainder. Historically, the entire consumer residential real estate component of the loan portfolio has averaged close to 40% of total loans. In 2019, this percentage was 45.1%, and in 2020 it decreased to 42.0% due to the increase in the portfolio from the PPP loan originations. Management expects the consumer residential real estate category to increase in 2021 due to a continued effort to increase mortgage volume.

The first lien 1-4 family mortgages increased by \$4.9 million, or 1.9%, from December 31, 2019, to December 31, 2020. These first lien 1-4 family loans made up 76.3% of the residential real estate total as of December 31, 2020, and 76.2% as of December 31, 2019. The vast majority of the first lien 1-4 family closed end loans consist of single family personal first lien residential mortgages and home equity loans, with the remainder consisting of 1-4 family residential non-owner-occupied mortgages. During 2020, mortgage production increased 63.2% over the prior year. The Corporation experienced increases in both portfolio and secondary market production. The percentage of mortgage originations that went into the Corporation's held for investment mortgage portfolio decreased to 55% compared to 61% in 2019. Market conditions were favorable throughout the year, in combination with an increase in held for sale mortgage production. Gains on the sale of mortgages increased by 202.2% in 2020 compared to 2019. The low interest rate environment did lead to an incremental increase in refinance activity; 32% of volume in 2020 was purchase, 19% was residential construction lending, and 49% was refinance activity. The volume of mortgage production in 2020 led to a 4.9% increase in growth of the held for investment residential loan portfolio and a 52.3% increase in the servicing on behalf of others portfolio, with mortgage servicing rights growing to over \$1 million.

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As of December 31, 2020, the remainder of the residential real estate loans consisted of \$10.7 million of fixed rate junior lien home equity loans, and \$71.3 million of variable rate home equity lines of credit (HELOCs). This compares to \$9.8 million of fixed rate junior lien home equity loans, and \$70.8 million of HELOCs as of December 31, 2019. Therefore, combined, these two types of home equity loans increased from \$80.6 million to \$82.0 million, an increase of 1.7%.

Consumer loans not secured by real estate represent a very small portion of the Corporation's loan portfolio, accounting for 0.6% of total loans as of December 31, 2020, and 0.7% of loans at December 31, 2019. In recent years, homeowners have turned to equity in their homes to finance cars and education rather than traditional consumer loans for those expenditures. Due to the credit crisis that occurred in 2008 and 2009, specialized lenders began pulling back on the availability of credit and more favorable credit terms. The underwriting standards of major financing and credit card companies began to strengthen in the past few years after years of lower credit standards. This led consumers to seek unsecured credit away from national finance companies and back to their bank of choice. Management has seen the need for additional unsecured credit increase; however, this increased need for credit has only resulted in low levels of additional consumer loans for the Corporation. Slightly higher demand for unsecured credit is being offset by principal payments on existing loans. Management anticipates that the Corporation's level of consumer loans will likely be relatively unchanged in the near future, as the need for additional unsecured credit in an environment of slow economic growth is generally being offset by those borrowers wishing to reduce debt levels and move away from the higher cost of unsecured financing relative to other forms of real estate secured financing.

Management anticipates that the loan portfolio composition will remain largely the same in 2021 outside of the recent trend of consumer real estate loans slowly increasing as a percentage of the loan portfolio and the commercial and industrial loan segment decreasing due to the forgiveness of PPP loans. Commercial real estate and consumer real estate are the largest two segments of the portfolio with each accounting for over 40% of the portfolio over the last four years. The commercial real estate segment grew faster than the consumer real estate segment in 2020 but this could change in 2021 with a renewed focus on growing the held-for-investment residential real estate sector of the loan portfolio. The economic conditions that prevailed in 2019 and 2020, were more favorable to originating commercial real estate loans than consumer real estate loans. In 2019, management expanded the Corporation's geographic outreach in terms of marketing 1-4 family residential mortgages, which allowed these loans to grow despite an overall slowing of economic activity. Additionally, the three Federal Reserve rate decreases in the second half of 2019 and two decreases in the first half of 2020 elevated the amount of mortgage activity. Economic conditions appeared to be weakening in late 2019, which began to impact the growth rate of commercial real estate loans. This impact is expected to continue into 2021, with further slowing of commercial loan growth. Outside of these two large loan segments, the Corporation's commercial and industrial segment increased in 2020 due to the PPP loans and would be expected to decrease as a percentage of the total loan portfolio in 2021 as many of these loans are forgiven. The Corporation's small unsecured consumer loan portfolio is expected to remain under 1% of the total loan portfolio in 2021. Management is still aggressively pursuing loan growth with a focus on residential and commercial real estate, and agriculture lending. Management believes the Corporation is well positioned for 2021 with a very strong brand image and history of expertise in these areas, however, the growth obtained will be highly dependent on economic conditions and competitive forces.

The following tables show the maturities for the loan portfolio as of December 31, 2020, by time frame for the major categories, and also the loans, which are floating or fixed, maturing after one year.

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LOAN MATURITIES
(DOLLARS IN THOUSANDS)

	Due in One Year or Less \$	Due After One Year Through Five Years \$	Due After Five Years \$	Total \$
Commercial real estate				
Commercial mortgages	4,490	14,414	123,794	142,698
Agriculture mortgages	10,083	5,110	160,812	176,005
Construction	1,103	2,249	20,089	23,441
Total commercial real estate	15,676	21,773	304,695	342,144
Consumer real estate				
1-4 family residential mortgages	5,048	8,975	249,546	263,569
Home equity loans	4,820	1,308	4,580	10,708
Home equity lines of credit	11	2,446	68,833	71,290
Total consumer real estate	9,879	12,729	322,959	345,567
Commercial and industrial				
Commercial and industrial	19,329	73,822	4,745	97,896
Tax-free loans	-	2,836	8,113	10,949
Agriculture loans	11,328	7,758	1,279	20,365
Total commercial and industrial	30,657	84,416	14,137	129,210
Consumer	1,724	3,309	122	5,155
Total amount due	57,936	122,227	641,913	822,076

FIXED AND FLOATING RATE LOANS DUE AFTER ONE YEAR
(DOLLARS IN THOUSANDS)

	Fixed Rates \$	Floating or Adjustable Rates \$	Total \$
Commercial real estate			
Commercial mortgages	27,889	110,319	138,208
Agriculture mortgages	5,022	160,900	165,922
Construction	2,701	19,637	22,338
Total commercial real estate	35,612	290,856	326,468
Consumer real estate			
1-4 family residential mortgages	95,727	162,794	258,521
Home equity loans	3,554	2,334	5,888
Home equity lines of credit	10,158	61,121	71,279
Total consumer real estate	109,439	226,249	335,688
Commercial and industrial			
Commercial and industrial	72,937	5,630	78,567
Tax-free loans	6,113	4,836	10,949
Agriculture loans	7,879	1,158	9,037
Total commercial and industrial	86,929	11,624	98,553
Consumer	3,431	-	3,431
Total amount due	235,411	528,729	764,140

The majority of the Corporation's fixed-rate loans have a maturity date longer than five years. The primary reason for the longevity of the portfolio is the high percentage of real estate loans, which typically have maturities of 15 or 20 years. Fixed-rate commercial mortgages have maturities that range from 3 years to 25 years. The most popular commercial mortgage term is a 20-year amortization with a 5-year reset period. In this case, the loan matures in twenty

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years but after five years either the loan rate resets to the Prime rate plus 0.75%, or a fixed rate for another reset period. The original maturity date does not change. Customers will generally opt for another fixed reset period within the original term.

Out of all the loans due after one year, 30.8% are fixed-rate loans as of December 31, 2020. These loans will not reprice to a higher or lower interest rate unless they mature or are refinanced by the borrower. Floating or adjustable rate loans reflect different types of repricing. Approximately 23% of the \$528.9 million of loans due after one year are true floating loans. These loans are tied to the Prime rate and will reprice when the Prime rate changes. For commercial customers, generally all pass credits have been granted access to the Prime rate since 2011. However, a number of the Corporation's business and commercial Prime-based loans have been priced at levels above the Prime rate due to the credit standing of the borrower. In terms of consumer real estate loans utilizing the Prime rate for pricing, the most common rate is Prime; however, the Corporation now utilizes risk-based pricing which causes HELOCs to be priced at various multiples of the Prime rate. Outside of a six-month introductory rate, the majority of the Corporation's HELOCs were priced at 3.00% and 3.25% as of December 31, 2020. The other 77% of the Corporation's floating or adjustable loans due after one year are adjustable in nature and will reprice at a predetermined time in the amortization of the loan. These loans are mostly real estate commercial loans.

As of December 31, 2019, 24% of the \$518.5 million of floating or adjustable loans due after one year were true floating rate loans that could reprice immediately, with the other 76% being adjustable after an initial fixed rate period. The percentage of loans that can reprice immediately decreased from 24% as of December 31, 2019, to 23% as of December 31, 2020. This decrease was a function of more consumers fixing their loans during 2020. True floating rate loans that would immediately reprice according to changes in the Prime rate are favorable in reducing the Corporation's total exposure to interest rate risk and fair value risk should interest rates increase. It is likely the borrowing habits of commercial borrowers will change if the Fed raises rates in the near term. More commercial customers will desire to lock into an initial fixed interest rate period to avoid future rate increases. However, if the customer perceives rates will remain low for an extended period of time or even decrease further, there is a greater likelihood that borrowers will opt for variable rate loans in order to get the best available pricing.

For more details regarding how the length of the loan portfolio and its repricing affects interest rate risk, please see Item 7A Quantitative and Qualitative Disclosures about Market Risk.

Non-Performing Assets

Non-performing assets include:

- Non-accrual loans
- Loans past due 90 days or more and still accruing
- Troubled debt restructurings
- Other real estate owned

NON-PERFORMING ASSETS

(DOLLARS IN THOUSANDS)

	December 31,				
	2020	2019	2018	2017	2016
	\$	\$	\$	\$	\$
Non-accrual loans	725	1,984	1,833	393	721
Loans past due 90 days or more and still accruing	1,373	821	397	440	384
Troubled debt restructurings, non-performing	-	1,157	-	245	-
Total non-performing loans	2,098	3,962	2,230	1,078	1,105
Other real estate owned	-	-	-	-	-
Total non-performing assets	2,098	3,962	2,230	1,078	1,105
Non-performing assets to loans	0.25%	0.53%	0.32%	0.18%	0.20%

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Non-performing assets decreased by \$1,864,000, or 47.0%, from December 31, 2019, to December 31, 2020, primarily as a result of decreases in non-accrual loans, and troubled debt restructurings. Several large non-accrual loans were paid off in 2020 resulting in the decline in balance of these loans. Additionally, there were no non-performing TDR loans as of December 31, 2020. There were two non-performing TDR loans as of December 31, 2019. The first, an agricultural mortgage of \$718,000 had cash flow difficulties and a modification in payment terms was made to allow annual interest and principal payments. The second TDR loan was a \$439,000 real estate secured loan with a payment modification made in the form of granting a nine-month interest-only payment. This second TDR loan was both non-accrual and TDR. For this above non-performing chart the \$439,000 real estate loan is listed under TDR loans. A TDR is a loan where management has granted a concession to the borrower from the original terms. A concession is generally granted in order to improve the financial position of the borrower and improve the likelihood of full collection by the lender.

Management continues to monitor delinquency trends and the level of non-performing loans as a leading indicator of future credit risk. At this time, management believes that the potential for material losses related to non-performing loans remains low but is likely to trend higher. This is more of a function of the Corporation's non-performing assets already being at very low historical levels. It is far more likely the level of non-performing assets would increase than decline to lower levels. The level of the Corporation's non-performing loans remains very low relative to the size of the portfolio and relative to peers.

As of December 31, 2020, there were three loans to three unrelated borrowers totaling \$725,000 on non-accrual compared to seven loans to four unrelated borrowers totaling \$1,984,000 as of December 31, 2019. The largest non-accrual relationship at December 31, 2020, was a commercial loan to a single borrower with a balance of \$469,000.

The Corporation's diverse customer base, with many small businesses and industry types represented, has helped to avoid large concentrations in industries where significant non-performance is more likely. See Note P for further discussion on concentrations of credit risk. Severe economic conditions naturally will impact nearly all industries to some extent; however, the impact can vary greatly. Some businesses simply are not as successful in negotiating more difficult times, or may be impacted by non-economic matters like succession planning and poor business practice. Based on present economic conditions, management does not anticipate any significant new trends or the emergence of more severe trends beyond those already discussed.

As of December 31, 2020 and 2019, the Corporation had no properties classified as other real estate owned (OREO). Expenses related to OREO are included in other operating expenses and gains or losses on the sale of OREO are included in other income on the Consolidated Statements of Income.

Total delinquencies include loans 30 to 59 days past due, loans 60 to 89 days past due, loans 90 days or more past due and still accruing, and non-accrual loans. Total delinquencies as a percentage of total loans decreased from 0.91% as of December 31, 2019, to 0.34% as of December 31, 2020. The level of non-performing loans in total remains low compared to the Corporation's peer group. The potential for significant losses related to delinquent loans is difficult to predict as actual charge-offs are dependent on more than the level of delinquency. Management does view that the levels of delinquency, as well as net charge-offs, could increase going forward if economic conditions worsen for borrowers or as the Corporation's loan portfolio continues to grow. However, management currently does not expect the overall level of delinquencies to change materially in 2021.

Allowance for Credit Losses

The allowance for credit losses is established to cover any losses inherent in the loan portfolio. Management reviews the adequacy of the allowance each quarter based upon a detailed analysis and calculation of the allowance for credit losses. This calculation is based upon a systematic methodology for determining the allowance for credit losses in accordance with U.S. generally accepted accounting principles. The calculation includes estimates and is based upon losses inherent in the loan portfolio. The calculation, and detailed analysis supporting it, emphasizes the level of delinquent, non-performing and classified loans. The allowance calculation includes specific provisions for non-performing loans and general allocations to cover anticipated losses on all loan types based on historical losses. Based on the quarterly loan loss calculation, management will adjust the allowance for credit losses through the provision as necessary. Changes to the allowance for credit losses during the year are primarily affected by three events:

- Charge off of loans considered not recoverable
- Recovery of loans previously charged off
- Provision or credit for loan losses

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The Corporation's strong credit and collateral policies have been instrumental in producing a favorable history of loan losses. While many financial institutions experienced a pattern of an escalation of allowance for credit losses after the financial crisis, then followed with reductions to the allowance in the form of credit provisions, the Corporation generally lagged this trend. This was due to a steady decline of the Corporation's classified assets, delinquencies and non-performing loans. It took a longer period to bring the allowance back down to levels supported by the quarterly allowance for credit loss calculation. However, in recent years, the Corporation has recorded more normal levels of provision expenses in order to account for the growth in the loan portfolio as well as make adjustments for increasing levels of delinquencies and classified loans.

The Allowance for Credit Losses table below shows the activity in the allowance for credit losses for each of the past five years. At the bottom of the table, two benchmark percentages are shown. The first is net charge-offs as a percentage of average loans outstanding for the year. The second is the total allowance for credit losses as a percentage of total loans.

ALLOWANCE FOR CREDIT LOSSES
(DOLLARS IN THOUSANDS)

	December 31,				
	2020	2019	2018	2017	2016
	\$	\$	\$	\$	\$
Balance at January 1,	9,447	8,666	8,240	7,562	7,078
Loans charged off:					
Commercial real estate	(45)	(122)	(223)	(200)	-
Consumer real estate	-	-	(20)	-	-
Commercial and industrial	(23)	(63)	(110)	(89)	(23)
Consumer	(20)	(26)	(27)	(28)	(31)
Total charge-offs	(88)	(211)	(380)	(317)	(54)
Recoveries of loans previously charged off:					
Commercial real estate	11	170	72	-	-
Consumer real estate	-	1	-	20	10
Commercial and industrial	4	48	66	24	193
Consumer	3	3	8	11	10
Total recoveries	18	222	146	55	213
Net loans recovered (charged off)	(70)	11	(234)	(262)	159
Provision charged to operating expense	2,950	770	660	940	325
Balance at December 31,	12,327	9,447	8,666	8,240	7,562
Net (charge-offs) recoveries as a % of average total loans outstanding	(0.01)	0.00	(0.04)	(0.05)	0.03
Allowance at year end as a % of total loans	1.50	1.25	1.25	1.38	1.32

Charge-offs for the year ended December 31, 2020, were \$88,000, compared to \$211,000 for the same period in 2019. In 2020, the Corporation charged off a commercial real estate loan for \$45,000, a commercial and industrial loan for \$23,000, and several smaller consumer loans. In 2019, the Corporation charged off a commercial real estate loan and a commercial and industrial loan to one borrower totaling \$164,000 and several smaller amounts related to consumer loans. The Corporation's level of charge-offs are very low when compared to the national uniform bank performance peer group of banks between \$1 billion and \$3 billion of asset size. Outside of these commercial charge-offs, the other charge-offs represent a fairly typical level of consumer and small business loan charge-offs that would result from management charging off unsecured debt over 90 days delinquent with little likelihood of recovery. The small amount of recoveries in 2020 represent small-balance recoveries on previously charged-off loans. Recoveries were higher in 2019 as the Corporation recovered \$128,000 related to one real estate secured loan relationship and smaller amounts related to other loans.

During 2020, the Corporation recorded provision expense of \$2,950,000 compared to \$770,000 during 2019. The provision is used to increase or decrease the allowance for credit losses to a level considered adequate to provide for losses inherent in the loan portfolio. Provision expense grew in 2020 primarily due to significant loan portfolio growth and uncertain financial consequences due to COVID-19 and the forward economic outlook. Management heavily

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utilizes loan ratings in the allowance for credit loss calculation. From December 31, 2019 to December 31, 2020, there was a \$2.0 million, or 8.6% decrease, in substandard loans, which are considered classified loans and receive the highest degree of attention from management due to identified weaknesses. Substandard loans have a larger impact to the allowance for credit loss calculation due to the increased likelihood of further credit deterioration. Special mention loans increased \$7.3 million, from \$7.3 million at December 31, 2019, to \$14.6 million at December 31, 2020. Special mention loans, while not considered classified loans, do receive more scrutiny than a standard pass grade commercial loan and are assigned higher allocations for loan losses due to their status. All of the Corporation's substandard and special mention borrowers will be reassessed as final 2020 financial information is received in early 2021.

The allowance as a percentage of total loans represents the portion of the total loan portfolio for which an allowance has been provided. For the five-year period from 2016 through 2020, the Corporation maintained an allowance as a percentage of loans in a range between 1.25% and 1.50%. The composition of the Corporation's loan portfolio has not changed materially from 2019 to 2020, and management views the overall risk profile of the portfolio to be increasing due to the economic impact of COVID-19. Management will continue to increase or decrease the allowance as a percentage of total loans based on the quarterly calculation of the allowance for credit losses. Any increases are based on the need to allocate additional amounts based on estimated credit losses inherent in the current portfolio, utilizing historical and projected credit losses and levels of qualitative and quantitative risks that are appropriate based on the current credit environment. The Corporation's allowance for credit losses as a percentage of loans will likely remain relatively unchanged throughout 2021.

The net charge-offs as a percentage of average total loans outstanding indicates the percentage of the Corporation's total loan portfolio that has been charged off during the period. The Corporation has historically experienced very low net charge-off percentages due to conservative credit practices. In 2020, recoveries totaled \$18,000 and net charge-offs represented 0.01% of average total loans outstanding.

The following table provides the allocation of the Corporation's allowance for credit losses by major loan classifications. The percentage of loans indicates the percentage of the loan portfolio represented by the indicated loan type.

ALLOCATION OF RESERVE

(DOLLARS IN THOUSANDS)

	December 31,									
	2020		2019		2018		2017		2016	
	\$	% of Loans	\$	% of Loans	\$	% of Loans	\$	% of Loans	\$	% of Loans
Real estate	9,778	83.7	7,174	86.6	6,704	83.6	5,915	85.5	5,447	85.7
Commercial and industrial	1,972	15.7	1,784	12.7	1,428	15.1	1,829	13.6	1,552	13.5
Consumer	52	0.6	41	0.7	103	1.3	98	0.9	82	0.8
Unallocated	525	-	448	-	431	-	398	-	481	-
Total allowance for loan losses	12,327	100.0	9,447	100.0	8,666	100.0	8,240	100.0	7,562	100.0

Real estate loans represent 83.7% of total loans with 79.3% of the allowance covering these loans. Real estate secured loans have historically experienced lower losses than non-real estate secured loans, accounting for the difference. The combined consumer and business real estate portion of the loan portfolio increased by \$36.7 million, or 5.6%, from December 31, 2019, to December 31, 2020 causing an additional \$2,604,000 to be placed in the allowance for these loans.

Commercial and industrial loans not secured by real estate have historically experienced higher loan losses as a percentage of balances and therefore require a larger relative percentage of the reserve. The reserve allocated to these loans has increased and decreased in recent years, but has not changed significantly as a percentage of total loans. For 2020, the dollar amount of allocation for commercial and industrial loans increased by \$188,000, or 10.5%, with this allocation accounting for 16.0% of the total allowance as of December 31, 2020, compared to 18.9% of the total allowance as of December 31, 2019. As of December 31, 2020, commercial and industrial loans make up 15.7% of all loans. The increase in the commercial and industrial allocation is also a reflection of the higher level of risk taken on in this category of loans.

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The amount of allowance allocated to consumer loans has always been very small as generally consumer loans more than 90 days delinquent are charged off. The amount of allowance allocated to consumer loans and personal loans is based on historical losses and qualitative factors.

The \$525,000 unallocated portion of the allowance as of December 31, 2020, increased slightly from the balance at the end of 2019, but the unallocated portion as a percentage of the total allowance decreased from 4.7% at December 31, 2019, to 4.3% at December 31, 2020.

Premises and Equipment

Premises and equipment, net of accumulated depreciation, decreased by \$273,000, or 1.1%, to \$24,760,000 on December 31, 2020, from \$25,033,000 as of December 31, 2019. During 2020, capital investments were made by the Corporation in various small projects and normal ongoing capital needs. However, the new investments were more than offset by depreciation of the existing premises and equipment. In 2020, \$1,063,000 of new investments were made in premises and equipment, while the Corporation recorded \$1,336,000 of accumulated depreciation on existing assets, resulting in the decrease in net premises and equipment during the year. The Corporation had \$385,000 in construction in process at the end of 2020 compared to \$104,000 at the end of 2019. These balances consisted of amounts for small projects or equipment not yet placed in service as of each year-end. For further information on fixed assets refer to Note D to the Consolidated Financial Statements.

Regulatory Stock

The Corporation owns multiple forms of regulatory stock that is required to be a member of the Federal Reserve Bank (FRB) and members of banks such as the Federal Home Loan Bank (FHLB) of Pittsburgh and Atlantic Community Bankers Bank (ACBB). The Corporation's \$6,107,000 of regulatory stock holdings as of December 31, 2020, consisted of \$5,919,000 of FHLB of Pittsburgh stock, \$151,000 of FRB stock, and \$37,000 of Atlantic Community Bancshares, Inc. stock, the Bank Holding Company of ACBB. All of these stocks are valued at a stable dollar price, which is the price used to purchase or liquidate shares; therefore, the investment is carried at book value and there is no fair market value adjustment.

The Corporation's investment in FHLB stock is required for membership in the organization. The amount of stock required is dependent upon the relative size of outstanding borrowings from FHLB. Excess stock is typically repurchased from the Corporation on a quarterly basis at par if outstanding borrowings decline to a predetermined level. The FHLB also pays a quarterly dividend on the outstanding shares held by the Corporation. The FHLB's quarterly dividend yield was 5.75% annualized on activity stock and 2.50% annualized on membership stock as of December 31, 2020. Most of the Corporation's dividend is based on the activity stock, which is based on the amount of borrowings and mortgage activity with FHLB. The Corporation will continue to monitor the financial condition of the FHLB quarterly to assess its ability to continue to regularly repurchase excess capital stock and pay a quarterly dividend.

Management believes that the FHLB will continue to be a primary source of wholesale liquidity for both short-term and long-term funding. Management's strategy in terms of future use of FHLB borrowings is addressed under the Borrowings section of this Management's Discussion and Analysis.

Bank-Owned Life Insurance (BOLI)

The Corporation owned life insurance with a total recorded cash surrender value (CSV) of \$29,646,000 on December 31, 2020, compared to \$28,818,000 on December 31, 2019. The Corporation holds two distinct BOLI programs. The first, with a CSV of \$5,177,000, was the result of insurance policies taken out on directors of the Corporation electing to participate in a directors' deferred compensation plan. The program was designed to use the insurance policies to fund future annuity payments as part of a directors' deferred compensation plan that permitted deferral of Board pay from 1979 through 1999. The plan was closed to entry in 1999, when directors were no longer provided the option of deferring their Board pay. The Corporation pays the required premiums for the policies and is the owner and beneficiary of the policies. The life insurance policies in the plan generally have annual premiums; however, the premium payments are not required after the first five years.

The second BOLI plan was originated in 2006 when life insurance was first taken out on a select group of the Corporation's officers. The additional income generated from this BOLI plan is to assist in offsetting the rising cost of benefits currently being provided to all employees. The most recent BOLI investment was a \$2.5 million investment

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made in December of 2017. The CSV for this plan was \$24,469,000 as of December 31, 2020, compared to \$23,838,000 at December 31, 2019. The CSV increase of \$631,000 during 2020 was the result of the internal return generated from these policies net of the cost of insurance. The Corporation purchased whole life policies for this BOLI plan and is the owner and beneficiary of the policies.

Deposits

The Corporation's total ending deposits increased \$278.7 million, or 28.6%, from \$974.1 million on December 31, 2019, to \$1.3 billion on December 31, 2020. Customer deposits are the Corporation's primary source of funding for loans and investments. In recent years the economic weakness and volatile performance of the stock market and other types of investments like real estate led customers back to banks as safe places to invest money, in spite of historically low interest rates. In 2020, deposits increased significantly in most categories of core deposit accounts as a direct result of the PPP loan funding process as many customers applied for PPP loans with the approved funds deposited directly into their ENB deposit accounts. In addition, customer spending patterns have changed throughout the COVID-19 pandemic with government aid helping to financially support individuals and businesses and customers spending less and saving more. With the decrease in rates that occurred during 2020, customer deposits increased with few options in the market to earn any higher return. Customers view demand deposit, money market and savings accounts as the safest, most convenient place to maintain funds for maximum flexibility. Management believes deposit balances may continue to increase through 2021, but at a much slower pace than 2020.

The Deposits By Major Classification table, shown below, provides the average balances and rates paid on each deposit category for each of the past three years. The average 2020 balance carried on all deposits was \$1.1 billion, compared to \$936.9 million for 2019. This represents an increase of 15.7% on average deposit balances. The increase in average deposit balances from 2018 to 2019 was 7.2%. Average balances provide a more accurate picture of growth in deposits because deposit balances can vary throughout the year. In addition, the interest paid is based on average deposit balances carried during the year calculated on a daily basis.

DEPOSITS BY MAJOR CLASSIFICATION (DOLLARS IN THOUSANDS)

Average balances and average rates paid on deposits by major category are summarized as follows:

	December 31,					
	2020		2019		2018	
	\$	%	\$	%	\$	%
Non-interest bearing demand	435,495	-	340,130	-	322,733	-
Interest-bearing demand	39,116	0.20	22,215	0.52	20,079	0.35
NOW accounts	107,104	0.11	91,710	0.36	88,219	0.24
Money market deposit accounts	133,059	0.24	142,639	0.86	104,739	0.25
Savings accounts	242,572	0.03	204,178	0.05	196,392	0.05
Time deposits	126,742	1.24	136,075	1.30	142,125	1.00
Total deposits	1,084,088		936,947		874,287	

The growth and mix of deposits is often driven by several factors including:

- Convenience and service provided
- Fees
- Strength of the financial institution
- Permanence of the financial institution
- Possible risks associated with other investment opportunities
- Current rates paid on deposits compared to financial competition

The Corporation has been a stable presence in the market area and offers convenient locations, relatively low service fees, and competitive interest rates because of a strong commitment to the customers and the communities that it serves. Management has always priced products and services in a manner that makes them affordable for all customers. This, in turn, creates a high degree of customer loyalty, which has provided stability to the deposit base. In 2020, deposit growth

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increased substantially as a direct result of PPP funding and the change in customer's spending habits during the uncertain economic environment brought on by COVID-19. Due to limited safe investment options outside of banks, the Corporation saw customers bring deposit funds back to regular core checking and savings accounts in an effort to provide safety and financial flexibility. The deposit growth experienced throughout 2020 was far in excess of any prior annual deposit growth rate. The Corporation also continues to generally benefit from the customers' preference to conduct business with a smaller financial institution versus a larger institution.

The average balance of the Corporation's core deposits, including non-interest bearing demand deposits, interest-bearing demand deposits, NOW accounts, MMDA accounts, and savings accounts, grew \$156.5 million, or 19.5%, since December 31, 2019. Interest rates had decreased significantly throughout 2020 with the drop in overnight rates. Management believes that throughout 2020 customers were sitting on more liquidity as a matter of prudence to position to invest at a later point when rates rise and the economy stabilizes. The safety of FDIC-insured funds and immediate access to funds in a low interest rate environment was more of a priority to customers than interest rates.

Time deposits are typically a more rate-sensitive product making them a less reliable source of funding. Time deposits fluctuate as consumers search for the best rates in the market, with less allegiance to any particular financial institution. Due to adequate funding levels from all sources, the Corporation's time deposit strategy prior to 2018 had been to offer rates that were not the highest in the local market or the lowest, but close to the average. This strategy will not grow time deposits in the current environment because interest rates being offered are still at historically low levels not attractive to many depositors. In the latter part of 2018, and through the third quarter of 2019, the Corporation offered some odd-term time deposit specials with better pricing to encourage the retention of existing time deposits that were rolling over. This strategy helped to stem the decline in time deposit balances and retain some of that funding from a liquidity standpoint to fund loan growth. Monitoring deposit rates going forward will be important as the interest rate environment will draw more and more attention from depositors.

In 2020, time deposits declined in both dollars and as a percentage of the Corporation's deposits with the average balance decreasing by \$9.3 million, or 6.9%, compared to 2019 average balances. This is a function of the interest rate environment and the relatively small difference between time deposit rates and interest bearing demand deposit and money market fund rates. The consumer weighs the benefit of the higher rate versus the inability to gain access to the time deposit funds until the maturity date. If rates remain low throughout 2021, there is a likelihood that the consumer will continue to keep funds in checking and savings accounts and fewer funds in time deposits as the interest rate differential is not significant enough to warrant locking up the funds for a set term. If market rates were to increase, the less willingness there will be for consumers to be content in low or non-interest bearing deposit accounts which could cause an increase in time deposit balances or a move to alternative investment options outside of deposits. A portion of the decrease in time deposit balances from 2019 to 2020 can also be attributed to customers redeploying their time deposits into other competing financial institutions that have different pricing strategies. A reduction in time deposits has worked in concert with management's asset liability plan for a better mix of core deposits relative to time deposits. Management was willing to see a decline in time deposit balances as the most expensive source of funding for the Corporation.

Management follows a disciplined pricing strategy with regard to time deposit funds desiring not to pay materially above wholesale pricing levels. In this regard, if some elements of market competition prices materially above wholesale rates, management will not meet those pricing levels and will seek more cost effective wholesale funding opportunities.

As of December 31, 2020, time deposits over \$100,000 made up 31.8% of the total time deposits. This compares to 31.6% on December 31, 2019. The total dollar amount of time deposits over \$100,000 decreased \$5.2 million, or 12.0%, from December 31, 2019 to December 31, 2020. Since time deposits over \$100,000 are made up of relatively few customers with large dollar accounts, management monitors these accounts closely due to the potential for these deposits to rapidly increase or decrease. The following table provides the total amount of time deposits of \$100,000 or more for the past three years by maturity distribution.

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MATURITY OF TIME DEPOSITS OF \$100,000 OR MORE

(DOLLARS IN THOUSANDS)

	December 31,		
	2020	2019	2018
	\$	\$	\$
Three months or less	6,208	6,879	7,656
Over three months through six months	5,726	7,594	3,337
Over six months through twelve months	11,992	10,912	4,592
Over twelve months	13,894	17,601	21,998
Total	37,820	42,986	37,583

In order to meet future funding obligations, it is necessary to review the timing of maturity for large depositors, like the time deposits of \$100,000 or more. The Corporation monitors all large depositors to ensure that there is a steady flow of maturities. As of December 31, 2020, the Corporation had a typical laddering of large time deposits; however the portfolio was more heavily weighted to time deposits maturing in less than twelve months. Longer term time deposits have declined as customers are not willing to lock in funds for longer terms at a time of historically low interest rates and with the uncertainty about future rate increases. For more information on liquidity management, refer to Item 7A Quantitative and Qualitative Disclosures about Market Risk. Additionally, for more information on the maturity of time deposits, see Note F to the Consolidated Financial Statements.

Borrowings

Total borrowings were \$74.4 million as of December 31, 2020, and \$78.1 million as of December 31, 2019. The Corporation had no short-term borrowings at December 31, 2020, and \$200,000 of short-term borrowings as of December 31, 2019. Short-term borrowings are used for immediate liquidity needs and are not typically part of an ongoing liquidity or interest rate risk strategy; therefore, they fluctuate more rapidly.

Typical long-term borrowings decreased to \$54.8 million as of December 31, 2020, from \$77.9 million as of December 31, 2019. The Corporation primarily uses Federal Home Loan Bank (FHLB) advances as the source for long-term borrowings. These borrowings are used as a secondary source of funding and to mitigate interest rate risk. Management will continue to analyze and compare the costs and benefits of borrowing versus obtaining funding from deposits as part of an asset liability strategy to obtain the most effective long term funding sources.

The decrease in long-term FHLB borrowing balances during the year related to management taking advantage of declining rates by prepaying FHLB advances in order to save on interest expense in future years. As of December 31, 2020, all the borrowings of FHLB were fixed-rate loans.

To limit the Corporation's exposure and reliance on a single funding source, the Corporation's Asset Liability Policy sets a goal of maintaining the amount of borrowings from the FHLB to 15% of the Corporation's total assets. As of December 31, 2020, the Corporation was well within this policy guideline at 3.7% of asset size with \$54.8 million of total FHLB borrowings. The Corporation also has a policy that limits total borrowings from all sources to 150% of the Corporation's capital. As of December 31, 2020, total borrowings from all sources amounted to 57.1% of the Corporation's capital, well under the policy guideline. The Corporation has maintained FHLB borrowings and total borrowings within these guidelines throughout the year.

The Corporation continues to be well under the FHLB maximum borrowing capacity (MBC), which is \$471.0 million as of December 31, 2020. The Corporation's two internal policy limits are far more restrictive than the FHLB MBC, which is calculated and set quarterly by FHLB.

In addition to the long-term advances funded through the FHLB, on December 30, 2020, the Corporation completed the sale of a subordinated debt note offering. The Corporation sold \$20.0 million of subordinated debt notes with a maturity date of December 30, 2030. These notes are non-callable for 5 years and carry a fixed interest rate of 4% per year for 5 years and then convert to a floating rate for the remainder of the term. The notes can be redeemed at par beginning 5 years prior to maturity. The notes are structured to qualify as Tier 2 capital for the Corporation and any funds it invests in the Bank qualify as Tier 1 capital at the Bank. As of December 31, 2020, \$12.5 million of funds were invested in the

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Bank. The Corporation paid an issuance fee of 2% of the total issue that will be amortized to the call date on a pro-rata basis.

Stockholders' Equity

Federal regulatory authorities require banks to meet minimum capital levels. The Corporation maintains capital ratios well above those minimum levels and higher than the peer group average. The risk-weighted capital ratios are calculated by dividing capital by risk-weighted assets. Regulatory guidelines determine risk-weighted assets by assigning assets to a pre-defined risk-weighted category. The calculation of Tier I Capital to Risk-Weighted Assets includes an adjustment to remove the impact of the unrealized holding gains or losses on the Corporation's securities portfolio, adjusted for taxes. The Tier II or Total Capital to Risk-Weighted Assets ratio has the same adjustment but adds back any allowances for credit losses thereby making this ratio higher than the Tier I Capital to Risk-Weighted Assets ratio. The new Common Equity Tier I Capital Ratio could include an adjustment to Tier I Capital for deferred tax items, but there was no adjustment for the Corporation as of December 31, 2020, 2019, or 2018, so the Common Equity Tier I Capital ratio was the same as the Tier I Capital ratio. See Notes I and M to the Consolidated Financial Statements for additional information on capital transactions.

The following table reflects the Corporation's capital ratios compared to regulatory capital requirements for prompt corrective action.

REGULATORY CAPITAL RATIOS	Capital Ratios			Regulatory Requirements	
	As of Dec. 31, 2020	As of Dec. 31, 2019	As of Dec. 31, 2018	Adequately Capitalized	Well Capitalized
Total Capital to Risk-Weighted Assets	16.1%	14.5%	14.3%	8.0%	10.0%
Tier I Capital to Risk-Weighted Assets	12.8%	13.4%	13.2%	6.0%	8.0%
Common Equity Tier I Capital to Risk-Weighted Assets	12.8%	13.4%	13.2%	4.5%	6.5%
Tier I Leverage Capital to Average Assets	9.0%	9.9%	10.0%	4.0%	5.0%

The high level of capital maintained by the Corporation provides a greater degree of financial security and acts as a non-interest bearing source of funds. Conversely, a high level of capital, also referred to as equity, makes it more difficult for the Corporation to improve return on average equity, which is a benchmark of shareholder return. The Corporation's capital is affected by earnings, the payment of dividends, changes in accumulated other comprehensive income or loss, and equity transactions.

On December 30, 2020, the Corporation issued \$20 million of subordinated debt in order to support capital levels which had declined due to the sharp balance sheet growth that had occurred during 2020. The \$20 million of subordinated debt qualifies as Tier 2 capital at the Holding Company level, but can be transferred to the Bank where it qualifies as Tier 1 Capital. As of December 31, 2020, \$12.5 million of this subordinated debt funding was transferred down to the Bank to rebuild the Bank's capital levels. The goal was to restore the Bank's Tier 1 Leverage Ratio to approximately 9.75%, from approximately 8.85% as of November 30, 2020. As of December 31, 2020 the Bank's Tier 1 Leverage Ratio stood at 9.83% while the Corporation's Tier 1 Leverage Ratio was 9.0%. The Bank's Tier 1 Leverage Ratio policy range is 9.5% to 12.0%. Tier 1 Capital levels at the Corporation level were not impacted by the subordinated debt issue since subordinated debt only qualifies as Tier 2 Capital at the Corporate level. As such, in terms of the Corporation's regulatory capital ratios, only the Total Capital to Risk-Weighted Assets ratio was enhanced as a result of the \$20 million subordinated debt issue. Most of the marked improvement in capital ratios occurred at the Bank level.

Total dividends paid to shareholders during 2020, were \$3,573,000, or \$0.64 per share, compared to \$3,518,000, or \$0.62 per share paid to shareholders during 2019. The Corporation uses current earnings and available retained earnings to pay dividends. The Corporation views the dividend as a capital management tool in addition to being a key element of the shareholder's return. The Corporation's dividend ratio will vary based on both earnings and capital levels, however management generally desires the dividend payout ratio to be approximately 30% to 35% of earnings over the long term. For 2020, the dividend payout ratio was 29.1%. This ratio on the lower end of the desired range was due to the higher earnings recorded in 2020. The Corporation anticipates that the payout ratio for 2021 will be close to 30%. While the Bank's capital levels have been restored to management's desired levels, the Corporation's equity to capital ratio and the Tier 1 Leverage Capital ratio remain low from a historical standpoint, due to the very high growth of assets

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in 2020. Management anticipates a much slower asset growth rate in 2021, which should allow for the Corporation's equity to capital and Tier 1 Leverage Capital ratios to slowly increase.

The amount of unrealized gain or loss on the Corporation's securities portfolio is reflected, net of tax, as an adjustment to capital, as required by U.S. generally accepted accounting principles. This is recorded as accumulated other comprehensive income or loss in the capital section of the Corporation's balance sheet. The change in unrealized holding gain or loss that occurred during 2020 is shown on the Corporation's Consolidated Statements of Comprehensive Income, along with a reclassification adjustment for losses included in the current year's income. The Corporation's Consolidated Statements of Comprehensive Income shows the impact of changes in unrealized gains and losses during the year on the Corporation's net income to arrive at net comprehensive income or loss.

In terms of the Corporation's balance sheets, an unrealized gain increases capital while an unrealized loss reduces capital. This requirement takes the position that, if the Corporation liquidated at the end of each period, the current unrealized gain or loss on the securities portfolio would directly impact the Corporation's capital. As of December 31, 2020, the Corporation showed unrealized gains, net of tax, of \$7,958,000, compared to unrealized gains of \$1,600,000 as of December 31, 2019. The changes in unrealized gains or losses are due to normal changes in market valuations of the Corporation's securities as a result of interest rate movements.

On July 1, 2008, ENB Financial Corp was formed. The retirement of all treasury shares was required as part of the formation of ENB Financial Corp. As a result, management needed treasury shares to be utilized for the existing Employee Stock Purchase Plan and Dividend Reinvestment Plan. Therefore, on August 14, 2008, the Board authorized a stock buyback plan for the purchase of up to 140,000 shares of common stock for corporate purposes. A total of 133,290 shares were purchased under this plan before it was superseded by a new plan. On June 17, 2015, the Board of Directors of ENB Financial Corp announced the approval of another new plan to purchase, in open market and privately negotiated transactions, up to 140,000 shares of its outstanding common stock. A total of 64,935 shares of treasury stock were purchased under this plan before it was superseded by a new plan. On February 20, 2019, the Board of Directors of the Corporation approved a plan to repurchase, in the open market and privately renegotiated transactions, up to 200,000 shares of its outstanding common stock. A total of 176,669 shares of treasury stock were purchased under this plan before it was superseded by a new plan. On October 21, 2020, the Board of Directors of the Corporation approved a plan to repurchase, in the open market and privately renegotiated transactions, up to 200,000 shares of its common stock. The first purchase of common stock under this plan occurred on October 23, 2020. By December 31, 2020, a total of 10,000 shares were repurchased at a total cost of \$187,000, for an average cost per share of \$18.70.

Contractual Cash Obligations

The Corporation has a number of contractual obligations that arise from the normal course of business. The following table summarizes the contractual cash obligations of the Corporation as of December 31, 2020, and shows the future periods in which settlement of the obligations is expected. The contractual obligation numbers below do not include accrued interest. Refer to Note O to the Consolidated Financial Statements referenced in the table for additional details regarding these obligations.

CONTRACTUAL OBLIGATIONS

(DOLLARS IN THOUSANDS)

	Less than 1 year \$	1-3 years \$	4-5 years \$	More than 5 years \$	Total \$
Time deposits (Note F)	68,116	27,859	23,113	-	119,088
Borrowings (Notes G and H)	-	24,400	49,991	-	74,391
Operating Leases	204	322	248	20	794
Total contractual obligations	68,320	52,581	73,352	20	194,273

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Off-Balance Sheet Arrangements

In the normal course of business, the Corporation typically has off-balance sheet arrangements related to loan funding commitments. These arrangements may impact the Corporation's financial condition and liquidity if they were to be exercised within a short period of time. As discussed in the liquidity section to follow, the Corporation has in place sufficient liquidity alternatives to meet these obligations. The following table presents information on the commitments by the Corporation as of December 31, 2020. For further details regarding off-balance sheet arrangements, refer to Note O to the Consolidated Financial Statements.

OFF-BALANCE SHEET ARRANGEMENTS
(DOLLARS IN THOUSANDS)

	December 31, 2020 \$
Commitments to extend credit:	
Revolving home equity loans	123,615
Construction loans	34,418
Real estate loans	89,477
Business loans	145,301
Consumer loans	1,348
Other	4,899
Standby letters of credit	8,485
Total	407,543

Recently Issued Accounting Standards

Refer to Note A to the Consolidated Financial Statements for discussion on recently issued accounting standards.

Critical Accounting Policies

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect many of the reported amounts and disclosures. Actual results could differ from these estimates.

Allowance for Credit Losses

A material estimate that is particularly susceptible to significant change is the determination of the allowance for credit losses. Management believes that the allowance for credit losses is adequate and reasonable. The Corporation's methodology for determining the allowance for credit losses is described in an earlier section of Management's Discussion and Analysis. Given the very subjective nature of identifying and valuing credit losses, it is likely that well-informed individuals could make materially different assumptions and, therefore, calculate a materially different allowance amount. Management uses available information to recognize losses on loans; however, changes in economic conditions may necessitate revisions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for credit losses. Such agencies may require the Corporation to recognize adjustments to the allowance based on their judgments of information available to them at the time of their examination.

Fair Values of Assets and Liabilities

ASC Topic 820 defines fair value as the price that would be received to sell the financial asset or paid to transfer the financial liability in an orderly transaction between market participants at the measurement date. The degree of management judgment involved in determining the fair value of assets and liabilities is dependent upon the availability of quoted market prices or observable market parameters. For financial instruments that trade actively and have quoted market prices or observable market parameters, there is minimal subjectivity involved in measuring fair value. When observable market prices and parameters are not fully available, management judgment is necessary to estimate fair value. In addition, changes in market conditions may reduce the availability of quoted prices or observable data. See

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Note R to the Consolidated Financial Statements for a complete discussion and summary of the Corporation's use of fair valuation of assets and liabilities and the related measurement techniques.

Other than Temporary Impairment of Securities

Securities are evaluated periodically to determine whether a decline in their value is other than temporary. Management utilizes criteria such as the magnitude and duration of the decline, in addition to the reasons underlying the decline, to determine whether the loss in value is other than temporary. The term "other than temporary" is not intended to indicate that the decline is permanent. It indicates that the prospect of a near-term recovery of value is not necessarily favorable or that there is a lack of evidence to support fair values equal to, or greater than, the carrying value of the security. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Deferred Tax Assets

The Corporation uses an estimate of future earnings to support the position that the benefit of deferred tax assets will be realized. If future income should prove non-existent or less than the amount of the deferred tax assets within the tax years to which they may be applied, the asset may not be realized and the Corporation's net income will be reduced. Deferred tax assets are described further in Note L to the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As a financial institution, the Corporation is subject to four primary market risks:

- Credit risk
- Liquidity risk
- Interest rate risk
- Fair value risk

The Board of Directors has established an Asset Liability Management Committee (ALCO) to measure, monitor, and manage these four primary market risks. The Asset Liability Policy has instituted guidelines for all of these primary risks, as well as other financial performance measurements with target ranges. The Asset Liability goals and guidelines are consistent with the Corporation's Strategic Plan goals.

For discussion on credit risk, refer to the sections on non-performing assets, allowance for credit losses, Note C, and Note P to the Consolidated Financial Statements.

Liquidity

Liquidity refers to having an adequate supply of cash available to meet business needs. Financial institutions must ensure that there is adequate liquidity to meet a variety of funding needs, at a minimal cost. Minimal cost is an important component of liquidity. If a financial institution is required to take significant action to obtain funding, and is forced to utilize an expensive source, it has not properly planned for its liquidity needs. Funding new loans and covering deposit withdrawals are the primary liquidity needs of the Corporation. The Corporation uses a variety of funding sources to meet liquidity needs, such as:

- Deposits
- Loan repayments
- Maturities and sales of securities
- Borrowings from correspondent and member banks
- Brokered deposits
- Current earnings

One of the measurements used in liquidity planning is the Maturity Gap Analysis. The Maturity Gap Analysis below measures the amount of assets maturing within various time frames versus liabilities maturing in those same periods. These time frames are referred to as gaps and are reported on a cumulative basis. For instance, the one-year gap shows all assets maturing one year or less from a specific date versus the total liabilities maturing in the same time period. The gap is then expressed as a percentage of assets over liabilities. Mismatches between assets and liabilities maturing are identified and assist management in determining potential liquidity issues.

The maturity gap analysis does not include non-interest earning assets and non-interest bearing liabilities, with the exception of non-interest bearing demand deposit accounts. The non-interest bearing demand deposits are considered additional deposit liabilities with a 0.00% interest rate, which acts to lower the overall interest rate paid on total deposits. For purposes of this analysis, items like cash, premises and equipment, bank owned life insurance, and other assets are considered non-interest earning assets and are not included in assets maturing. On the liability side, the only liability not included is other liabilities, which represent open obligations of the Corporation.

It is unlikely that maturing assets would equal maturing liabilities because, on the balance sheet, assets do not equal liabilities. For purposes of this analysis, \$1.32 billion of assets mature in all time frames while \$1.33 billion of liabilities mature in all time frames, resulting in a 99.3% cumulative maturity gap. While a cumulative maturity gap of 100% would indicate that the same amount of assets and liabilities are maturing within the specified period, this is very unlikely to occur within any time frame, or on a cumulative basis.

Gap ratios have been increasing for the Corporation throughout 2019 and 2020. The Corporation's assets are shortening, with very high levels of cash and cash equivalents more than offsetting any additional length taken on in the securities and loan portfolio. Meanwhile the Corporation's core deposit liabilities continue to model as long liabilities, while the complement of shorter term time deposits continue to decline. Management has also paid off all

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the shorter term wholesale funding during 2020. These influences caused the Corporation's average liabilities to further lengthen, which when combined with the Corporation's shorter asset profile causes very high gap ratios.

The size and length of the Corporation's core deposit liabilities provide the most extension in terms of lengthening the liabilities on the balance sheet. The length of the core deposits is significantly longer than the Corporation's longest term deposits and wholesale borrowings. As of December 31, 2020, the Corporation had elevated cash levels due to excess liquidity as well as \$35.5 million of short-term FHLB Discount Notes in the securities portfolio utilized to reduce the level of PA Shares Tax. These items caused a spike in the short-term gap ratios resulting in the six-month ratio of 323.0% and the one-year ratio of 232.8%. In a rising rate environment, having more assets maturing than liabilities is beneficial because those assets can be reinvested at higher yields. However, with the potential for an extended low-rate environment and flat yield curve, the Corporation has the ability to invest in longer-term assets at slightly higher yields now without putting undue pressure on the current gap ratios or future net interest income. Management anticipates that the gap ratios will decline as 2021 progresses.

The table below shows the six-month, one-year, three-year, and five-year cumulative gaps as of December 31, 2020, for the Bank, along with the cumulative maturity gap guidelines monitored by management. For the purposes of this analysis, core deposits without a specific maturity date are spread across all time periods based on historical behavior.

MATURITY GAP ANALYSIS

(DOLLARS IN THOUSANDS)

Maturity Gap	Less than 6 months \$	More than 6 months to 1 year \$	More than 1 year to 3 years \$	More than 3 years to 5 years \$	More than 5 years \$
Assets maturing	249,038	92,941	285,556	193,761	495,940
Liabilities maturing	77,091	69,781	191,716	173,641	814,609
Maturity gap	171,947	23,160	93,840	20,120	(318,669)
Cumulative maturity gap	171,947	195,107	288,947	309,067	(9,602)
Maturity gap %	323.0%	133.2%	148.9%	111.6%	60.9%
Cumulative maturity gap %	323.0%	232.8%	185.3%	160.3%	99.3%
Cumulative maturity gap % guideline	45% to 155%	60% to 140%	75% to 125%	85% to 115%	

As of December 31, 2020, all cumulative maturity gap ratios were higher than the upper policy guideline. The six-month cumulative gap ratio was 323.0% as of December 31, 2020, higher than the upper guideline of 155%. The one-year, three-year, and five-year ratios were also higher than guidelines at 232.8%, 185.3%, and 160.3%, respectively, compared to guidelines of 140%, 125%, and 115%. Management will continue to monitor all gap ratios to ensure proper positioning for future interest rate cycles.

Management's current position is to work towards lowering the cumulative maturity gap percentages in order to get them closer to the upper guidelines in preparation for an extended flat-rate rate environment. If interest rates do not increase in the near term, maintaining higher gap ratios would result in more assets maturing and repricing to rates lower than the average portfolio rates. This is referred to as repricing risk. Carrying high gap ratios in the current environment brings on an increased level of repricing risk, which impacts the Corporation's interest income and margin. With potentially flat rates continuing throughout 2021, the risk of liabilities repricing to higher rates is minimal and Management anticipates having the ability to control deposit and borrowings costs and potentially achieving limited savings on the liability side.

It is likely that, should market interest rates rise in 2021, customer behavior patterns would change and deposits would become more rate sensitive with a greater portion potentially leaving the Corporation. These maturity gaps are closely monitored along with additional liquidity measurements discussed below. Management believes the probability of future Federal Reserve rate increases is good, but not immediate, driven by concerns of slower economic growth. Therefore, management no longer sees a need to maintain longer gap ratios above target ranges. It is expected that the gap ratios will decline in 2021. If short term rates do stabilize or decline again, management

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would need to accelerate this strategy and work to bring down the maturity gap levels to protect against assets repricing to lower levels.

In addition to the cumulative maturity gap analysis discussed above, management utilizes a number of other important liquidity measurements that management believes have advantages over, and give better clarity to, the Corporation's present and projected liquidity. The following is a listing of the Corporation's other liquidity measurements, along with a short definition, that are evaluated periodically in an effort to monitor and mitigate liquidity risk:

- Core Deposit Ratio – Core deposits as a percentage of assets
- Funding Concentration Analysis – Alternative funding sources outside of core deposits as a percentage of assets
- Short-term Funds Availability – Readily available short-term funds as a percentage of assets
- Securities Portfolio Liquidity – Cash flows maturing in one year or less as a percentage of assets and securities
- Readily Available Unencumbered Securities and Cash – Unencumbered securities as a percentage of the securities portfolio and as a percentage of total assets
- Borrowing Limits – Internal borrowing limits in terms of both FHLB and total borrowings
- Three, Six, and Twelve-month Projected Sources and Uses of Funds – Net projected liquidity surplus/shortage shown for each period

These measurements are designed to prevent undue reliance on outside sources of funding and ensure a steady stream of liquidity is available should events occur that would cause a sudden decrease in deposits or large increase in loans or both, which would in turn draw significantly from the Corporation's available liquidity sources. As of December 31, 2020, the Corporation was within guidelines for all of the above measurements.

Throughout 2020, with the very low interest rate environment, and economic concerns impacting consumer behavior, the Corporation saw extremely high rates of deposit growth which provided unusually high levels of liquidity on the balance sheet. The growth in the loan portfolio was at a much slower rate than deposit growth, so Management invested in the securities portfolio when it made sense from an asset yield perspective and held higher levels of cash throughout most of the year. Management had been carrying an average of approximately \$30 million to \$40 million of cash and cash equivalents on a daily basis throughout the early part of 2020, however the Corporation's cash balances increased rapidly in the fourth quarter due to an historical increase in deposits. The sharp increase in deposits was attributed to a surge of stimulus funds arriving in the hands of consumers who were not deploying the funds. Most consumers were saving the funds as a reserve based on expected further economic uncertainty. As a result, cash balances reached \$94.9 million by December 31, 2020. Management anticipates carrying higher than traditional cash levels throughout most of 2021, until it is better determined which direction short term rates will go.

The Corporation's liquidity measurements are tracked and reported quarterly by management to both observe trends and ensure the measurements stay within desired ranges. Management is confident that a sufficient amount of internal and external liquidity exists to provide for significant unanticipated liquidity needs.

Interest Rate Risk and Fair Value Risk

Identifying the interest rate risk of the Corporation's interest earning assets and interest bearing liabilities is essential to managing net interest margin and net interest income. In addition to the impact on earnings, management is also concerned about how much the value of the Corporation's assets might fall or rise given an increasing or decreasing interest rate environment. Interest rate sensitivity analysis (IRSA) measures the impact of a change in interest rates on the net interest income and net interest margin of the Corporation, while net portfolio value (NPV) analysis measures the change in the Corporation's capital fair value, given interest rate fluctuations. Therefore, the two primary approaches to measuring the impact of interest rate changes on the Corporation's earnings and fair value are referred to as:

- Changes in net interest income
- Changes in net portfolio value

The Corporation's asset liability model is able to perform dynamic forecasting based on a wide range of assumptions provided. The model is flexible and can be used for many types of financial projections. The Corporation uses

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financial modeling to forecast balance sheet growth and earnings. The results obtained through the use of forecasting models are based on a variety of factors. Both earnings and balance sheet forecasts make use of maturity and repricing schedules to determine the changes to the Corporation's balance sheet over the course of time. Additionally, there are many assumptions that factor into the results. These assumptions include, but are not limited to:

- Projected interest rates
- Timing of interest rate changes
- Slope of the U.S. Treasury curve
- Spreads available on securities over the U.S. Treasury curve
- Prepayment speeds on loans held and mortgage-backed securities
- Anticipated calls on securities with call options
- Deposit and loan balance fluctuations
- Competitive pressures affecting loan and deposit rates
- Economic conditions
- Consumer reaction to interest rate changes

For the interest rate sensitivity analysis and net portfolio value analysis shown below, results are based on a static balance sheet reflecting no projected growth from balances as of December 31, 2020, and December 31, 2019. While it is unlikely that the balance sheet will not grow at all, management considers a static analysis of this sort to be the most conservative and most accurate means to evaluate fair value and future interest rate risk. Management does run expected growth scenarios through the asset liability model to most accurately predict future financial performance. This is done separately and apart from the static balance sheet approach discussed above to test fair value and future interest rate risk. The static balance sheet approach is used to reduce the number of variables in calculating the model's accuracy in predicting future net interest income. It is appropriate to pull out various balance sheet growth scenarios, which could be utilized to compensate for a declining margin. By testing the model using a base model assuming no growth, this variable is eliminated and management can focus on predicted net interest income based on the current existing balance sheet.

As a result of the many assumptions, this information should not be relied upon to predict future results. Additionally, both of the analyses shown below do not consider any action that management could take to minimize or offset the negative effect of changes in interest rates. These tools are used to assist management in identifying possible areas of risk in order to address them before a greater risk is posed.

Changes in Net Interest Income

The changes in net interest income reflect how much the Corporation's net interest income would be expected to increase or decrease given a change in market interest rates. The changes in net interest income shown are measured over a one-year time horizon and assume an immediate rate change on the rate sensitive assets and liabilities. This is considered the more important measure of interest rate sensitivity due to the immediate effect that rate changes may have on the overall performance of the Corporation. The following table takes into consideration when financial instruments would most likely reprice and the duration of the pricing change. It is important to emphasize that the information shown in the table is an estimate based on hypothetical changes in market interest rates. In 2019 management was projecting for up to 300 basis points of upward rate movement, while projecting down rate scenarios to -150 basis points. In 2020, management moved to projecting rates-up 100, 200, and 300 basis points, and rates-down 25, 50, and 75 basis points, due to the unlikelihood of the Federal Reserve moving to a negative interest rate policy.

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CHANGES IN NET INTEREST INCOME

	2020 Percentage Change	2019 Percentage Change	Policy Guidelines %
300 basis point rise	4.7	10.0	(15.00)
200 basis point rise	3.4	5.5	(10.00)
100 basis point rise	2.1	1.9	(5.00)
Base rate scenario	-	-	-
25 basis point decline	0.2	-	(1.25)
50 basis point decline	(1.0)	(1.1)	(2.50)
75 basis point decline	(1.9)	-	(3.75)
100 basis point decline	-	(3.7)	(5.00)
150 basis point decline	-	(4.0)	(7.50)

This table shows the effect of an immediate interest rate shock over a one-year period on the Corporation's net interest income. Base rate is the Prime rate.

The above analysis shows a slightly negative impact to the Corporation's net interest income in the -50 and -75 down-rate scenarios. All up-rate scenarios show a positive impact. In the current rate environment, the amount of the Corporation's assets repricing higher will be fairly large due to the amount of cash and variable rate loans and securities that will reprice immediately when Prime increases. These instruments will generally reprice up the full amount of the Federal Reserve's rate increase. This is not the case on the liability side where it is typical for management to react slowly in increasing deposit rates. Even when deposit rates are increased, they are typically increased at a fraction of the increase in the Federal Funds rate. If interest rates were to rise, it would be expected that deposit rates will move upward, but more slowly than asset rates. In the event that interest rates would decline, the Corporation would have exposure to all maturing fixed-rate loans and securities that would reprice lower while most of the Corporation's interest-bearing deposits could not be repriced any lower. The analysis above focuses on immediate rate movements, referred to as rate shocks, and measured over the course of one year. The Corporation's model also has the ability to measure changes to net interest income given interest rate changes that occur more slowly over time. This type of modeling is referred to as "interest rate ramps," where a set change in rates occurs over a period of time. If rates were to move upward slowly over the course of the next six months, the results are very close to the results using a rate shock.

In all rates-up scenarios, modeled net interest income increases, with more significant increases after rates have increased at least 200 basis points. All rates-up scenarios show slightly less benefit compared to the results as of December 31, 2019. When rates do go up, most assets with the ability to reprice off a key benchmark rate will generally reprice by the full amount of the Federal Reserve's rate movement while liabilities will lag and reprice by a much smaller amount, i.e. only a proportion of the asset rate increases. But that proportion is expected to be slightly higher than in past rate cycles. Financial institutions are benefiting from a larger level of deposit balances as a result of the historically long and very low interest rate cycle and the change in customer behavior throughout 2020. This is often referred to as a surge of deposits with concern being that these deposits could leave banks once the overnight Federal Funds rate reaches higher levels. It is likely banks will have to react faster to market interest rate changes in the next rates-up cycle in order to retain most of the deposits that are currently on balance sheet. Importantly, management's analysis continues to show that the Corporation should benefit when rates rise by achieving a larger increase in income associated with repricing assets than increased expense paid on repricing liabilities.

Additionally, the analysis shows that the Corporation's net interest income would decrease if rates did decline. This results from several types of deposit products' current offering rates being near the floor for pricing. For instance, savings accounts had an interest rate of 0.02% as of December 31, 2020. Management is only able to reduce the rate to zero; therefore, any reduction in the savings rate only benefits earnings to the magnitude of a 2-basis point rate decline. Meanwhile, if the Federal Reserve did decrease the overnight rate by 25 basis points, most of the Corporation's commercial Prime-based loans and variable rate securities would decrease by the full 25 basis points, causing a net reduction to net interest income. It is unlikely that there will be any further downward rate movement as overnight rates are at their lows. However, should the rates be reduced further, management could hold off on reducing fixed rates on loans but would need to allow Prime-based loans to price off their contract terms. In this

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manner, management influences customer behavior and encourages more variable rate loans, which would act to decrease the Corporation's net interest income given lower interest rates and increase net interest income given higher interest rates.

The assumptions and analysis of interest rate risk are based on historical experience during varied economic cycles. Management believes these assumptions to be appropriate; however, actual results could vary significantly. Management uses this analysis to identify trends in interest rate sensitivity and determine if action is necessary to mitigate asset liability risk.

Change in Net Portfolio Value

The change in NPV gives a long-term view of the exposure to changes in interest rates. The NPV is calculated by discounting the future cash flows to the present value based on current market rates. The NPV is the mathematical equivalent of the present value of assets minus the present value of liabilities.

The table below indicates the changes in the Corporation's NPV as of December 31, 2020 and December 31, 2019. As part of the Asset Liability Policy, the Board of Directors has established risk measurement guidelines to protect the Corporation against decreases in the net portfolio value and net interest income in the event of the interest rate changes described below.

As of December 31, 2020, the Corporation was within guidelines for all up-rate scenarios but was outside of guidelines for the three down-rate scenarios. The positive impact of higher rates on both loans and securities was up from December 31, 2019. On the liability side of the Corporation's balance sheet, the value of non-interest bearing deposit accounts only becomes more and more valuable as interest rates rise, which is reflected in NPV as a decrease in liabilities. These deposits have always been highly favorable in a rising rate environment as these balances are more valuable to the Corporation, representing a decrease in liabilities as interest rates rise. The non-interest bearing demand deposit accounts and low-interest bearing checking, NOW, and money market accounts also provide more benefit to the Corporation when interest rates rise and the difference between the overnight funding costs compared to the average interest bearing core deposit rates are greater. As interest rates increase, the discount rate used to value the Corporation's interest bearing accounts increases, causing a lower net present value. This improves the modeling of the Corporation's fair value risk as the liability amounts decrease, causing the net present value or fair value of the Corporation's balance sheet to increase. This was especially apparent throughout 2020 as the Corporation's deposits grew at a very fast pace. The much higher complement of long modeling deposits caused the changes in net portfolio value to be more exaggerated in both the up and down-rate scenarios as of December 31, 2020.

CHANGES IN NET PORTFOLIO VALUE

	2020 Percentage Change	2019 Percentage Change	Policy Guidelines %
300 basis point rise	31.2	19.2	(15.00)
200 basis point rise	26.8	17.6	(10.00)
100 basis point rise	17.7	12.1	(5.00)
Base rate scenario	-	-	-
25 basis point decline	(6.9)	-	(3.75)
50 basis point decline	(17.2)	(8.2)	(7.50)
75 basis point decline	(26.5)	-	(11.25)
100 basis point decline	-	(19.3)	(15.00)
150 basis point decline	-	(25.9)	(22.50)

This table shows the effect of an immediate interest rate shock on the net portfolio value of the Corporation's

The results as of December 31, 2020, indicate that the Corporation's net portfolio value would experience valuation gains in all up-rate scenarios with a gain of 17.7% in the rates-up 100 basis point scenario, and gains of 26.8% and 31.2%, in the rates-up 200 and 300 basis point scenarios, respectively. A valuation gain indicates that the value of the Corporation's assets is declining at a slower pace than the decrease in the value of the Corporation's liabilities.

ENB FINANCIAL CORP
Management's Discussion and Analysis

Even though the Corporation has some longer-term assets such as residential mortgages and municipal securities which show declines in value as interest rates increase further, the large balances of core deposits more than offsets this fair value exposure of the longer-term assets. As the composition of the balance sheet changes throughout 2021, it is likely that the fair value analysis will show less positive change in the rates-up scenarios, given that management is moving toward longer assets and shorter liabilities. With potentially higher Treasury rates and a different mix of deposits or loans, fair value could experience more volatility. Based on past decay rate studies on the Corporation's core deposits, management does not expect a material decline in core deposit accounts, including the non-interest bearing accounts, if short term interest rates do increase. The Corporation's core deposits have been stable through a number of rate cycles.

The changes in net portfolio value do show exposure in the down-rate scenarios that is outside of policy guidelines. A valuation loss would indicate that the value of the Corporation's assets is declining at a faster pace than the decrease in the value of the Corporation's liabilities. While the down-rate scenarios that are modeled are currently unlikely, the analysis does show a valuation loss in all down-rate scenarios. In terms of a long-term view, and knowing that the direction of interest rates can change quickly, management has a longer term bias toward eventual Federal Reserve rate increases. Even outside of the interest rate environment, the Corporation's exposure to valuation changes could change going forward if the mix of the Corporation's deposits change, which would impact the average life of those deposits.

Item 8. Financial Statements and Supplementary Data

The following audited consolidated financial statements are set forth in this Annual Report of Form 10-K on the following pages:

<u>Index to Consolidated Financial Statements</u>	<u>Page</u>
Report of Independent Registered Public Accounting Firm _____	78
Consolidated Balance Sheets _____	81
Consolidated Statements of Income _____	82
Consolidated Statements of Comprehensive Income _____	83
Consolidated Statements of Changes in Stockholders' Equity _____	84
Consolidated Statements of Cash Flows _____	85
Notes to Consolidated Financial Statements _____	86

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of ENB Financial Corp

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of ENB Financial Corp and subsidiary (the “Company”) as of December 31, 2020 and 2019; the related consolidated statements of income, comprehensive income, changes in stockholders’ equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent, with respect to the Company, in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.



Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements; and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter, in any way, our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Loan Losses (ALL)

Description of the Matter

The Company's loan portfolio totaled \$822.1 million as of December 31, 2020, and the associated ALL was \$12.3 million. As discussed in Notes A and C to the consolidated financial statements, determining the amount of the ALL requires significant judgment about the collectability of loans, which includes an assessment of quantitative factors such as historical loss experience within each risk category of loans and testing of certain commercial loans for impairment. Management applies additional qualitative adjustments to reflect the inherent losses that exist in the loan portfolio at the balance sheet date that are not reflected in the historical loss experience. Qualitative adjustments are made based upon changes in levels of and trends in delinquencies, non-accruals and charge-offs, trends in the nature and volume of the loan portfolio, lending policies and procedures, experience, ability and depth of lending personnel and management oversight, national and local economic trends, concentration of credit, external factors, quality of loan review and Board oversight, and value of underlying collateral for the loan portfolios.

We identified these qualitative adjustments within the ALL as critical audit matters because they involve a high degree of subjectivity. In turn, auditing management's judgments regarding the qualitative factors applied in the ALL calculation involved a high degree of subjectivity.

Furthermore, concern about the spread of COVID-19 has caused and is likely to continue to cause business shutdowns, limitations on commercial activity and financial transactions, labor shortages, supply chain interruptions, increased unemployment and commercial property vacancy rates, reduced profitability and ability for property owners to make mortgage payments, and overall economic and financial market instability, all of which may cause borrowers to be unable to make scheduled loan payments. If the effects of COVID-19 result in widespread and sustained loan repayment shortfalls, significant loan delinquencies, foreclosures, declines in collateral values, and credit losses could result in, and significantly impact, the overall adequacy of the ALL. The extent of COVID-19's effects on business, operations, or the global economy as a whole is highly uncertain and cannot be predicted, including the scope and duration of the pandemic, which increases the degree of subjectivity involved in estimating the related qualitative factors within the ALL.

How We Addressed the Matter in Our Audit

We gained an understanding of the Company's process for establishing the ALL, including the qualitative adjustments made to the ALL. We evaluated the design and tested the operating effectiveness of controls over the Company's ALL process, which included, among others, management's review and approval controls designed to assess the need and level of qualitative adjustments to the ALL, as well as the reliability of the data utilized to support management's assessment.



Allowance for Loan Losses (ALL) (Continued)

To test the qualitative adjustments, we evaluated the appropriateness of management's methodology and assessed whether all relevant risks were reflected in the ALL and the need to consider qualitative adjustments, including the potential effect of COVID-19 on the adjustments.

Regarding the measurement of the qualitative adjustments, we evaluated the completeness, accuracy, and relevance of the data and inputs utilized in management's estimate. For example, we compared the inputs and data to the Company's historical loan performance data, third-party macroeconomic data, and peer bank data and considered the existence of new or contrary information. We also compared the ALL to a range of historical losses to evaluate the ALL, including the reasonableness of qualitative adjustments. Furthermore, we analyzed the changes in the components of the qualitative reserves relative to changes in external market factors, the Company's loan portfolio, and asset quality trends, which included the evaluation of management's ability to capture and assess relevant data from both external sources and internal reports on loan customers affected by the COVID-19 pandemic and the supporting documentation for substantiating revisions to qualitative factors.

We also utilized internal credit review specialists with knowledge to evaluate the appropriateness of management's risk-rating processes, to ensure that the risk ratings applied to the commercial loan portfolio were reasonable.

We have served as the Company's auditor since 2005.



Cranberry Township, Pennsylvania
March 23, 2021

CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	December 31, 2020 \$	December 31, 2019 \$
ASSETS		
Cash and due from banks	21,665	24,304
Interest-bearing deposits in other banks	73,274	16,749
	94,939	41,053
Total cash and cash equivalents	94,939	41,053
Securities available for sale (at fair value)	476,428	308,097
Equity securities (at fair value)	7,105	6,708
Loans held for sale	3,029	2,342
Loans (net of unearned income)	823,370	753,618
Less: Allowance for credit losses	12,327	9,447
Net loans	811,043	744,171
Premises and equipment	24,760	25,033
Regulatory stock	6,107	7,291
Bank owned life insurance	29,646	28,818
Other assets	9,256	8,237
Total assets	1,462,313	1,171,750
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	534,853	363,857
Interest-bearing	717,958	610,231
Total deposits	1,252,811	974,088
Short-term borrowings	-	200
Long-term debt	54,790	77,872
Subordinated debt	19,601	-
Other liabilities	4,895	2,902
Total liabilities	1,332,097	1,055,062
Stockholders' equity:		
Common stock, par value \$0.10		
Shares: Authorized 24,000,000		
Issued 5,739,114 and Outstanding 5,566,230 as of 12/31/20		
and 5,640,742 as of 12/31/19	574	574
Capital surplus	4,444	4,482
Retained earnings	120,670	111,944
Accumulated other comprehensive income net of tax	7,958	1,600
Less: Treasury stock cost on 172,884 shares as of 12/31/20		
98,372 shares as of 12/31/19	(3,430)	(1,912)
Total stockholders' equity	130,216	116,688
Total liabilities and stockholders' equity	1,462,313	1,171,750

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Year Ended December 31,	
	2020	2019
	\$	\$
Interest and dividend income:		
Interest and fees on loans	34,654	33,318
Interest on securities available for sale		
Taxable	4,040	4,898
Tax-exempt	2,719	2,433
Interest on deposits at other banks	140	371
Dividend income	541	717
Total interest and dividend income	42,094	41,737
Interest expense:		
Interest on deposits	2,139	3,551
Interest on borrowings	1,707	1,568
Total interest expense	3,846	5,119
Net interest income	38,248	36,618
Provision for loan losses	2,950	770
Net interest income after provision for loan losses	35,298	35,848
Other income:		
Trust and investment services income	1,974	2,042
Service fees	2,662	2,744
Commissions	2,963	2,889
Gains on sale of debt securities, net	809	411
Gains (losses) on equity securities, net	(76)	88
Gains on sale of mortgages	5,850	1,936
Earnings on bank-owned life insurance	829	731
Other income	349	465
Total other income	15,360	11,306
Operating expenses:		
Salaries and employee benefits	22,062	21,032
Occupancy	2,407	2,432
Equipment	1,196	1,172
Advertising & marketing	894	820
Computer software & data processing	3,148	2,637
Shares tax	1,060	930
Professional services	2,317	2,088
Other expense	2,990	2,522
Total operating expenses	36,074	33,633
Income before income taxes	14,584	13,521
Provision for federal income taxes	2,285	2,126
Net income	12,299	11,395
Earnings per share of common stock	2.20	2.01
Cash dividends paid per share	0.64	0.62
Weighted average shares outstanding	5,583,118	5,679,145

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2020	2019
	\$	\$
Net income	12,299	11,395
Other comprehensive income, net of tax:		
Net change in unrealized gains:		
Securities available for sale not other-than-temporarily impaired:		
Unrealized gains arising during the period	8,854	9,624
Income tax effect	(1,857)	(2,021)
	6,997	7,603
Gains recognized in earnings	(809)	(411)
Income tax effect	170	86
	(639)	(325)
Other comprehensive income, net of tax	6,358	7,278
Comprehensive Income	18,657	18,673

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Common Stock \$	Capital Surplus \$	Retained Earnings \$	Accumulated Other Comprehensive Income (Loss) \$	Treasury Stock \$	Total Stockholders' Equity \$
Balances, December 31, 2018	574	4,435	104,067	(5,678)	(596)	102,802
Net income	-	-	11,395	-	-	11,395
Other comprehensive income net of tax	-	-	-	7,278	-	7,278
Treasury stock purchased - 96,066 shares	-	-	-	-	(1,897)	(1,897)
Treasury stock issued - 31,744 shares	-	47	-	-	581	628
Cash dividends paid, \$0.62 per share	-	-	(3,518)	-	-	(3,518)
Balances, December 31, 2019	574	4,482	111,944	1,600	(1,912)	116,688
Net income	-	-	12,299	-	-	12,299
Other comprehensive income net of tax	-	-	-	6,358	-	6,358
Treasury stock purchased - 109,403 shares	-	-	-	-	(2,216)	(2,216)
Treasury stock issued - 34,891 shares	-	(38)	-	-	698	660
Cash dividends paid, \$0.64 per share	-	-	(3,573)	-	-	(3,573)
Balances, December 31, 2020	574	4,444	120,670	7,958	(3,430)	130,216

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2020	2019
	\$	\$
Cash flows from operating activities:		
Net income	12,299	11,395
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of securities premiums and discounts and loan fees	2,580	3,494
Amortization of operating leases right-of-use assets	180	167
Increase in interest receivable	(778)	(14)
(Decrease) increase in interest payable	(196)	124
Provision for loan losses	2,950	770
Gain on sale of debt securities, net	(809)	(411)
Loss (gain) on equity securities, net	76	(88)
Gains on sale of mortgages	(5,850)	(1,936)
Loans originated for sale	(127,871)	(52,733)
Proceeds from sales of loans	133,034	53,756
Earnings on bank-owned life insurance	(829)	(731)
Depreciation of premises and equipment and amortization of software	1,509	1,556
Net increase in deferred income tax	(646)	(286)
Other assets and other liabilities, net	794	396
Net cash provided by operating activities	16,443	15,459
Cash flows from investing activities:		
Proceeds from maturities, calls, and repayments	65,702	30,930
Proceeds from sales of debt securities	54,291	39,859
Purchases of debt securities	(283,041)	(78,847)
Equity securities:		
Proceeds from sales of equity securities	-	168
Purchases of equity securities	(473)	(175)
Purchase of regulatory bank stock	(1,248)	(3,027)
Redemptions of regulatory bank stock	2,432	2,084
Net increase in loans	(68,829)	(60,057)
Purchases of premises and equipment, net	(1,104)	(928)
Purchase of computer software	(200)	(161)
Net cash used for investing activities	(232,470)	(70,154)
Cash flows from financing activities:		
Net increase in demand, NOW, and savings accounts	294,820	52,387
Net (decrease) increase in time deposits	(16,097)	1,967
Net decrease in short-term borrowings	(200)	(7,670)
Proceeds from long-term debt	23,996	24,723
Repayments of long-term debt	(47,078)	(12,237)
Proceeds from issuance of subordinated debt	19,601	-
Dividends paid	(3,573)	(3,518)
Proceeds from sale of treasury stock	660	628
Treasury stock purchased	(2,216)	(1,897)
Net cash provided by financing activities	269,913	54,383
Increase (decrease) in cash and cash equivalents	53,886	(312)
Cash and cash equivalents at beginning of period	41,053	41,365
Cash and cash equivalents at end of period	94,939	41,053
Supplemental disclosures of cash flow information:		
Interest paid	4,047	4,995
Income taxes paid	2,940	1,800
Supplemental disclosure of non-cash investing and financing activities:		
Fair value adjustments for securities available for sale	(8,045)	(9,213)
Initial recognition of operating right-of-use assets	-	1,075
Initial recognition of operating lease liabilities	-	1,075

See Notes to the Consolidated Financial Statements

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

ENB Financial Corp, through its wholly owned subsidiary, Ephrata National Bank, provides financial services to Northern Lancaster County and surrounding communities. ENB Financial Corp, a bank holding company, was formed on July 1, 2008, to become the parent company of Ephrata National Bank, which existed as a stand-alone national bank since its formation on April 11, 1881. The Corporation's wholly owned subsidiary, Ephrata National Bank, offers a full array of banking services including loan and deposit products for both personal and commercial customers, as well as trust and investment services, through twelve full-service office locations.

Basis of Presentation

The consolidated financial statements of ENB Financial Corp and its subsidiary, Ephrata National Bank, (collectively "the Corporation") conform to U.S. generally accepted accounting principles (GAAP). The preparation of these statements requires that management make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Material estimates of the Corporation, including the allowance for credit losses, the fair market value of financial instruments, and deferred tax assets or liabilities, are evaluated regularly by management. Actual results could differ from the reported estimates given different conditions or assumptions.

The accounting and reporting policies followed by the Corporation conform with U.S. GAAP and to general practices within the banking industry. All significant intercompany transactions have been eliminated in consolidation. The following is a summary of the more significant policies.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are identified as cash and due from banks and include cash on hand, collection items, amounts due from banks, and interest bearing deposits in other banks with maturities of less than 90 days.

Securities Available for Sale

The Corporation classifies its entire portfolio of debt securities as available for sale securities, which the Corporation reports at fair value. Any unrealized valuation gains or losses on the debt portfolio are reported as a separate component of stockholders' equity, net of deferred income taxes. The constant yield method is used for the amortization of premiums and the accretion of discounts for all of the Corporation's securities with the exception of collateralized mortgage obligations (CMOs), mortgage-backed securities (MBS) and asset-backed securities (ABS). The constant yield method maintains a stable yield on the instrument through its maturity. For CMOs and MBS, a two-step/proration method is used for amortization and accretion. The first step is a proration based on the current pay down. This component ensures that the book price stays level with par. The second step amortizes or accretes the remaining premium or discount to the calculated final amortization or accretion date based on the current three-month constant prepayment rates. Net gains or losses realized on sales or calls of securities are reported as gains or losses on security transactions during the year of sale, using the specific identification method.

Equity Securities

Equity securities includes common stocks of public companies that the Corporation has the positive intent and ability to hold for an indeterminate amount of time. Such securities are reported at fair value with changes in unrealized holding gains and losses recognized through earnings on a monthly basis.

Other Than Temporary Impairment ("OTTI")

Management monitors all of the Corporation's securities for OTTI on a monthly basis and determines whether any impairment should be recorded. A number of factors are considered in determining whether a security is impaired, including, but not limited to, the following:

- Percentage of unrealized losses,
- Period of time the security has had unrealized losses,
- Type of security,
- Maturity date of the instrument if a debt instrument,
- The intent to sell the security or whether it is more likely than not that the Corporation would be required to sell the security before its anticipated recovery in market value,

- Amount of projected credit losses based on current cash flow analysis, default and severity rates, and
- Market dynamics impacting the market for and liquidity of the security.

Management will more closely evaluate those securities that have unrealized losses of 10% or more and have had unrealized losses for more than twelve months. If management determines that the declines in value of the security are not temporary, or if management does not have the ability to hold the security until maturity, which is the case with equity securities, then management will record impairment on the security. For debt securities evaluated for impairment, management will determine what portion of the unrealized valuation loss is attributed to projected or known loss of principal, and what portion is attributed to market pricing not reflective of the true value of the security, based on current cash flow analysis. Management will generally record impairment equivalent to the projected or known loss of principal, known as the credit loss. The other portion of the fair market value loss is attributed to market factors and it is management's opinion that these fair value losses are temporary and not permanent. All impairment is recorded as a loss on securities and is included in the Corporation's Consolidated Statements of Income.

Loans Held for Investment

Loans receivable, that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, generally are reported at the outstanding principal balances, reduced by any charge-offs and net of any deferred loan origination fees or costs. Net loan origination fees and costs are deferred and recognized as an adjustment of yield over the contractual life of the loan.

Interest accrues daily on outstanding loan balances. Generally, the accrual of interest discontinues when the ability to collect the loan becomes doubtful or when a loan becomes more than 90 days past due as to principal and interest. These loans are referred to as non-accrual loans. Management may elect to continue the accrual of interest based on the expectation of future payments and/or the sufficiency of the underlying collateral.

Loans Held for Sale

Loans originated and intended for sale on the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. In general, fixed-rate residential mortgage loans originated by the Corporation and held for sale are carried in the aggregate at the lower of cost or market. The Corporation originates loans for immediate sale with servicing retained and servicing released to several investors. However, the vast majority of the sold mortgages are sold to the Federal Home Loan Bank of Pittsburgh (FHLB) and Fannie Mae, with servicing retained. As a result, the Corporation has a growing portfolio of mortgages that are serviced on behalf of FHLB and Fannie Mae. In addition, the Corporation originates FHA, VA, and USDA mortgages which are originated for immediate sale to various investors on a service-released basis.

Allowance for Credit Losses

The allowance for credit losses is maintained at a level considered by management to be adequate to provide for known and inherent risks in the loan portfolio at the Consolidated Balance Sheets dates. The monthly provision or credit for loan losses is an expense or a reduction of expense which increases or decreases the allowance, and charge-offs, net of recoveries, decrease the allowance. The Corporation performs ongoing credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, and other factors in determining the adequacy of the reserve balance. Loans determined to be uncollectible are charged to the allowance during the period in which such determination is made.

In calculating the allowance, management will begin by compiling the balance of loans by credit quality for each loan segment in order that allocations can be made in aggregate based on historic losses and qualitative factors. Prior to calculating these aggregate allocations, management will individually evaluate commercial and commercial real estate loans for impairment. A loan is impaired when it is probable that a creditor will be unable to collect all principal and interest due according to the contractual terms of the loan agreement. All other loan types such as residential mortgages, home equity loans and lines of credit, and all other consumer loans, are not individually evaluated for impairment and are therefore allocated for in aggregate. These loans are considered to be large groups of smaller-balance homogenous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all circumstances concerning the loan, the creditworthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

For loans deemed to be impaired, management will provide a specific allocation. This loan balance is then subtracted from the total loan balances being allocated for in the aggregate. The remaining balances, along with the full loan balances for the other loan types are then multiplied by an adjusted loss ratio, which is the sum of both the historical loss ratio and a qualitative factor adjustment. Generally both the historical loss ratio and the qualitative factor adjustment will increase as the credit rating of the loan deteriorates. The credit ratings begin with unclassified loans, which represent the best internal credit rating, also referred to as a “pass” credit and then continue with declining grades of special mention, substandard, doubtful, and loss. Special mention loans are no longer deemed to be a “pass” credit and require additional management attention. They are essentially placed on “watched” status and attempts are made to improve the credit to an unclassified status. If the credit would deteriorate further it would then be a substandard credit, which for regulatory purposes, is deemed to be a classified loan. Doubtful and loss credit grades represent further credit deterioration and are also considered classified loans.

For each loan type, all of these credit rating categories are broken out with adjusted loss ratios. The loan balance is then multiplied by the adjusted loss ratio to produce the required allowance. The allowances are totaled and added to any specific allocations on impaired loans to arrive at the total allowance for credit losses for the Corporation.

Management tracks and assigns a historical loss percentage for each loan rating category within each loan type. A rolling three-year historical loss ratio, calculated on a quarterly basis, with a 60%, 30%, and 10% weighting for the past three years is used. In this manner the historical loss percentage is heavily weighted to the current loss environment, but has sufficient weighting assigned to prior periods to avoid unnecessary volatile fluctuations based on just one period’s data.

Management currently utilizes nine qualitative factors that are adjusted based on changes in the lending environment and economic conditions. The qualitative factors include the following:

- levels of and trends in delinquencies, non-accruals, and charge-offs,
- trends in the nature and volume of the loan portfolio,
- changes in lending policies and procedures,
- experience, ability, and depth of lending personnel and management oversight,
- national and local economic trends,
- concentrations of credit,
- external factors such as competition, legal, and regulatory requirements,
- changes in the quality of loan review and Board oversight,
- changes in the value of underlying collateral.

The number of qualitative factors can change. Factors can be added for new risks or taken away if the risk no longer applies. Each loan type will have its own risk profile and management will evaluate and adjust each qualitative factor for each loan type quarterly, if necessary. For example, if one area of the loan portfolio is experiencing sharp increases in growth, it is likely the qualitative factor for trends in the loan portfolio would be increased for that loan type. As levels of delinquencies and non-accrual loans decline for any segment of the loan portfolio it is likely that factor would be reduced.

In terms of the Corporation’s loan portfolio, the commercial and industrial loans and commercial real estate loans are deemed to have more risk than the consumer real estate loans and other consumer loans in the portfolio. The commercial loans not secured by real estate are highly dependent on their financial condition and therefore are more dependent on economic conditions. The commercial loans secured by real estate are also dependent on economic conditions but generally have stronger forms of collateral. Commercial real estate lending is highly impacted by the value of collateral so these commercial loans carry a higher qualitative factor for changes in collateral value. While the Corporation’s CRE loans have performed well historically, other commercial loans and commercial mortgage loans have historically been responsible for the majority of the Corporation’s delinquencies, non-accrual loans, and charge-offs, so both of these categories carry higher qualitative factors than consumer real estate loans and other consumer loans. The Corporation has historically experienced very low levels of consumer real estate and consumer loan charge-offs so these qualitative factors are set lower than the commercial real estate and commercial and industrial loans.

Impaired and Non-Accrual Loans

The definition of “impaired loans” is not the same as the definition of “non-accrual loans,” although the two categories overlap. Generally, a non-accrual loan will always be considered impaired due to payment delinquency or uncertain collection, but there are cases where an impaired loan is not considered non-accrual. The primary factors considered by management in determining impairment include payment status and collateral value, but could also include debt service coverage, financial health of the business, and other external factors that could impact the ability of the borrower to fully repay the loan. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan using the original interest rate and its recorded value or, as a practical expedient in the case of collateral-dependent loans, the difference between the fair value of the collateral and the recorded amount of the loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral on a discounted basis, relative to the loan amount.

Management will place a business or commercial loan on non-accrual status when it is determined that the loan is impaired, or when the loan is 90 days past due. These customers will generally be placed on non-accrual status at the end of each quarter. Consumer loans over 90 days delinquent are generally charged off, or in the case of residential real estate loans the Corporation will seek to bring the customer current or pursue foreclosure options. When the borrower is on non-accrual, the Corporation will reverse any accrued interest on the books and will discontinue recognizing any interest income until the borrower is placed back on accrual status or fully pays off the loan balance plus any accrued interest. Payments received by the customer while the loan is on non-accrual are fully applied against principal. The Corporation maintains records of the full amount of interest that is owed by the borrower. A non-accrual loan will generally only be placed back on accrual status after the borrower has become current and has demonstrated six consecutive months of non-delinquency.

Allowance for Off-Balance Sheet Extensions of Credit

The Corporation maintains an allowance for off-balance sheet extensions of credit, which would include any unadvanced amount on lines of credit and any letters of credit provided to borrowers. The allowance is carried as a liability and is included in other liabilities on the Corporation’s Consolidated Balance Sheets. The liability was \$798,000 as of December 31, 2020, and \$436,000 as of December 31, 2019. As the unadvanced portion of lines of credit increases, this provision will increase.

Management follows the same methodology as the allowance for credit losses when calculating the allowance for off-balance sheet extensions of credit, with the exception of multiplying the unadvanced total by a high/low balance variance to arrive at the expected unadvanced portion that could be drawn upon at any time, or the amount at risk. The unadvanced amounts for each loan segment are broken down by credit classification. A historical loss ratio and qualitative factor are calculated for each credit classification by loan type. The historical loss ratio and qualitative factor are combined to produce an adjusted loss ratio, which is multiplied by the amount at risk for each credit classification within each loan segment to arrive at an allocation. The allocations are summed to arrive at the total allowance for off-balance sheet extensions of credit.

Other Real Estate Owned (OREO)

OREO represents properties acquired through customer loan defaults. These properties are recorded at the lower of cost or fair value less projected disposal costs at acquisition date. Fair value is determined by current appraisals. Costs associated with holding OREO are charged to operational expense. OREO is a component of other assets on the Corporation’s Consolidated Balance Sheets. The Corporation had no OREO as of December 31, 2020, or December 31, 2019.

Mortgage Servicing Rights (MSRs)

The Corporation has agreements for the express purpose of selling residential mortgage loans on the secondary market, referred to as mortgage servicing rights. The Corporation maintains all servicing rights for loans currently sold through FHLB and Fannie Mae. The Corporation had \$1,076,000 of MSRs as of December 31, 2020, compared to \$892,000 as of December 31, 2019. The value of MSRs increased during 2020 as valuation of new assets outpaced amortization on existing assets. The year ended December 31, 2020, was a year of record mortgage volume resulting in this increase in MSRs. Management expects MSRs to continue to grow going forward as a result of continued refinance volume and new mortgage originations. The value of newly originated MSRs is determined by estimating the life of the mortgage and how long the Corporation will have access to the servicing income stream to determine the relative fair value. The Corporation utilizes a third party that calculates the MSR valuation on a quarterly basis. A longer estimated life would increase the MSR valuation, while a shorter estimated life would decrease the value of the MSR. Management records the MSR value based on the third-party reporting.

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Ultimately the value of the MSRs would be at what level a willing buyer and seller would exchange the MSRs. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. Impairment is evaluated based on the fair value of the rights, portfolio interest rates, and prepayment characteristics. MSRs are a component of other assets on the Consolidated Balance Sheets.

The following chart provides the activity of the Corporation's mortgage servicing rights for the years ended December 31, 2020 and 2019.

MORTGAGE SERVICING RIGHTS

(DOLLARS IN THOUSANDS)

	December 31,	
	2020	2019
	\$	\$
Beginning Balance	892	905
Additions	753	284
Amortization	(420)	(242)
Disposals	(149)	(55)
Ending Balance	1,076	892

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation. Book depreciation is computed using straight-line methods over the estimated useful lives of generally fifteen to thirty-nine years for buildings and improvements and four to ten years for furniture and equipment. Maintenance and repairs of property and equipment are charged to operational expense as incurred, while major improvements are capitalized. Net gains or losses upon disposition are included in other income or operational expense, as applicable.

Transfer of Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank-Owned Life Insurance (BOLI)

BOLI is carried by the Corporation at the cash surrender value of the underlying policies. Income earned on the policies is based on any increase in cash surrender value less the cost of the insurance, which varies according to age and health of the insured. The life insurance policies owned by the Corporation had a cash surrender value of \$29,646,000 and \$28,818,000 as of December 31, 2020, and 2019, respectively. The increase in BOLI cash surrender value was primarily due to normal appreciation of existing policies as a result of returns exceeding expenses.

Leases

The Company has operating leases for several branch locations and office space. Generally, the underlying lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company may also lease certain office equipment under operating leases. Many of our leases include both lease (e.g., minimum rent payments) and non-lease components (e.g., common-area or other maintenance costs). The Company accounts for each component separately based on the standalone price of each component. In addition, there are several operating leases with lease terms of less than one year and therefore, we have elected the practical expedient to exclude these short-term leases from our right of use assets and lease liabilities.

Most leases include one or more options to renew. The exercise of lease renewal options is typically at the sole discretion of management and is based on whether the extension options are reasonably certain to be exercised after

giving proper consideration to all facts and circumstances of the lease. If management determines that the Company is reasonably certain to exercise the extension option(s), the additional term is included in the calculation of the lease liability.

As most of our leases do not provide an implicit rate, we use the fully collateralized FHLB borrowing rate, commensurate with the lease terms based on the information available at the lease commencement date in determining the present value of the lease payments

Advertising Costs

The Corporation expenses advertising costs as incurred. Advertising costs for the years ended December 31, 2020 and 2019 were \$894,000 and \$820,000, respectively.

Income Taxes

An asset and liability approach is followed for financial accounting and reporting for income taxes. Accordingly, a net deferred tax asset or liability is recorded in the consolidated financial statements for the tax effects of temporary differences, which are items of income and expense reported in different periods for income tax and financial reporting purposes. Deferred tax expense is determined by the change in the assets or liabilities related to deferred income taxes. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Earnings per Share

The Corporation currently maintains a simple capital structure with no stock option plans that would have a dilutive effect on earnings per share. Earnings per share are calculated by dividing net income by the weighted-average number of shares outstanding for the periods.

Comprehensive Income

The Corporation is required to present comprehensive income in a full set of general-purpose consolidated financial statements for all periods presented. Other comprehensive income consists of unrealized holding gains and losses on the available for sale securities portfolio.

Segment Disclosure

U.S. generally accepted accounting principles establish standards for the manner in which public business enterprises report information about segments in the annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures regarding financial products and services, geographic areas, and major customers. The Corporation has only one operating segment consisting of its banking and fiduciary operations.

Retirement Plans

The Corporation provides an optional 401(k) plan, in which employees may elect to defer pre-tax salary dollars, subject to the maximum annual Internal Revenue Service contribution amounts. The Corporation will match 50% of employee contributions up to 5%, limiting the match to 2.5%.

As part of the 401(k) Plan, the Corporation also has a noncontributory Profit Sharing Plan which covers substantially all employees. The Corporation provides a 3% non-elective contribution to all employees and contributes a 2% elective contribution to all employees aged 21 or older who work 1,000 or greater hours in a calendar year and have completed at least one full year of employment.

Trust Assets and Income

Assets held by ENB's Money Management Group in a fiduciary or agency capacity for customers are not included in the Corporation's Consolidated Balance Sheets since these items are not assets of the Corporation. In accordance with banking industry practice, trust income is recognized on a cash basis; as such income does not differ significantly from amounts that would be recognized on an accrual basis. Trust income is reported in the Corporation's Consolidated Statements of Income under other income.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Topic 606, *Revenue from Contracts with Customers (Topic 606)*. Under Topic 606, the Corporation must identify contracts with customers, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when the Corporation satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Corporation's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Corporation has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Corporation generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Reclassification of Comparative Amounts

Certain comparative amounts for the prior year have been reclassified to conform to current-year classifications. Such reclassifications had no material effect on net income or stockholders' equity.

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*, which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be affected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. With certain exceptions, transition to the new requirements will be through a cumulative-effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This Update is effective for SEC filers that are eligible to be smaller reporting companies, non-SEC filers, and all other companies, to fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. We expect to recognize a one-time cumulative-effect adjustment to the allowance for credit losses as of the beginning of the first reporting period in which the new standard is effective but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits (Topic 715-20)*. This Update amends ASC 715 to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The Update eliminates the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost over the next year. The Update also removes the disclosure requirements for the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost, and the benefit obligation for postretirement health care benefits. This Update is effective for public business entities for fiscal years ending after December 15, 2020, and must be applied on a retrospective basis. For all other entities, this Update is effective for fiscal years ending after December 15, 2021. This Update is not expected to have a significant impact on the Corporation's financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*. This Update addresses customers' accounting for implementation costs incurred in a cloud computing arrangement that is a service contract and also adds certain disclosure requirements related to implementation costs incurred for internal-use software and cloud computing arrangements. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements

that include an internal-use software license). This Update is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The amendments in this Update can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. This Update is not expected to have a significant impact on the Corporation's financial statements.

In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, which, in addition to addressing other matters, ASU 2018-19 clarifies that receivables arising from operating leases are not within the scope of Subtopic 326-20. The effective date and transition requirements for ASU 2018-19 are the same as those in ASU 2016-13. This Update is not expected to have a significant impact on the Corporation's financial statements.

In May 2019, the FASB issued ASU 2019-05, *Financial Instruments – Credit Losses (Topic 326)*, which allows entities to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost upon adoption of the new credit losses standard. To be eligible for the transition election, the existing financial asset must otherwise be both within the scope of the new credit losses standard and eligible for applying the fair value option in ASC 825-10.3. The election must be applied on an instrument-by-instrument basis and is not available for either available-for-sale or held-to-maturity debt securities. For entities that elect the fair value option, the difference between the carrying amount and the fair value of the financial asset would be recognized through a cumulative-effect adjustment to opening retained earnings as of the date an entity adopted ASU 2016-13. Changes in fair value of that financial asset would subsequently be reported in current earnings. For entities that have not yet adopted the credit losses standard, the ASU is effective when they implement the credit losses standard. For entities that already have adopted the credit losses standard, the ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Corporation qualifies as a smaller reporting company and does not expect to early adopt ASU 2016-13.

In November 2019, the FASB issued ASU 2019-11, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses*, to clarify its new credit impairment guidance in ASC 326, based on implementation issues raised by stakeholders. This Update clarified, among other things, that expected recoveries are to be included in the allowance for credit losses for these financial assets; an accounting policy election can be made to adjust the effective interest rate for existing troubled debt restructurings based on the prepayment assumptions instead of the prepayment assumptions applicable immediately prior to the restructuring event; and extends the practical expedient to exclude accrued interest receivable from all additional relevant disclosures involving amortized cost basis. For entities that have not yet adopted ASU 2016-13 as of November 26, 2019, the effective dates for ASU 2019-11 are the same as the effective dates and transition requirements in ASU 2016-13. For entities that have adopted ASU 2016-13, ASU 2019-11 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Corporation qualifies as a smaller reporting company and does not expect to early adopt these ASUs.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740)*, to simplify the accounting for income taxes, change the accounting for certain tax transactions, and make minor improvements to the codification. This Update provides a policy election to not allocate consolidated income taxes when a member of a consolidated tax return is not subject to income tax and provides guidance to evaluate whether a step-up in tax basis of goodwill relates to a business combination in which book goodwill was recognized or was a separate transaction. The Update also changes current guidance for making an intraperiod allocation if there is a loss in continuing operations and gains outside of continuing operations, determining when a deferred tax liability is recognized after an investor in a foreign entity transitions to or from the equity method of accounting, accounting for tax law changes and year-to-date losses in interim periods, and determining how to apply the income tax guidance to franchise taxes that are partially based on income. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. This Update is not expected to have a significant impact on the Corporation's financial statements.

In January 2020, the FASB issued ASU 2020-01, *Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815)*, to clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting, for the purposes of applying the measurement alternative, in accordance with Topic 321, immediately before applying or upon discontinuing the equity method. The amendments also clarify that, for the purpose of applying paragraph 815-

10-15-141 (a), an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option, in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in paragraph 815-10-15-141 to determine the accounting for those forward contracts and purchased options. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. This Update is not expected to have a significant impact on the Corporation's financial statements.

In March 2020, the FASB issued ASU 2020-03, *Codification Improvements to Financial Instruments*. This ASU was issued to improve and clarify various financial instruments topics, including the current expected credit losses (CECL) standard issued in 2016. The ASU includes seven issues that describe the areas of improvement and the related amendments to GAAP; they are intended to make the standards easier to understand and apply and to eliminate inconsistencies, and they are narrow in scope and are not expected to significantly change practice for most entities. Among its provisions, the ASU clarifies that all entities, other than public business entities that elected the fair value option, are required to provide certain fair value disclosures under ASC 825, *Financial Instruments*, in both interim and annual financial statements. It also clarifies that the contractual term of a net investment in a lease under Topic 842 should be the contractual term used to measure expected credit losses under Topic 326. Amendments related to ASU 2019-04 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is not permitted before an entity's adoption of ASU 2016-01. Amendments related to ASU 2016-13 for entities that have not yet adopted that guidance are effective upon adoption of the amendments in ASU 2016-13. Early adoption is not permitted before an entity's adoption of ASU 2016-13. Amendments related to ASU 2016-13 for entities that have adopted that guidance are effective for fiscal years beginning after December 15, 2019, including interim periods within those years. Other amendments are effective upon issuance of this ASU. This Update is not expected to have a significant impact on the Corporation's financial statements.

In January 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, March 2020*, to provide temporary optional expedients and exceptions to the U.S. GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens of the expected market transition from LIBOR and other interbank offered rates to alternative reference rates, such as the Secured Overnight Financing Rate. Entities can elect not to apply certain modification accounting requirements to contracts affected by what the guidance calls "reference rate reform" if certain criteria are met. An entity that makes this election would not have to remeasure the contracts at the modification date or reassess a previous accounting determination. Also, entities can elect various optional expedients that would allow them to continue applying hedge accounting for hedging relationships affected by reference rate reform if certain criteria are met, and can make a one-time election to sell and/or reclassify held-to-maturity debt securities that reference an interest rate affected by reference rate reform. The amendments in this ASU are effective for all entities upon issuance through December 31, 2022. It is too early to predict whether a new rate index replacement and the adoption of the ASU will have a material impact on the Corporation's financial statements.

In October 2020, the FASB issued ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs*, which clarifies that, for each reporting period, an entity should reevaluate whether a callable debt security is within the scope of ASC 310-20-35-33. For public business entities, ASU 2020-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application is not permitted. For all other entities, ASU 2020-08 is effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. This Update is not expected to have a significant impact on the Corporation's financial statements.

In October 2020, the FASB issued ASU 2020-09, *Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762*, which codifies, as appropriate, the amended financial statement disclosure requirements in Regulation S-X Rules 13-01 and 13-02. The amendments are effective January 4, 2021. This Update is not expected to have a significant impact on the Corporation's financial statements.

In October 2020, the FASB issued ASU 2020-10, *Codification Improvements*, which makes minor technical corrections and clarifications to the ASC. The amendments in Sections B and C of the ASU are effective for annual periods beginning after December 15, 2020, for public business entities. For all other entities, the amendments are effective for annual periods beginning after December 15, 2021, and interim periods within annual periods beginning

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after December 15, 2022. This Update is not expected to have a significant impact on the Corporation's financial statements.

In January 2021, the FASB issued ASU 2021-01, *Reference Rate Reform (Topic 848)*, which provides optional temporary guidance for entities transitioning away from the London Interbank Offered Rate (LIBOR) and other interbank offered rates (IBORs) to new references rates so that derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions within Topic 848. ASU 2021-01 clarifies that the derivatives affected by the discounting transition are explicitly eligible for certain optional expedients and exceptions in Topic 848. ASU 2021-01 is effective immediately for all entities. Entities may elect to apply the amendments on a full retrospective basis as of any date from the beginning of an interim period that includes or is subsequent to March 12, 2020, or on a prospective basis to new modifications from any date within an interim period that includes or is subsequent to the date of the issuance of a final update, up to the date that financial statements are available to be issued. The amendments in this update do not apply to contract modifications made, as well as new hedging relationships entered into, after December 31, 2022, and to existing hedging relationships evaluated for effectiveness for periods after December 31, 2022, except for certain hedging relationships existing as of December 31, 2022, that apply certain optional expedients in which the accounting effects are recorded through the end of the hedging relationship. This Update is not expected to have a significant impact on the Corporation's financial statements.

NOTE B - SECURITIES

(DOLLARS IN THOUSANDS)

DEBT SECURITIES

The amortized cost and fair value of debt securities held at December 31, 2020, and 2019, are as follows:

	Amortized Cost \$	Gross Unrealized Gains \$	Gross Unrealized Losses \$	Fair Value \$
December 31, 2020				
U.S. government agencies	54,224	144	(7)	54,361
U.S. agency mortgage-backed securities	69,777	1,441	(166)	71,052
U.S. agency collateralized mortgage obligations	34,449	640	(54)	35,035
Asset-backed securities	60,387	433	(345)	60,475
Corporate bonds	60,387	1,348	(12)	61,723
Obligations of states and political subdivisions	187,132	6,727	(77)	193,782
Total securities available for sale	466,356	10,733	(661)	476,428
December 31, 2019				
U.S. government agencies	32,621	31	(28)	32,624
U.S. agency mortgage-backed securities	48,859	215	(448)	48,626
U.S. agency collateralized mortgage obligations	60,124	323	(194)	60,253
Asset-backed securities	23,646	7	(391)	23,262
Corporate bonds	54,604	316	(40)	54,880
Obligations of states and political subdivisions	86,216	2,245	(9)	88,452
Total securities available for sale	306,070	3,137	(1,110)	308,097

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The amortized cost and fair value of debt securities available for sale at December 31, 2020, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities due to certain call or prepayment provisions.

CONTRACTUAL MATURITY OF DEBT SECURITIES
(DOLLARS IN THOUSANDS)

	Amortized Cost \$	Fair Value \$
Due in one year or less	85,185	85,789
Due after one year through five years	105,606	107,758
Due after five years through ten years	58,674	59,869
Due after ten years	216,891	223,012
Total debt securities	466,356	476,428

Securities available for sale with a par value of \$86,849,000 and \$66,712,000 at December 31, 2020 and 2019, respectively, were pledged or restricted for public funds, borrowings, or other purposes as required by law. The fair market value of these pledged securities was \$91,666,000 at December 31, 2020, and \$68,732,000 at December 31, 2019.

Proceeds from active sales of debt securities available for sale, along with the associated gross realized gains and gross realized losses, are shown below. Realized gains and losses are computed on the basis of specific identification.

(DOLLARS IN THOUSANDS)

	Securities Available for Sale	
	2020	2019
	\$	\$
Proceeds from sales	54,291	39,859
Gross realized gains	836	443
Gross realized losses	27	32

Information pertaining to securities with gross unrealized losses at December 31, 2020, and December 31, 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

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TEMPORARY IMPAIRMENTS OF SECURITIES

(DOLLARS IN THOUSANDS)

	Less than 12 months		More than 12 months		Total	
	Gross		Gross		Gross	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
	\$	\$	\$	\$	\$	\$
As of December 31, 2020						
U.S. government agencies	42,988	(7)	-	-	42,988	(7)
U.S. agency mortgage-backed securities	15,995	(157)	2,221	(9)	18,216	(166)
U.S. agency collateralized mortgage obligations	12,933	(54)	-	-	12,933	(54)
Asset-backed securities	8,465	(20)	18,080	(325)	26,545	(345)
Corporate bonds	-	-	3,016	(12)	3,016	(12)
Obligations of states & political subdivisions	15,666	(77)	-	-	15,666	(77)
Total temporarily impaired securities	96,047	(315)	23,317	(346)	119,364	(661)
As of December 31, 2019						
U.S. government agencies	1,222	(3)	15,971	(25)	17,193	(28)
U.S. agency mortgage-backed securities	5,040	(32)	24,027	(416)	29,067	(448)
U.S. agency collateralized mortgage obligations	17,457	(50)	17,512	(144)	34,969	(194)
Asset-backed securities	10,278	(169)	9,126	(222)	19,404	(391)
Corporate bonds	2,562	(4)	13,041	(36)	15,603	(40)
Obligations of states & political subdivisions	2,642	(9)	-	-	2,642	(9)
Total temporarily impaired securities	39,201	(267)	79,677	(843)	118,878	(1,110)

In the debt security portfolio, there are 50 positions carrying unrealized losses as of December 31, 2020. There were no instruments considered to be other-than-temporarily impaired at December 31, 2020.

The Corporation evaluates both equity and fixed income positions for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic and market concerns warrant such evaluation. Equity investments are bank stocks held by the Corporation with no maturity date, whereas the fixed income positions are bonds held by the Corporation with fixed maturity dates. U.S. generally accepted accounting principles provide for the bifurcation of OTTI into two categories: (a) the amount of the total OTTI related to a decrease in cash flows expected to be collected from the debt security (the credit loss), which is recognized in earnings, and (b) the amount of total OTTI related to all other factors, which is recognized, net of taxes, as a component of accumulated other comprehensive income (loss).

EQUITY SECURITIES

The following tables summarize the amortized cost, gross unrealized gains and losses, and fair value of equity securities held at December 31, 2020 and December 31, 2019.

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(DOLLARS IN THOUSANDS)	Amortized Cost \$	Gross Unrealized Gains \$	Gross Unrealized Losses \$	Fair Value \$
December 31, 2020				
CRA-qualified mutual funds	6,176	-	-	6,176
Bank stocks	982	53	(106)	929
Total equity securities	<u>7,158</u>	<u>53</u>	<u>(106)</u>	<u>7,105</u>

(DOLLARS IN THOUSANDS)	Amortized Cost \$	Gross Unrealized Gains \$	Gross Unrealized Losses \$	Fair Value \$
December 31, 2019				
CRA-qualified mutual funds	6,071	-	-	6,071
Bank stocks	614	26	(3)	637
Total equity securities	<u>6,685</u>	<u>26</u>	<u>(3)</u>	<u>6,708</u>

The following table presents the net gains and losses on the Corporation's equity investments recognized in earnings during the year ended December 31, 2020 and 2019, and the portion of unrealized gains and losses for the periods that relates to equity investments held as of December 31, 2020 and 2019.

NET GAINS AND LOSSES ON EQUITY INVESTMENTS RECOGNIZED IN EARNINGS

(DOLLARS IN THOUSANDS)

	Year Ended December 31, 2020 \$	Year Ended December 31, 2019 \$
Net gains (losses) recognized in equity securities during the period	(76)	88
Less: Net gains realized on the sale of equity securities during the period	-	16
Unrealized gains (losses) recognized in equity securities held at reporting date	<u>(76)</u>	<u>72</u>

No equity securities were sold during 2020, but proceeds from the sales of equity securities totaled \$168,000 in 2019.

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES

The following table presents the Corporation's loan portfolio by category of loans for 2020 and 2019.

LOAN PORTFOLIO

(DOLLARS IN THOUSANDS)

	December 31,	
	2020	2019
	\$	\$
Commercial real estate		
Commercial mortgages	142,698	120,212
Agriculture mortgages	176,005	175,367
Construction	23,441	16,209
Total commercial real estate	342,144	311,788
Consumer real estate (a)		
1-4 family residential mortgages	263,569	258,676
Home equity loans	10,708	9,770
Home equity lines of credit	71,290	70,809
Total consumer real estate	345,567	339,255
Commercial and industrial		
Commercial and industrial	97,896	58,019
Tax-free loans	10,949	16,388
Agriculture loans	20,365	20,804
Total commercial and industrial	129,210	95,211
Consumer	5,155	5,416
Gross loans prior to deferred costs and allowance for loan losses	822,076	751,670
Deferred loan costs, net	1,294	1,948
Allowance for credit losses	(12,327)	(9,447)
Total net loans	811,043	744,171

(a) Real estate loans serviced for others, which are not included in the Consolidated Balance Sheets, totaled \$235,437,000 and \$154,577,000 as of December 31, 2020, and 2019, respectively.

The Corporation grades commercial credits differently than consumer credits. The following tables represent all of the Corporation's commercial credit exposures by internally assigned grades as of December 31, 2020 and 2019. The grading analysis estimates the capability of the borrower to repay the contractual obligations under the loan agreements as scheduled or at all. The Corporation's internal commercial credit risk grading system is based on experiences with similarly graded loans.

The Corporation's internally assigned grades for commercial credits are as follows:

- Pass – loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral.
- Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.
- Substandard – loans that have a well-defined weakness based on objective evidence and characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected.
- Doubtful – loans classified as doubtful have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.

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- Loss – loans classified as a loss are considered uncollectible, or of such value that continuance as an asset is not warranted.

COMMERCIAL CREDIT EXPOSURE

CREDIT RISK PROFILE BY INTERNALLY ASSIGNED GRADE

(DOLLARS IN THOUSANDS)

December 31, 2020	Commercial Mortgages \$	Agriculture Mortgages \$	Commercial and Construction Industrial \$	Tax-free Loans \$	Agriculture Loans \$	Total \$
Grade:						
Pass	133,853	166,102	21,142	87,767	10,949	438,399
Special Mention	3,683	1,651	2,299	5,592	-	13,999
Substandard	5,162	8,252	-	4,537	-	18,956
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	142,698	176,005	23,441	97,896	10,949	471,354

COMMERCIAL CREDIT EXPOSURE

CREDIT RISK PROFILE BY INTERNALLY ASSIGNED GRADE

(DOLLARS IN THOUSANDS)

December 31, 2019	Commercial Mortgages \$	Agriculture Mortgages \$	Commercial and Construction Industrial \$	Tax-free Loans \$	Agriculture Loans \$	Total \$
Grade:						
Pass	117,875	158,896	16,209	52,028	16,388	379,926
Special Mention	827	4,546	-	618	-	6,930
Substandard	1,510	11,925	-	5,293	-	20,063
Doubtful	-	-	-	80	-	80
Loss	-	-	-	-	-	-
Total	120,212	175,367	16,209	58,019	16,388	406,999

For consumer loans, the Corporation evaluates credit quality based on whether the loan is considered performing or non-performing. A consumer loan is considered non-performing when it is over 90 days past due. Management will generally charge off consumer loans more than 120 days past due for closed end loans and over 180 days for open-end consumer loans. The following table presents the balances of consumer loans by classes of the loan portfolio based on payment performance as of December 31, 2020 and 2019:

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CONSUMER CREDIT EXPOSURE

CREDIT RISK PROFILE BY PAYMENT PERFORMANCE

(DOLLARS IN THOUSANDS)

	1-4 Family Residential Mortgages	Home Equity Loans	Home Equity Lines of Credit	Consumer	Total
December 31, 2020					
Payment performance:	\$	\$	\$	\$	\$
Performing	262,185	10,708	71,267	5,141	349,301
Non-performing	1,384	-	23	14	1,421
Total	263,569	10,708	71,290	5,155	350,722

CONSUMER CREDIT EXPOSURE

CREDIT RISK PROFILE BY PAYMENT PERFORMANCE

(DOLLARS IN THOUSANDS)

	1-4 Family Residential Mortgages	Home Equity Loans	Home Equity Lines of Credit	Consumer	Total
December 31, 2019					
Payment performance:	\$	\$	\$	\$	\$
Performing	257,374	9,678	70,799	5,412	343,263
Non-performing	1,302	92	10	4	1,408
Total	258,676	9,770	70,809	5,416	344,671

The following tables present an age analysis of the Corporation's past due loans, segregated by loan portfolio class, as of December 31, 2020 and 2019:

AGING OF LOANS RECEIVABLE

(DOLLARS IN THOUSANDS)

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
December 31, 2020	\$	\$	\$	\$	\$	\$	\$
Commercial real estate							
Commercial mortgages	-	-	208	208	142,490	142,698	-
Agriculture mortgages	-	-	-	-	176,005	176,005	-
Construction	-	-	-	-	23,441	23,441	-
Consumer real estate							
1-4 family residential mortgages	618	-	1,384	2,002	261,567	263,569	1,336
Home equity loans	1	-	-	1	10,707	10,708	-
Home equity lines of credit	-	-	23	23	71,267	71,290	23
Commercial and industrial							
Commercial and industrial	-	-	469	469	97,427	97,896	-
Tax-free loans	-	-	-	-	10,949	10,949	-
Agriculture loans	42	-	-	42	20,323	20,365	-
Consumer	23	3	14	40	5,115	5,155	14
Total	684	3	2,098	2,785	819,291	822,076	1,373

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AGING OF LOANS RECEIVABLE
(DOLLARS IN THOUSANDS)

December 31, 2019	30-59 Days Past Due \$	60-89 Days Past Due \$	Greater than 90 Days \$	Total Past Due \$	Current \$	Total Loans Receivable \$	Loans Receivable > 90 Days and Accruing \$
Commercial real estate							
Commercial mortgages	-	-	228	228	119,984	120,212	-
Agriculture mortgages	962	-	1,070	2,032	173,335	175,367	-
Construction	-	-	-	-	16,209	16,209	-
Consumer real estate							
1-4 family residential mortgages	2,254	161	1,302	3,717	254,959	258,676	807
Home equity loans	52	-	92	144	9,626	9,770	-
Home equity lines of credit	43	-	10	53	70,756	70,809	10
Commercial and industrial							
Commercial and industrial	68	-	538	606	57,413	58,019	-
Tax-free loans	-	-	-	-	16,388	16,388	-
Agriculture loans	2	-	-	2	20,802	20,804	-
Consumer	14	12	4	30	5,386	5,416	4
Total	3,395	173	3,244	6,812	744,858	751,670	821

As of December 31, 2020, and 2019, all of the Corporation's non-homogeneous loans on non-accrual status were also considered impaired. Interest income on loans would have increased by approximately \$54,000 and \$137,000 during 2020 and 2019, respectively, if these loans had performed in accordance with their original terms.

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Notes to Consolidated Financial Statements

The following table presents non-accrual loans by classes of the loan portfolio as of December 31:

NON-ACCRUAL LOANS BY LOAN CLASS
(DOLLARS IN THOUSANDS)

	2020	2019
	\$	\$
Commercial real estate		
Commercial mortgages	208	228
Agriculture mortgages	-	1,070
Construction	-	-
Consumer real estate		
1-4 family residential mortgages	48	495
Home equity loans	-	92
Home equity lines of credit	-	-
Commercial and industrial		
Commercial and industrial	469	538
Tax-free loans	-	-
Agriculture loans	-	-
Consumer	-	-
Total	725	2,423

There was one loan modification made during the third quarter of 2020 that would be considered a troubled debt restructuring (TDR). One \$3.6 million loan was restructured to provide relief to the commercial borrower by reducing the interest rate, providing a six-month interest only period, and extending the amortization period by an additional nine years. In addition to this TDR, deferments of principal related to the impact of COVID-19 did occur beginning in late March 2020, however these modifications are not considered a TDR under the revised COVID-19 regulatory guidance. There was one loan modification that occurred during the first quarter of 2019, constituting a TDR. A modification of the payment terms to a loan customer are considered a TDR if a concession was made to a borrower that is experiencing financial difficulty. A concession is generally defined as more favorable payment or credit terms granted to a borrower in an effort to improve the likelihood of the lender collecting principal in its entirety. Concessions usually are in the form of interest only for a period of time, or a lower interest rate offered in an effort to enable the borrower to continue to make normally scheduled payments. As of December 31, 2020 and 2019, included within the allowance for credit losses are reserves of \$1,131,000 and \$60,000, respectively, that are associated with loans modified as a TDR. There were no TDRs that have subsequently defaulted within one year of modification as of December 31, 2020 and 2019.

In the first quarter of 2019, a loan modification was made on a \$718,000 agricultural mortgage which moved the timing of the annual principal payment and changed interest payments from monthly to annually. The farmer had suffered a fire loss in late 2018 impacting one year's harvest. The principal and interest payment due date was reset to November 15, 2019, when it was paid. No other loans were modified during 2019 or 2020.

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Notes to Consolidated Financial Statements

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2020:

IMPAIRED LOAN ANALYSIS
(DOLLARS IN THOUSANDS)

	Recorded Investment \$	Unpaid Principal Balance \$	Related Allowance \$	Average Recorded Investment \$	Interest Income Recognized \$
With no related allowance recorded:					
Commercial real estate					
Commercial mortgages	256	318	-	798	-
Agriculture mortgages	806	835	-	1,170	46
Construction	-	-	-	-	-
Total commercial real estate	1,062	1,153	-	1,968	46
Commercial and industrial					
Commercial and industrial	469	504	-	513	23
Tax-free loans	-	-	-	-	-
Agriculture loans	-	-	-	-	-
Total commercial and industrial	469	504	-	513	23
Total with no related allowance	1,531	1,657	-	2,481	69
With an allowance recorded:					
Commercial real estate					
Commercial mortgages	3,581	3,581	1,110	1,468	57
Agriculture mortgages	651	651	21	679	34
Construction	-	-	-	-	-
Total commercial real estate	4,232	4,232	1,131	2,147	91
Commercial and industrial					
Commercial and industrial	-	-	-	-	-
Tax-free loans	-	-	-	-	-
Agriculture loans	-	-	-	-	-
Total commercial and industrial	-	-	-	-	-
Total with a related allowance	4,232	4,232	1,131	2,147	91
Total by loan class:					
Commercial real estate					
Commercial mortgages	3,837	3,899	1,110	2,266	57
Agriculture mortgages	1,457	1,486	21	1,849	80
Construction	-	-	-	-	-
Total commercial real estate	5,294	5,385	1,131	4,115	137
Commercial and industrial					
Commercial and industrial	469	504	-	513	23
Tax-free loans	-	-	-	-	-
Agriculture loans	-	-	-	-	-
Total commercial and industrial	469	504	-	513	23
Total	5,763	5,889	1,131	4,628	160

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Notes to Consolidated Financial Statements

The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2019:

IMPAIRED LOAN ANALYSIS
(DOLLARS IN THOUSANDS)

	Recorded Investment \$	Unpaid Principal Balance \$	Related Allowance \$	Average Recorded Investment \$	Interest Income Recognized \$
With no related allowance recorded:					
Commercial real estate					
Commercial mortgages	723	765	-	859	-
Agriculture mortgages	1,912	1,928	-	1,903	43
Construction	-	-	-	-	-
Total commercial real estate	2,635	2,693	-	2,762	43
Commercial and industrial					
Commercial and industrial	-	-	-	-	-
Tax-free loans	-	-	-	-	-
Agriculture loans	-	-	-	-	-
Total commercial and industrial	-	-	-	-	-
Total with no related allowance	2,635	2,693	-	2,762	43
With an allowance recorded:					
Commercial real estate					
Commercial mortgages	93	100	49	93	-
Agriculture mortgages	718	718	60	760	-
Construction	-	-	-	-	-
Total commercial real estate	811	818	109	853	-
Commercial and industrial					
Commercial and industrial	538	549	80	261	-
Tax-free loans	-	-	-	-	-
Agriculture loans	-	-	-	-	-
Total commercial and industrial	538	549	80	261	-
Total with a related allowance	1,349	1,367	189	1,114	-
Total by loan class:					
Commercial real estate					
Commercial mortgages	816	865	49	952	-
Agriculture mortgages	2,630	2,646	60	2,663	43
Construction	-	-	-	-	-
Total commercial real estate	3,446	3,511	109	3,615	43
Commercial and industrial					
Commercial and industrial	538	549	80	261	-
Tax-free loans	-	-	-	-	-
Agriculture loans	-	-	-	-	-
Total commercial and industrial	538	549	80	261	-
Total	3,984	4,060	189	3,876	43

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2020:

ALLOWANCE FOR CREDIT LOSSES AND RECORDED INVESTMENT IN LOANS RECEIVABLE
(DOLLARS IN THOUSANDS)

	Commercial Real Estate \$	Consumer Real Estate \$	Commercial and Industrial \$	Consumer \$	Unallocated \$	Total \$
Allowance for credit losses:						
Beginning balance	4,319	2,855	1,784	41	448	9,447
Charge-offs	(45)	-	(23)	(20)	-	(88)
Recoveries	11	-	4	3	-	18
Provision	2,044	594	207	28	77	2,950
Ending balance	6,329	3,449	1,972	52	525	12,327
Ending balance: individually evaluated for impairment	1,131	-	-	-	-	1,131
Ending balance: collectively evaluated for impairment	5,198	3,449	1,972	52	525	11,196
Loans receivable:						
Ending balance	342,144	345,567	129,210	5,155		822,076
Ending balance: individually evaluated for impairment	5,294	-	469	-		5,763
Ending balance: collectively evaluated for impairment	336,850	345,567	128,741	5,155		816,313

The dollar amount of the allowance increased for all loan segments since December 31, 2019. The higher provision in the commercial real estate sector was due to a specific allocation of \$1.1 million for a customer with ongoing business concerns. The higher provisions across the other categories were primarily caused by increasing the qualitative factors across all industry lines to various degrees as a result of the impact and effect from COVID-19 and the declining economic conditions. There were minimal charge-offs and recoveries recorded during the year ended December 31, 2020, so the provision expense was primarily related to the specific allocation as well as the change in economic conditions and potential for credit declines moving forward.

The Corporation's allowance allocation is still overweighted toward commercial real estate loans due to the higher historical losses experienced. Approximately 51% of the allowance is dedicated to this sector that comprises 42% of total loan balances. This compares to 28% of the allowance being allocated to the consumer real estate sector which comprises 42% of all loan balances. Losses on consumer real estate have traditionally been lower than commercial loans. The commercial and industrial sector has 16% of the allowance allocated and comprises 16% of loan balances. Commercial and industrial historical losses have generally been lower than commercial real estate but higher than consumer real estate, based on loan balances outstanding. The December 31, 2020 ending balance of the allowance was up \$2,880,000, or 30.5%, from December 31, 2019, and the allowance as a percentage of total loans was 1.50% as of December 31, 2020, and 1.25% as of December 31, 2019.

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Notes to Consolidated Financial Statements

The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2019:

ALLOWANCE FOR CREDIT LOSSES AND RECORDED INVESTMENT IN LOANS RECEIVABLE
(DOLLARS IN THOUSANDS)

	Commercial					
	Commercial Real Estate	Consumer Real Estate	and Industrial	Consumer	Unallocated	Total
	\$	\$	\$	\$	\$	\$
Allowance for credit losses:						
Beginning balance	4,296	2,408	1,428	103	431	8,666
Charge-offs	(122)	-	(63)	(26)	-	(211)
Recoveries	170	1	48	3	-	222
Provision (credit)	(25)	446	371	(39)	17	770
Ending balance	4,319	2,855	1,784	41	448	9,447
Ending balance: individually evaluated for impairment	109	-	80	-	-	189
Ending balance: collectively evaluated for impairment	4,210	2,855	1,704	41	448	9,258
Loans receivable:						
Ending balance	311,788	339,255	95,211	5,416		751,670
Ending balance: individually evaluated for impairment	3,446	-	538	-		3,984
Ending balance: collectively evaluated for impairment	308,342	339,255	94,673	5,416		747,686

The dollar amount of the allowance increased for all loan segments except consumer from December 31, 2018 to December 31, 2019. Loan growth was the direct cause of the higher allowance balances, with the levels of charge offs being relatively low in 2019 at \$211,000, and more than offset by \$222,000 of recoveries. A larger amount of recoveries than charge-offs in commercial loans allowed for a credit provision, whereas under commercial and industrial loans the charge offs as a percentage of loan balance were more pronounced. This increased the historical loss ratios, causing the allocation of additional provision expense of \$371,000. The decline in allowance allocated to the consumer loans was due to smaller balances in this loan segment as a large consumer loan paid off in 2019. Impaired loans increased by \$1,275,000 from December 31, 2018 to December 31, 2019, which did cause a \$57,000 increase in the specific allocation of provision expense on these loans.

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Notes to Consolidated Financial Statements

NOTE D – PREMISES AND EQUIPMENT
(DOLLARS IN THOUSANDS)

The major classes of the Corporation's premises and equipment and accumulated depreciation are as follows:

	December 31,	
	2020	2019
	\$	\$
Land	5,043	5,043
Buildings and improvements	29,742	29,610
Furniture and equipment	15,890	15,240
Construction in process	385	104
Total	51,060	49,997
Less accumulated depreciation	(26,300)	(24,964)
Premises and equipment	24,760	25,033

Depreciation expense, which is included in operating expenses, amounted to \$1,377,000 for 2020, and \$1,446,000 for 2019. The construction in process category represents expenditures for ongoing projects. When construction is completed, these amounts will be reclassified into buildings and improvements, and/or furniture and equipment. Depreciation only begins when the project or asset is placed into service. As of December 31, 2020 and 2019, the construction in process consists primarily of costs associated with various small projects.

NOTE E – REGULATORY STOCK

The Bank is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh, which is one of 12 regional Federal Home Loan Banks. Each FHLB serves as a reserve or central bank for its members within its assigned region. As a member, the Bank is required to purchase and maintain stock in the FHLB in an amount equal to 0.10% of its asset value plus an additional 4% of its outstanding advances from the FHLB and mortgage partnership finance loans sold to the FHLB. At December 31, 2020, the Bank held \$5,919,000 in stock of the FHLB compared to \$7,103,000 as of December 31, 2019.

The FHLB repurchases excess capital stock on a quarterly basis and pays a quarterly dividend on stock held by the Corporation. The FHLB's quarterly dividend yield was 6.25% annualized on activity stock and 4.50% annualized on membership stock as of December 31, 2020. Most of the Corporation's dividend is based on the activity stock, which is based on the amount of borrowings and mortgage activity with FHLB. The Corporation will continue to monitor the financial condition of the FHLB quarterly to assess its ability to continue to regularly repurchase excess capital stock and pay a quarterly dividend.

The Corporation also owned \$151,000 of Federal Reserve Bank stock and \$37,000 of Atlantic Community Bancshares, Inc. stock, the Bank Holding Company of ACBB, as of December 31, 2020 and December 31, 2019.

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Notes to Consolidated Financial Statements

NOTE F – DEPOSITS
(DOLLARS IN THOUSANDS)

Deposits by major classifications are summarized as follows:

	December 31,	
	2020	2019
	\$	\$
Non-interest bearing demand	534,853	363,857
Interest-bearing demand	47,092	25,171
NOW accounts	137,279	96,941
Money market deposit accounts	140,113	141,649
Savings accounts	274,386	211,285
Time deposits under \$250,000	111,001	126,796
Time deposits of \$250,000 or more	8,087	8,389
Total deposits	1,252,811	974,088

At December 31, 2020, the scheduled maturities of time deposits are as follows:

2021	68,116
2022	17,267
2023	10,592
2024	16,104
2025	7,009
Total	119,088

NOTE G – SHORT TERM BORROWINGS
(DOLLARS IN THOUSANDS)

Short-term borrowings consist of Federal funds purchased that mature one business day from the transaction date, overnight borrowings from the Federal Reserve Discount Window, and FHLB advances with a term of less than one year.

A summary of short-term borrowings is as follows for the years ended December 31, 2020 and 2019:

	2020	2019
	\$	\$
Total short-term borrowings outstanding at year end	-	200
Average interest rate at year end	-	1.95%
Maximum outstanding at any month end	11,012	7,747
Average amount outstanding for the year	2,342	1,890
Weighted-average interest rate for the year	0.33%	2.55%

As of December 31, 2020, the Corporation had approved unsecured Federal funds lines of \$32 million. The Corporation also has the ability to borrow through the FRB Discount Window. The amount of borrowing available through the Discount Window was \$49.5 million as of December 31, 2020. For further information on borrowings from the FHLB see Note H.

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NOTE H – OTHER BORROWED FUNDS

(DOLLARS IN THOUSANDS)

Federal Home Loan Bank (FHLB) Borrowings

Maturities of FHLB borrowings at December 31, 2020, and 2019, are summarized as follows:

	December 31,			
	2020		2019	
	Amount	Weighted-Average Rate	Amount	Weighted-Average Rate
	\$	%	\$	%
FHLB fixed rate loans				
2020	-	-	16,340	1.85
2021	-	-	14,505	1.72
2022	10,584	2.13	15,804	1.84
2023	13,816	2.77	13,816	2.77
2024	17,407	2.02	17,407	2.02
2025	12,983	1.47	-	-
Total other borrowings	54,790	2.10	77,872	2.02

All of the Corporation's long term borrowed funds were through the FHLB of Pittsburgh as of December 31, 2020 and 2019. As a member of the FHLB of Pittsburgh, the Corporation has access to significant credit facilities. Borrowings from FHLB are secured with a blanket security agreement and the required investment in FHLB member bank stock. As part of the security agreement, the Corporation maintains unencumbered qualifying assets (principally 1-4 family residential mortgage loans) in an amount at least as much as the advances from the FHLB. Additionally, all of the Corporation's FHLB stock is pledged to secure these advances.

The Corporation had an FHLB maximum borrowing capacity of \$471.0 million as of December 31, 2020, with remaining borrowing capacity of \$416.2 million. The borrowing arrangement with the FHLB is subject to annual renewal. The maximum borrowing capacity is recalculated quarterly.

Subordinated Debt

Subordinated debt at December 31, 2020 and 2019 was as follows:

(Dollars in thousands)

Issued by	Ranking	December 31,		Rate	Issued Amount	Date Issued	Maturity
		2020	2019				
		Carrying Amount	Carrying Amount				
		\$	\$	%	\$		
ENB Financial Corp	Subordinated (1)(2)	19,601	-	4.00 %	20,000	12/30/20	12/30/30

(1) The subordinated notes qualify as Tier 2 capital for regulatory capital purposes.

(2) ENB Financial Corp has the ability to call the subordinated notes, in whole, or in part, at a redemption price equal to 100% of the principal balance at certain times on or after December 30, 2025.

NOTE I – CAPITAL TRANSACTIONS

On February 20, 2019, the Board of Directors of the Corporation approved a plan to repurchase, in the open market and privately renegotiated transactions, up to 100,000 shares of its outstanding common stock. This plan replaced the 2015 plan. The first purchase of common stock under this plan occurred on May 13, 2019. The total number of

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Notes to Consolidated Financial Statements

shares authorized to be repurchased under the plan was increased to 200,000 pursuant to the 2-for-1 stock split, which became effective on June 28, 2019. By October 21, 2020, a total of 176,669 shares were repurchased at a total cost of \$3,596,000 for an average cost per share of \$20.35.

On October 21, 2020, the Board of Directors of the Corporation approved a plan to repurchase, in open market and privately negotiated transactions, up to 200,000 shares of its outstanding common stock. This current plan replaces the 2019 plan. The first purchase of common stock under this plan occurred on October 23, 2020. By December 31, 2020, a total of 10,000 shares were repurchased at a total cost of \$187,000, for an average cost per share of \$18.70. Shares repurchased under these plans were held as treasury shares to be utilized in connection with the Corporation's three stock purchase plans.

Currently, the following three stock purchase plans are in place:

- a nondiscriminatory employee stock purchase plan (ESPP), which allows employees to purchase shares at a 10% discount from the stock's fair market value at the end of each quarter,
- a dividend reinvestment plan (DRP), and;
- a directors' stock purchase plan (DSPP).

The ESPP was started in 2001 and is the largest of the three plans. There were 20,624 shares issued through the ESPP in 2020 with 255,888 shares issued since existence. The DRP was started in 2005 and has grown to nearly as large as the ESPP with 12,773 shares issued in 2020 and 217,226 total shares issued since existence. Lastly, the DSPP was started in 2010 as an additional option for board compensation. This plan is limited to outside directors. Only 1,494 shares were issued in connection with this plan in 2020 and 37,532 since existence. In 2019, there were 17,421 shares issued through the ESPP, 12,783 shares issued through the DRP, and 1,540 shares issued through the DSPP. The plans are beneficial to the Corporation as all reissued shares increase capital and since dividends are paid out in the form of additional shares, the plans act as a source of funds. The total amount of shares issued from Treasury for these plans collectively in 2020 and 2019 was 34,891 and 31,744, respectively. As of December 31, 2020, the Corporation held 172,884 treasury shares, at a weighted-average cost of \$19.84 per share, with a cost basis of \$3,430,000.

NOTE J – RETIREMENT PLANS

The Corporation has a 401(k) Savings Plan under which the Corporation makes an employer matching contribution, a non-elective safe harbor contribution and a discretionary non-elective profit sharing contribution. Employee contributions to the plan are subject to the maximum annual Internal Revenue Service contribution amounts which were \$19,500 for 2020, and \$19,000 for 2019, for persons under age 50, and for persons over age 50 was \$26,000 in 2020 and \$25,000 in 2019. The employer matching contribution is made on the compensation of all eligible employees, up to a maximum of 2.5% of an eligible employee's compensation, at \$0.50 for every \$1.00 of employee contribution up to 5% of an eligible employee's salary. The Corporation's cost for this 401(k) match was \$398,000 and \$363,000 for 2020 and 2019, respectively.

The employer non-elective safe harbor contribution is 3% of all employee compensation for the year. Based on the performance of the Corporation the Compensation Committee determined the discretionary non-elective profit sharing contribution would be 2% of all eligible employee compensation. For the Corporation, the expense of the 401(k) matching contribution will be smaller than the non-elective safe harbor and the discretionary non-elective profit sharing expenses as the Corporation is matching a maximum of up to 2.5% of salary, depending on employee contributions, compared to contributing up to 5.0% of eligible employee's salaries in the safe harbor and discretionary profit sharing contributions.

For purposes of the 401(k) Savings Plan, covered compensation was limited to \$285,000 in 2020 and \$280,000 in 2019. Total expenses of the plan were \$622,000 and \$692,000, for 2020 and 2019, respectively. The Corporation's 401(k) Savings Plan is fully funded as all obligations are funded monthly.

NOTE K - DEFERRED COMPENSATION

Prior to 1999, directors of the Corporation had the ability to defer their directors' fees into a directors' deferred compensation plan. Directors electing to defer their compensation signed a contract that allowed the Corporation to take out a life insurance policy on the director designed to fund the future deferred compensation obligation, which is paid out over a ten-year period at retirement age. A contract and life insurance policy was taken out for each period of pay deferred. The amount of deferred compensation to be paid to each director was actuarially determined based on the amount of life insurance the annual directors' fees were able to purchase. This amount varies for each director depending on age, general health, and the number of years until the director is entitled to begin receiving payments. The Corporation is the owner and beneficiary of all life insurance policies on the directors.

At the time the directors' pay was deferred, the Corporation used the amount of the annual directors' fees to pay the premiums on the life insurance policies. The Corporation could continue to pay premiums after the deferment period, or could allow the policies to fund annual premiums through loans against the policy's cash surrender value. The Corporation has continued to pay the premiums on the life insurance policies and no loans exist on the policies.

The life insurance policies had an aggregate face amount of \$3,409,000 for December 31, 2020, and December 31, 2019. The death benefits totaled \$6,734,000 at December 31, 2020, and \$6,768,000 at December 31, 2019. The cash surrender value of the above policies totaled \$5,177,000 and \$4,980,000 as of December 31, 2020, and 2019, respectively.

NOTE L - INCOME TAXES

Federal income tax expense as reported differs from the amount computed by applying the statutory Federal income tax rate to income before taxes. A reconciliation of the differences by amount and percent is as follows:

FEDERAL INCOME TAX SUMMARY

(DOLLARS IN THOUSANDS)

	Year Ended December 31,			
	2020		2019	
	\$	%	\$	%
Income tax at statutory rate	3,063	21.0	2,839	21.0
Tax-exempt interest income	(695)	(4.8)	(650)	(4.8)
Non-deductible interest expense	50	0.3	56	0.4
Bank-owned life insurance	(151)	(1.0)	(153)	(1.1)
Other	18	0.1	34	0.2
Income tax expense	2,285	15.6	2,126	15.7

The ability to realize the benefit of deferred tax assets is dependent upon a number of factors, including the generation of future taxable income, the ability to carry back losses to recover taxes paid in previous years, the ability to offset capital losses with capital gains, the reversal of deferred tax liabilities, and certain tax planning strategies.

U.S. generally accepted accounting principles prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

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There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Corporation recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statements of Income. With few exceptions, the Corporation is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2017.

Significant components of income tax expense are as follows:

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2020	2019
	\$	\$
Current tax expense	2,931	2,412
Deferred tax benefit	(646)	(286)
Income tax expense	2,285	2,126

Components of the Corporation's net deferred tax position are as follows:

(DOLLARS IN THOUSANDS)

	December 31,	
	2020	2019
	\$	\$
Deferred tax assets		
Allowance for credit losses	2,589	1,984
Allowance for off-balance sheet extensions of credit	168	92
Interest on non-accrual loans	11	9
Other	47	75
Total deferred tax assets	2,815	2,160
Deferred tax liabilities		
Premises and equipment	(987)	(993)
Net unrealized holding gains on securities available for sale	(2,115)	(426)
Mortgage servicing rights	(93)	(113)
Discount on investment securities	(45)	(9)
Other	(15)	(15)
Total deferred tax liabilities	(3,255)	(1,556)
Net deferred tax (liabilities) assets	(440)	604

NOTE M – REGULATORY MATTERS AND RESTRICTIONS

The Corporation and the Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth below) of tier I capital to average assets, and common equity tier I capital, tier I capital, and total capital to risk-weighted assets.

As of December 31, 2020 and 2019, the Corporation and Bank were categorized as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category. The following chart details the Corporation's and the Bank's capital levels as of December 31, 2020 and December 31, 2019, compared to regulatory levels.

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CAPITAL LEVELS
(DOLLARS IN THOUSANDS)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	\$	%	\$	%	\$	%
As of December 31, 2020						
Total Capital to Risk-Weighted Assets						
Consolidated.....	153,801	16.1	76,334	8.0	95,417	10.0
Bank.....	145,434	15.3	76,249	8.0	95,311	10.0
Tier I Capital to Risk-Weighted Assets						
Consolidated.....	122,258	12.8	57,250	6.0	76,334	8.0
Bank.....	133,505	14.0	57,187	6.0	76,249	8.0
Common Equity Tier I Capital to Risk-Weighted Assets						
Consolidated.....	122,258	12.8	42,938	4.5	62,021	6.5
Bank.....	133,505	14.0	42,890	4.5	61,952	6.5
Tier I Capital to Average Assets						
Consolidated.....	122,258	9.0	54,334	4.0	67,918	5.0
Bank.....	133,505	9.8	54,334	4.0	67,918	5.0
As of December 31, 2019						
Total Capital to Risk-Weighted Assets						
Consolidated.....	124,970	14.5	68,740	8.0	85,925	10.0
Bank.....	123,346	14.4	68,688	8.0	85,860	10.0
Tier I Capital to Risk-Weighted Assets						
Consolidated.....	115,087	13.4	51,555	6.0	68,740	8.0
Bank.....	113,463	13.2	51,516	6.0	68,688	8.0
Common Equity Tier I Capital to Risk-Weighted Assets						
Consolidated.....	115,087	13.4	38,666	4.5	55,851	6.5
Bank.....	113,463	13.2	38,637	4.5	55,809	6.5
Tier I Capital to Average Assets						
Consolidated.....	115,087	9.9	46,271	4.0	57,839	5.0
Bank.....	113,463	9.8	46,271	4.0	57,839	5.0

In addition to the capital guidelines, certain laws restrict the amount of dividends paid to stockholders in any given year. The approval of the OCC shall be required if the total of all dividends declared by the Corporation in any year shall exceed the total of its net profits for that year combined with retained net profits of the preceding two years. Under this restriction, the Corporation could declare dividends in 2021, without the approval of the OCC, of approximately \$14.0 million, plus an additional amount equal to the Corporation's net profits for 2021, up to the date of any such dividend declaration.

NOTE N – TRANSACTIONS WITH DIRECTORS AND OFFICERS

The following table presents activity in the amounts due from directors, executive officers, immediate family, and affiliated companies. These transactions are made on the same terms and conditions, including interest rates and collateral requirements as those prevailing at the time for comparable transactions with others. An analysis of the activity with respect to such aggregate loans to related parties is shown below.

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LOANS TO INSIDERS
(DOLLARS IN THOUSANDS)

	Actual \$
Balance, January 1, 2019	5,169
Advances	140
Repayments	(136)
Other changes	<u>(4,533)</u>
Balance, December 31, 2019	<u>640</u>
Balance, January 1, 2020	640
Advances	16
Repayments	(622)
Other changes	<u>(3)</u>
Balance, December 31, 2020	<u>31</u>

In the Corporation's case, other changes in the table above for the year ended December 31, 2020, represented the retirement of one director, and for the year ended December 31, 2019, represented two directors and two executive officers who retired during the year.

Deposits from the insiders totaled \$2,313,000 as of December 31, 2020, and \$1,019,000 as of December 31, 2019.

NOTE O - COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Corporation makes various commitments that are not reflected in the accompanying consolidated financial statements. These are commonly referred to as off-balance sheet commitments and include firm commitments to extend credit, unused lines of credit, and open letters of credit. On December 31, 2020, firm loan commitments totaled approximately \$77.1 million; unused lines of credit totaled \$322.4 million; and open letters of credit totaled \$8.5 million. The sum of these commitments, \$408.0 million, represents total exposure to credit loss in the event of nonperformance by customers with respect to these financial instruments; however the vast majority of these commitments are typically not drawn upon. The same credit policies for on-balance sheet instruments apply for making commitments and conditional obligations and the actual credit losses that could arise from the exercise of these commitments is expected to compare favorably with the loan loss experience on the loan portfolio taken as a whole. Commitments to extend credit on December 31, 2019, totaled \$334.1 million, representing firm loan commitments of \$62.2 million, unused lines of credit of \$263.2 million, and open letters of credit totaling \$8.7 million.

Firm commitments to extend credit and unused lines of 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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on an individual basis. The amount of collateral obtained, if deemed necessary by the extension of credit, is based on management's credit evaluation of the customer. These commitments are supported by various types of collateral, where it is determined that collateral is required.

Open letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. Most guarantees expire within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. While various assets of the customer act as collateral for these letters of credit, real estate is the primary collateral held for these potential obligations.

NOTE P - FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

The Corporation determines concentrations of credit risk by reviewing loans by borrower, geographical area, and loan purpose. The amount of credit extended to a single borrower or group of borrowers is capped by the legal lending limit, which is defined as 15% of the Bank's risk-based capital, less the allowance for credit losses. The Corporation's lending policy further restricts the amount to 75% of the legal lending limit. As of December 31, 2020, the Corporation's legal lending limit was \$21,815,000, and the Corporation's lending policy limit was \$16,361,000. This compared to a legal lending limit of \$18,502,000, and lending policy limit of \$13,876,000 as of December 31, 2019. As of December 31, 2020 and 2019, no lending relationships exceeded the Corporation's internal lending policy limit.

Geographically, the primary lending area for the Corporation encompasses Lancaster, Lebanon, and Berks counties of Pennsylvania, with the vast majority of the loans made in Lancaster County. The ability of debtors to honor their loan agreements is impacted by the health of the local economy. The Corporation's immediate market area benefits from a diverse economy, which has resulted in a diverse loan portfolio. As a community bank, the largest amount of loans outstanding consists of personal mortgages, residential rental loans, and personal loans secured by real estate. Beyond personal lending, the Corporation's business and commercial lending includes loans for agricultural, construction, specialized manufacturing, service industries, many types of small businesses, and loans to governmental units and non-profit entities.

Management evaluates concentrations of credit based on loan purpose on a quarterly basis. The Corporation's greatest concentration of loans by purpose is residential real estate, which comprises \$345.6 million, or 42.0%, of the \$822.1 million gross loans outstanding as of December 31, 2020. This compares to \$339.3 million, or 45.1%, of the \$751.7 million of gross loans outstanding as of December 31, 2019. Residential real estate consists of first mortgages and home equity loans. A concentration in commercial real estate of 41.6%, or \$342.1 million, also exists; however, within that category there is not a concentration by specific industry type.

The Corporation remains focused on agricultural purpose loans, of which the vast majority are real estate secured. Agricultural mortgages made up 21.4% of gross loans as of December 31, 2020, compared to 23.3% as of December 31, 2019; however these agricultural mortgages are spread over several broader types of agricultural purpose loans. More specifically within these larger purpose categories, management monitors on a quarterly basis the largest concentrations of non-consumer credit based on the North American Industrial Classification System (NAICS). As of December 31, 2020, the largest specific industry type categories were dairy cattle and milk production loans of \$87.0 million, or 10.6% of gross loans, non-residential real estate investment loans of \$82.9 million, or 10.1% of gross loans, and residential real estate investment loans with a balance of \$42.8 million, or 5.2% of gross loans.

Outside of consumer and commercial real estate, including agricultural mortgages, the third largest component of the Corporation's loans consist of commercial and industrial loans. These loans are generally secured by personal guarantees, inventory, or pledges of municipalities. Out of the \$129.2 million of loans designated as commercial and industrial for the Uniform Bank Performance Reports, the largest concentration within that area is \$11.0 million of loans to political subdivisions, which account for 1.3% of gross loans outstanding. For the Corporation, these loans consisted of tax-free loans to local municipalities.

To evaluate risk for the securities portfolio, the Corporation reviews both geographical concentration and credit ratings. The largest geographical concentrations as of December 31, 2020, were obligations of states and political subdivisions located in the states of Pennsylvania, California, and Texas. Based on fair market value, the Corporation held \$44.7 million of obligations issued by municipalities within the state of Pennsylvania, which is 23.1% of the municipal portfolio, and 9.4% of total debt securities. The Corporation held \$28.4 million of obligations issued by municipalities within the state of California, which is 14.7% of the municipal portfolio, and 6.0% of total debt securities. The Corporation also held \$23.1 million of obligations of states and political subdivisions issued by municipalities located within the state of Texas, which is 11.9% of the municipal portfolio, and 4.9% of total debt securities. Internal policy requires municipal bonds purchased to be rated at least A3 by Moody's and/or A- by Standard & Poor's (S&P) at the time of purchase. As of December 31, 2020, no municipal bonds were below the A3/A- credit ratings the Corporation requires at the time of purchase.

The Corporation held \$60.4 million of corporate bonds based on amortized cost as of December 31, 2020. As a total, the \$60.4 million represents 13.0% of the Corporation's total debt securities. Management has a policy limit for corporate holdings at 55% of total regulatory capital and 20% of the securities portfolio. The Corporation was

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under both of these limits as of December 31, 2020. Management believes shorter corporate bonds currently provide better structure and return than government agencies and mortgage backed securities and CMOs. To limit the Corporation's credit exposure to any one issuer, the policy limits investment to \$3 million of par value per company. Out of the \$60.4 million of total corporate securities, \$35.3 million is domestic and \$25.1 million is foreign-issued debt. None of the Corporation's foreign corporate debt originates from the European countries that have struggled with the sovereign debt crisis, namely Portugal, Italy, Ireland, Greece, and Spain. Most of the Corporation's foreign-issued debt is from the United Kingdom, Australia, and Switzerland.

Within the corporate bond segment of the portfolio, management has preferred to invest in the banking, brokerage, and finance industry, where management is more comfortable analyzing and evaluating the credit risk of these firms. As a result, based on amortized cost, \$46.7 million, or 77.3%, of the corporate bonds held are invested in national or foreign banks, bank holding companies, brokerage firms, or finance companies. In this broader finance-related group, management has selectively pursued foreign bank-issued debt where there is governmental ownership of the bank, and/or implied backing driven by the heavy reliance on these banks for the nation's financial system. Out of the total \$46.7 million of financial and brokerage-related corporate issues, \$21.6 million is domestic and \$25.1 million is foreign. All of the \$25.1 million of foreign financial-related corporate paper is in the form of foreign bank-issued debt. Out of the \$21.6 million of domestic financial-related debt, \$12.2 million is in bank debt and \$9.4 million is in brokerage.

The remaining \$13.7 million of non-financial related corporate paper consists of \$5.1 million in energy companies, \$2.0 million in insurance companies, \$2.6 million in consumer goods, \$2.0 million in healthcare, and \$2.0 million in biotechnology.

By internal policy, at time of purchase, all corporate bonds must carry a credit rating of at least A3 by Moody's or A- by S&P, and at all times corporate bonds are to be investment grade, which is defined as Baa3 for Moody's and BBB- for S&P, or above. As of December 31, 2020, all of the Corporation's corporate bonds carried at least one single A credit rating of A3 by Moody's or A- by S&P, and all were considered investment grade.

NOTE Q – LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On January 1, 2019, the Corporation adopted ASU No. 2016-02 "Leases" (Topic 842) and all subsequent ASUs that modified Topic 842. For the Corporation, Topic 842 primarily affected the accounting treatment for operating lease agreements in which the Corporation is the lessee.

All of these leases in which the Corporation is the lessee are comprised of real estate property for branches and office space with terms extending through 2026. All of the Corporation's leases are classified as operating leases, and therefore, were previously not recognized on the Corporation's Consolidated Balance Sheets. With the adoption of Topic 842, operating lease agreements are required to be recognized on the Consolidated Balance Sheets as a right-of-use ("ROU") asset and a corresponding lease liability.

The following table represents the Consolidated Balance Sheet classification of the Corporation's ROU assets and lease liabilities.

Lease Consolidated Balance Sheets Classification

(Dollars in Thousands)	Classification	December 31, 2020	December 31, 2019
Lease Right-of-Use Assets			
Operating lease right-of use assets	Other Assets	\$ 728	\$ 908
Lease Liabilities			
Operating lease liabilities	Other Liabilities	\$ 740	\$ 916

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The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to determine the present value of the minimum lease payments. The Corporation's lease agreements often include one or more options to renew at the Corporation's discretion. If at lease inception, the Corporation considers the exercising of a renewal option to be reasonably certain, the Corporation will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As the rate is rarely determinable, the Corporation utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term. For operating leases existing prior to January 1, 2019, the rate for the remaining lease term as of January 1, 2019 was used.

	December 31, 2020	December 31, 2019
Weighted-average remaining lease term		
Operating leases	4.4 years	5.3 years
Weighted-average discount rate		
Operating leases	3.11 %	3.09%

The following table represents lease costs and other lease information. As the Corporation elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as common area maintenance and utilities.

Future minimum payments for operating leases with initial or remaining terms of one year or more as of December 31, 2020 were as follows:

Lease Payment Schedule (Dollars in Thousands)		Operating Leases
Twelve Months Ended:		
December 31, 2021	\$	204
December 31, 2022		169
December 31, 2023		153
December 31, 2024		155
December 31, 2025		93
Thereafter		20
Total Future Minimum Lease Payments		794
Amounts Representing Interests		(54)
Present Value of Net Future Minimum Lease Payments	\$	740

NOTE R - FAIR VALUE MEASUREMENTS

U.S. generally accepted accounting principles establish a hierarchal disclosure framework associated with the level of observable pricing utilized in measuring assets and liabilities at fair value. The three broad levels defined by the hierarchy are as follows:

- Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
- Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.
- Level III: Assets and liabilities that have little to no observable pricing as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgement or estimation.

This hierarchy requires the use of observable market data when available.

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The following tables provide the fair market value for assets required to be measured and reported at fair value on a recurring basis on the Consolidated Balance Sheets as of December 31, 2020 and December 31, 2019, by level within the fair value hierarchy. As required by U.S. generally accepted accounting principles, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

ASSETS REPORTED AT FAIR VALUE ON A RECURRING BASIS

(DOLLARS IN THOUSANDS)

	December 31, 2020			
	Level I	Level II	Level III	Total
	\$	\$	\$	\$
U.S. government agencies	-	54,361	-	54,361
U.S. agency mortgage-backed securities	-	71,052	-	71,052
U. S. agency collateralized mortgage obligations	-	35,035	-	35,035
Asset-backed securities	-	60,475	-	60,475
Corporate bonds	-	61,723	-	61,723
Obligations of states and political subdivisions	-	193,782	-	193,782
Marketable equity securities	7,105	-	-	7,105
Total securities	7,105	476,428	-	483,533

On December 31, 2020, the Corporation held no securities valued using level III inputs. All of the Corporation's debt instruments were valued using level II inputs, where quoted prices are available and observable but not necessarily quotes on identical securities traded in active markets on a daily basis. The Corporation's CRA fund investments and bank stocks are fair valued utilizing level I inputs because the funds have their own quoted prices in an active market. As of December 31, 2020, the CRA fund investments had a \$6,176,000 book and market value and the bank stocks had a book value of \$982,000 and a market value of \$929,000.

Financial instruments are considered level III when their values are determined using pricing models, discounted cash flow methodologies, or similar techniques, and at least one significant model assumption or input is unobservable. In addition to these unobservable inputs, the valuation models for level III financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Level III financial instruments also include those for which the determination of fair value requires significant management judgment or estimation.

ASSETS REPORTED AT FAIR VALUE ON A RECURRING BASIS

(DOLLARS IN THOUSANDS)

	December 31, 2019			
	Level I	Level II	Level III	Total
	\$	\$	\$	\$
U.S. government agencies	-	32,624	-	32,624
U.S. agency mortgage-backed securities	-	48,626	-	48,626
U. S. agency collateralized mortgage obligations	-	60,253	-	60,253
Asset-backed securities	-	23,262	-	23,262
Corporate bonds	-	54,880	-	54,880
Obligations of states and political subdivisions	-	88,452	-	88,452
Marketable equity securities	6,708	-	-	6,708
Total securities	6,708	308,097	-	314,805

On December 31, 2019, the Corporation held no securities valued using level III inputs. All of the Corporation's debt instruments were valued using level II inputs, where quoted prices are available and observable but not necessarily quotes on identical securities traded in active markets on a daily basis. The Corporation's CRA fund investments and bank stocks are fair valued utilizing level I inputs because the funds have their own quoted prices in an active market. As of December 31, 2019, the CRA fund investments had a \$6,071,000 book and market value and the bank stocks had a book value of \$614,000 and a market value of \$637,000.

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The following table provides the fair value for each class of assets required to be measured and reported at fair value on a nonrecurring basis on the Consolidated Balance Sheets as of December 31, 2020 and December 31, 2019, by level within the fair value hierarchy:

ASSETS MEASURED ON A NONRECURRING BASIS

(DOLLARS IN THOUSANDS)

		December 31, 2020			
		Level I	Level II	Level III	Total
		\$	\$	\$	\$
Assets:					
Impaired Loans		-	-	4,632	4,632
		-	-	4,632	4,632
		December 31, 2019			
		Level I	Level II	Level III	Total
		\$	\$	\$	\$
Assets:					
Impaired Loans		-	-	3,795	3,795
Total		-	-	3,795	3,795

The Corporation had a total of \$5,763,000 of impaired loans as of December 31, 2020, with \$1,131,000 of specific allocation against these loans. As of December 31, 2019, the Corporation had a total of \$3,984,000 of impaired loans with \$189,000 of specific allocation against these loans. The value of impaired loans is generally determined through independent appraisals of the underlying collateral.

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The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis for which the Corporation has utilized level III inputs to determine fair value:

QUANTITATIVE INFORMATION ABOUT LEVEL III FAIR VALUE MEASUREMENTS
(DOLLARS IN THOUSANDS)

December 31, 2020				
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Avg)
Impaired loans	4,632	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -20% (-20%)
			Liquidation expenses (2)	0% to -10% (-10%)
December 31, 2019				
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Avg)
Impaired loans	3,795	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -20% (-20%)
			Liquidation expenses (2)	0% to -10% (-10%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally includes various level III inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

NOTE S - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide the carrying amount for each class of assets and liabilities and the fair value for certain financial instruments that are not required to be measured or reported at fair value on the Corporation's Consolidated Balance Sheets as of December 31, 2020 and December 31, 2019:

FINANCIAL INSTRUMENTS NOT REQUIRED TO BE MEASURED OR REPORTED AT FAIR VALUE
(DOLLARS IN THOUSANDS)

	December 31, 2020				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
	\$	\$	\$	\$	\$
Financial Assets:					
Cash and cash equivalents	94,939	94,939	94,939	-	-
Regulatory stock	6,107	6,107	6,107	-	-
Loans held for sale	3,029	3,029	3,029	-	-
Loans, net of allowance	811,043	829,902	-	-	829,902
Mortgage servicing assets	1,076	1,083	-	-	1,083
Accrued interest receivable	4,546	4,546	4,546	-	-
Bank owned life insurance	29,646	29,646	29,646	-	-
Financial Liabilities:					
Demand deposits	534,853	534,853	534,853	-	-
Interest-bearing demand deposits	47,092	47,092	47,092	-	-
NOW accounts	137,279	137,279	137,279	-	-
Money market deposit accounts	140,113	140,113	140,113	-	-
Savings accounts	274,386	274,386	274,386	-	-
Time deposits	119,088	121,470	-	-	121,470
Total deposits	1,252,811	1,255,193	1,133,723	-	121,470
Long-term debt	54,790	51,800	-	-	51,800
Subordinated debt	19,601	19,601	-	-	19,601
Accrued interest payable	320	320	320	-	-

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

FINANCIAL INSTRUMENTS NOT REQUIRED TO BE MEASURED OR REPORTED AT FAIR VALUE
(DOLLARS IN THOUSANDS)

	December 31, 2019				
	Carrying Amount \$	Fair Value \$	Quoted Prices in Active Markets for Identical Assets (Level I) \$	Significant Other Observable Inputs (Level II) \$	Significant Unobservable Inputs (Level III) \$
Financial Assets:					
Cash and cash equivalents	41,053	41,053	41,053	-	-
Regulatory stock	7,291	7,291	7,291	-	-
Loans held for sale	2,342	2,342	2,342	-	-
Loans, net of allowance	744,171	759,011	-	-	759,011
Mortgage servicing assets	892	1,049	-	-	1,049
Accrued interest receivable	3,768	3,768	3,768	-	-
Bank owned life insurance	28,818	28,818	28,818	-	-
Financial Liabilities:					
Demand deposits	363,857	363,857	363,857	-	-
Interest-bearing demand deposits	25,171	25,171	25,171	-	-
NOW accounts	96,941	96,941	96,941	-	-
Money market deposit accounts	141,649	141,649	141,649	-	-
Savings accounts	211,285	211,285	211,285	-	-
Time deposits	135,185	136,781	-	-	136,781
Total deposits	974,088	975,684	838,903	-	136,781
Short-term borrowings	200	200	200	-	-
Long-term debt	77,872	76,825	-	-	76,825
Accrued interest payable	521	521	521	-	-

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

NOTE T – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The activity in accumulated other comprehensive income (loss) for the years ended December 31, 2020 and 2019 is as follows:

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (1) (2)
(DOLLARS IN THOUSANDS)

	Unrealized Gains on Securities Available-for-Sale \$
Balance at January 1, 2020	<u><u>1,600</u></u>
Other comprehensive income before reclassifications	6,997
Amount reclassified from accumulated other comprehensive income	<u>(639)</u>
Period change	<u>6,358</u>
Balance at December 31, 2020	<u><u>7,958</u></u>
Balance at January 1, 2019	<u><u>(5,678)</u></u>
Other comprehensive income before reclassifications	7,603
Amount reclassified from accumulated other comprehensive loss	<u>(325)</u>
Period change	<u>7,278</u>
Balance at December 31, 2019	<u><u>1,600</u></u>

(1) All amounts are net of tax. Related income tax expense or benefit is calculated using a Federal income tax rate of 21%.

(2) Amounts in parentheses indicate debits.

DETAILS ABOUT ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) COMPONENTS (1)
(DOLLARS IN THOUSANDS)

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Year Ended December 31,		Affected Line Item in the Consolidated Statements of Income
	2020 \$	2019 \$	
Securities available for sale:			
Net securities gains reclassified into earnings	809	411	Gains on sale of debt securities, net
Related income tax expense	<u>(170)</u>	<u>(86)</u>	Provision for federal income taxes
Net effect on accumulated other comprehensive income (loss) for the period	<u>639</u>	325	
Total reclassifications for the period	<u><u>639</u></u>	<u>325</u>	

(1) Amounts in parentheses indicate debits.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

NOTE U – CONDENSED PARENT ONLY DATA

Condensed Balance Sheets (Parent Company Only)
(DOLLARS IN THOUSANDS)

	December 31,	
	2020	2019
	\$	\$
Assets		
Cash	7,705	870
Equity securities	929	637
Equity in bank subsidiary	141,463	115,064
Other assets	165	117
Total assets	150,262	116,688
Liabilities		
Subordinated debt	19,601	-
Other Liabilities	445	-
Total Liabilities	20,046	-
Stockholders' Equity		
Common stock	574	574
Capital surplus	4,444	4,482
Retained earnings	120,670	111,944
Accumulated other comprehensive income, net of tax	7,958	1,600
Treasury stock	(3,430)	(1,912)
Total stockholders' equity	130,216	116,688
Total liabilities and stockholders' equity	150,262	116,688

Condensed Statements of Comprehensive Income
(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2020	2019
	\$	\$
Income		
Dividend income - investment securities	27	20
Gains (losses) on equity securities, net	(76)	88
Dividend income	5,073	5,019
Undistributed earnings of bank subsidiary	7,541	6,475
Total income	12,565	11,602
Expense		
Subordinated debt interest expense	4	-
Shareholder expenses	153	154
Other expenses	109	53
Total expense	266	207
Net Income	12,299	11,395
Comprehensive Income	18,657	18,673

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

Condensed Statements of Cash Flows

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2020	2019
	\$	\$
Cash Flows from Operating Activities:		
Net Income	12,299	11,395
Equity in undistributed earnings of subsidiaries	(7,541)	(6,475)
(Gains)losses on securities transactions, net	76	(88)
Net increase in other assets	(48)	(11)
Net increase in other liabilities	444	-
Net cash (used for) provided by operating activities	5,230	4,821
Cash Flows from Investing Activities:		
Proceeds from sales of equity securities	-	168
Purchases of equity securities	(367)	(193)
Net cash used for investing activities	(367)	(25)
Cash Flows from Financing Activities:		
Proceeds from sale of treasury stock	660	628
Proceeds from issuance of subordinated debt	19,601	-
Dividend to bank subsidiary	(12,500)	-
Treasury stock purchased	(2,216)	(1,897)
Dividends paid	(3,573)	(3,518)
Net cash provided by (used for) financing activities	1,972	(4,787)
Cash and Cash Equivalents:		
Net change in cash and cash equivalents	6,835	9
Cash and cash equivalents at beginning of period	870	861
Cash and cash equivalents at end of period	7,705	870

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

The unaudited quarterly results of operations for the years ended 2020 and 2019, are as follows:

NOTE V - SUMMARY OF QUARTERLY FINANCIAL DATA (UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2020			
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	\$	\$	\$	\$
Interest income	10,487	10,468	10,387	10,752
Interest expense	1,271	999	845	731
Net interest income	9,216	9,469	9,542	10,021
Less provision for loan losses	350	975	1,250	375
Net interest income after provision for loan losses	8,866	8,494	8,292	9,646
Other income	2,767	4,068	4,374	4,151
Operating expenses:				
Salaries and employee benefits	5,696	4,966	5,860	5,540
Occupancy and equipment expenses	881	932	896	894
Other operating expenses	2,533	2,346	2,442	3,088
Total operating expenses	9,110	8,244	9,198	9,522
Income before income taxes	2,523	4,318	3,468	4,275
Provision for Federal income taxes	358	719	533	675
Net income	2,165	3,599	2,935	3,600
FINANCIAL RATIOS				
Per share data:				
Net income	0.38	0.64	0.53	0.65
Cash dividends paid	0.16	0.16	0.16	0.16

	2019			
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	\$	\$	\$	\$
Interest income	10,162	10,462	10,590	10,523
Interest expense	1,179	1,304	1,301	1,335
Net interest income	8,983	9,158	9,289	9,188
Less provision (credit) for loan losses	180	30	630	(70)
Net interest income after provision (credit) for loan losses	8,803	9,128	8,659	9,258
Other income	2,544	2,762	2,943	3,057
Operating expenses:				
Salaries and employee benefits	5,188	5,105	5,227	5,512
Occupancy and equipment expenses	917	877	902	908
Other operating expenses	2,177	2,235	1,999	2,586
Total operating expenses	8,282	8,217	8,128	9,006
Income before income taxes	3,065	3,673	3,474	3,309
Provision for Federal income taxes	462	584	550	530
Net income	2,603	3,089	2,924	2,779
FINANCIAL RATIOS				
Per share data:				
Net income	0.46	0.54	0.51	0.49
Cash dividends paid	0.150	0.155	0.155	0.160

NOTE W – RISKS AND UNCERTAINTIES

COVID-19 Update

The following table provides information with respect to our at risk commercial loans by type at December 31, 2020.

COMMERCIAL LOANS AT RISK (Dollars in Thousands)

Loan Type	# Number of Loans	\$ Total Loan Exposure	\$ Principal Balance of Loans	% of Total Loan Balance
Lessors of Nonresidential Buildings	160	82,936	73,391	8.91%
Lessors of Residential Buildings	209	41,270	36,695	4.46%
Specialized Freight	27	14,935	10,607	1.29%
Residential Remodelers	94	10,595	3,751	0.46%
New Single Family Housing Construction	52	8,518	4,513	0.55%
Passenger Car Leasing	141	9,163	9,009	1.09%
Hotels	14	8,253	5,987	0.73%
Religious Organizations	33	8,083	6,980	0.85%
Car Washes	10	6,633	6,473	0.79%
Site Preparation Contractors	48	5,016	2,584	0.31%
Other	21	9,814	5,423	0.66%
Totals	809	205,216	165,413	20.10%

The Corporation has a diversified commercial loan portfolio that is consistent with the diversified economies of Lancaster, Lebanon and Berks Counties in Pennsylvania, the Corporation's market area. The above chart is focused on loan types that are commonly known to be at risk or negatively impacted by the COVID-19 pandemic and its effects. The Corporation's largest exposure to at risk loan types are loans on leased commercial property and loans on residential investment properties. The Corporation has a relatively low exposure to the hospitality industry, including restaurants. Single loan type exposures falling under the other category do not exceed 0.5% of total loans and include loan types such as site preparation contractors, fuel dealers, and recreational centers. The above levels of exposure to these at risk loan types have not had significant movements from 2019 to 2020. Management does not expect any significant movements in these exposures going forward.

Paycheck Protection Program (PPP)

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, was signed into law on March 27, 2020, providing over \$2 trillion in economic relief to individuals and businesses impacted by the COVID-19 pandemic. The CARES Act authorized the Small Business Administration (SBA) to temporarily guarantee loans under a new 7(a) loan program called the Paycheck Protection Program (PPP). As a qualified SBA lender, the Corporation was authorized to originate PPP loans.

In terms of qualifying for a PPP loan, an eligible business could apply for a PPP loan up to the greater of: (1) 2.5 times its average monthly payroll costs; or (2) \$10 million. The PPP loans have the following terms: (a) an interest rate of 1.0%, (b) a two-year or five-year loan term to maturity; and (c) principal and interest payments deferred for six months from the date of disbursement. The SBA will guarantee 100% of the PPP loans made to eligible borrowers. The entire principal amount of the PPP loan, including any accrued interest, is eligible to be reduced by the amount of loan forgiveness available under the PPP, provided the employee and compensation levels of the business are maintained and at least 60% of the loan proceeds are used for payroll expenses.

In the initial CARES Act, \$349 billion of funds were made available for PPP loans. This amount was fully exhausted prior to the end of April. Congress then passed an additional allocation of funds for the PPP loans, allowing a second round of applications to begin. As of September 30, 2020, the Corporation had PPP loans outstanding with current balances of \$77.7 million. During the fourth quarter of 2020, some of these loans became eligible for forgiveness from the PPP, so as of December 31, 2020, the Corporation had PPP loans outstanding with a current balance of \$48.0 million. It is anticipated that more loan forgiveness payments will be received in 2021. Management's focus has been to serve the customers and market area that the Corporation serves.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

In accordance with the SBA terms and conditions on these PPP loans, the Corporation received approximately \$3.25 million in fees associated with the processing of these loans. All fee income is being deferred over the expected life of each PPP loan. In 2020, a total of \$2.36 million of the \$3.25 million was recognized into income. The majority of initial batch of the PPP loans carried a stated maturity of two years. In later batches of PPP loans the maturity can be five years, however the vast majority of the Corporation's PPP loans carry a two-year maturity. When a PPP loan is paid off or forgiven, the remaining fee amount is taken into income. The Corporation expects there to be few loans that are on the books until the stated maturity dates.

COVID-19 Loan Forbearance Programs

As of December 31, 2020, over 330 of the Corporation's customers had requested payment deferrals, or payments of interest only, on loans originally totaling over \$65 million at the time of deferment. These loans now have a current balance of \$54.6 million, or 6.6% of the total loan portfolio as of December 31, 2020. The current balance of these loans was \$57.1 million as of September 30, 2020. In accordance with interagency guidance issued in March 2020, these short-term deferrals are not considered troubled debt restructurings (TDRs) unless the borrower was previously experiencing financial difficulty. In addition, the risk-rating on COVID-19 modified loans did not change, and these loans will not be considered past due until after the deferral period is over and scheduled payments resume. The credit quality of these loans will be reevaluated after the deferral period ends.

Of the \$54.6 million of current loan balances with payments being deferred, \$43.8 million, or 80.4%, were in the form of commercial or agricultural loan deferments, with the vast majority of these commercial loan deferrals. The remaining loan deferments consisted of \$10.5 million of residential mortgage deferrals and \$184,000 of consumer loan deferrals. The vast majority of the COVID-19 loan payment deferrals were for a 90-day period.

As of December 31, 2020 the Corporation had eight commercial loans remaining on deferment totaling \$4.6 million, and one consumer loan with a \$7,000 balance. It is expected that all of these loans will return to normal payments during the first quarter of 2021.

As of December 31, 2020, the Corporation's delinquent and non-performing levels were not yet materially impacted by the weaker economic conditions brought on by COVID-19. However, the Corporation did experience a sharp increase in the amount of impaired loans during the second half of 2020. Impaired loans grew from \$2.8 million as of June 30, 2020 to \$5.8 million as of December 31, 2020, a \$3.0 million increase. This increase was solely due to a \$3.6 million loan to one commercial borrower being classified as both impaired and a troubled debt restructuring. This borrower continues to perform according to restructured terms.

Due to the severity and length of this economic interruption, management does anticipate that the levels of delinquencies and non-performing loans will rise in 2021. The significance of the credit deterioration will depend on the length of time local business operations are curtailed, or limited, and the amount of time it takes for consumer confidence to rebuild and engage into increased purchasing activities. Management has already significantly increased the Corporation's provision for loan losses in 2020, as qualitative factors have been increased based on predicted prolonged economic weakness, which is expected to impact more and more borrowers.

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

None

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer (Principal Executive Officer) and Treasurer (Principal Financial Officer), of the effectiveness of the design and the operation of the Corporation's disclosure controls and procedures (as such term as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2020, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer (Principal Executive Officer) along with the Treasurer (Principal Financial Officer) concluded that the Corporation's disclosure controls and procedures as of December 31, 2020, are effective in timely alerting them to material information relating to the Corporation required to be in the Corporation's periodic filings under the Exchange Act.

(b) Changes in Internal Controls.

There have been no changes in the Corporation's internal controls over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

(c) Report on Management's Assessment of Internal Control over Financial Reporting

The Corporation is responsible for the preparation, integrity, and fair presentation of the financial statements included in this annual report. The financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the Corporation's system of internal control over financial reporting as of December 31, 2020, in relation to criteria for effective internal control over financial reporting as described in "Internal Control - Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of December 31, 2020, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control - Integrated Framework."

This annual report does not include an attestation report of the Corporation's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Corporation's registered public accounting firm pursuant to the Dodd-Frank Act exemption rules of the SEC that permit the Corporation to provide only Management's report in this annual report.

ENB FINANCIAL CORP

/s/ Jeffrey S. Stauffer
Jeffrey S. Stauffer
Chairman of the Board
Chief Executive Officer and President
(Principal Executive Officer)

/s/ Scott E. Lied
Scott E. Lied, CPA
Treasurer
(Principal Financial Officer)

Ephrata, PA
March 29, 2021

Item 9B. Other Information

None

Part III

Item 10. Directors, Executive Officers, and Corporate Governance

The information required by this Item, relating to directors, executive officers, and control persons is set forth under the captions, “Election of Directors,” “Information and Qualifications of Nominees for Director and Continuing Directors,” “Meetings and Committees of the Board of Directors – Audit Committee,” “Executive Officers,” “Audit Committee Report,” and “Section 16(a) Beneficial Ownership Reporting Compliance,” of the Corporation’s definitive Proxy Statement to be used in connection with the Annual Meeting of Shareholders, to be held on May 11, 2021, which is incorporated herein by reference.

The Corporation has adopted a Code of Ethics that applies to directors, officers, and employees of the Corporation and the Bank. The Code of Ethics is attached as Exhibit 14 to this Form 10-K.

There were no material changes to the procedures by which security holders may recommend nominees to the Corporation’s Board of Directors during the fourth quarter of 2020.

Item 11. Executive Compensation

The information required by this Item, relating to executive compensation, is set forth under the captions, “Board Compensation and Plan Information,” “Executive Compensation,” “Retirement Plans,” and “Potential Payments Upon Termination or Change in Control,” in the Summary Compensation Table, Defined Contribution Profit Sharing Plan Table, and the 401(k) Savings Plan – Match Data Table of the Corporation’s definitive Proxy Statement to be used in connection with the Annual Meeting of Shareholders, to be held on May 11, 2021, which is incorporated herein by reference.

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

The information required by this Item, related to beneficial ownership of the Corporation’s common stock, is set forth under the caption, “Share Ownership” of the Corporation’s definitive Proxy Statement to be used in connection with the Annual Meeting of Shareholders to be held on May 11, 2021, which is incorporated herein by reference.

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

The information required by this Item related to transactions with management and others, certain business relationships, and indebtedness of management, is set forth under the caption, “Transactions with Related Persons,” and “Governance of the Company” of the Corporation’s definitive Proxy Statement to be used in connection with the Annual Meeting of Shareholders to be held on May 11, 2021, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information required by this Item related to fees and the audit committees’ pre-approved policies are set forth under the caption, “Audit Committee Report” of the Corporation’s definitive Proxy Statement to be used in connection with the Annual Meeting of Shareholders to be held on May 11, 2021, which is incorporated herein by reference.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements.

The following financial statements are included by reference in Part II, Item 8 hereof:

- Report of Independent Registered Accounting Firm
- Consolidated Balance Sheets
- Consolidated Statements of Income
- Consolidated Statements of Comprehensive Income
- Consolidated Statements of Changes in Stockholders' Equity
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

2. The financial statement schedules required by this Item are omitted because the information is either inapplicable, not required, or is shown in the respective consolidated financial statements or the notes thereto.
3. The Exhibits filed herewith or incorporated by reference as a part of this Annual Report, are set forth in (b), below.

(b) EXHIBITS

- 3 (i) Articles of Incorporation of the Registrant, as amended. (Incorporated herein by reference to Exhibit 3.1 of the Corporation's Form 8-K filed with the SEC on June 7, 2019.)
- 3 (ii) Bylaws of the Registrant, as amended. (Incorporated herein by reference to Exhibit 3.2 of the Corporation's Form 8-K filed with the SEC on January 15, 2010.)
- 10.1 Form of Deferred Income Agreement. (Incorporated herein by reference to Exhibit 10.1 of the Corporation's Form 10-Q, filed with the SEC on August 13, 2008.)
- 10.2 2020 Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 99.1 of the Corporation's Form S-8, filed with the SEC on October 1, 2020.)
- 10.3 2020 Non-Employee Directors' Stock Plan (Incorporated herein by reference to Exhibit 99.1 of the Corporation's Form S-8 filed with the SEC on June 3, 2020.)
- 14 Code of Ethics Policy of Registrant as amended March 11, 2009. (Incorporated herein by reference to Exhibit 14 of the Corporation's Form 10-K filed with the SEC on March 12, 2009.)
- 21 Subsidiaries of the Registrant
- 23 Consent of Independent Registered Public Accounting Firm
- 31.1 Section 302 Chief Executive Officer Certification (Required by Rule 13a-14(a)/15a-14(a)).
- 31.2 Section 302 Principal Financial Officer Certification (Required by Rule 13a-14(a)/15a-14(a)).
- 32.1 Section 1350 Chief Executive Officer Certification (Required by Rule 13a-14(b)).
- 32.2 Section 1350 Principal Financial Officer Certification (Required by Rule 13a-14(b)).
- 101 Interactive Data File

(c) NOT APPLICABLE.

ENB FINANCIAL CORP

Item 16. Form 10-K Summary

None

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.

ENB FINANCIAL CORP

By: /s/ Jeffrey S. Stauffer
Jeffrey S. Stauffer, Chairman of the Board, Chief Executive Officer and President

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

<u>/s/ Jeffrey S. Stauffer</u> (Jeffrey S. Stauffer)	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	March 29, 2021
<u>/s/ Scott E. Lied, CPA</u> (Scott E. Lied)	Treasurer (Principal Financial Officer)	March 29, 2021
<u>/s/ Aaron L. Groff, Jr.</u> (Aaron L. Groff, Jr.)	Director	March 29, 2021
<u>/s/ Joshua E. Hoffman</u> (Joshua E. Hoffman)	Director	March 29, 2021
<u>/s/ Willis R. Lefever</u> (Willis R. Lefever)	Director	March 29, 2021
<u>/s/ Jay S. Martin</u> (Jay S. Martin)	Director	March 29, 2021
<u>/s/ Susan Young Nicholas, Esq.</u> (Susan Young Nicholas)	Director	March 29, 2021
<u>/s/ Dr. Brian K. Reed</u> (Dr. Brian K. Reed)	Director	March 29, 2021
<u>/s/ Mark C. Wagner</u> (Mark C. Wagner)	Director	March 29, 2021
<u>/s/ Judith A. Weaver</u> (Judith A. Weaver)	Director	March 29, 2021
<u>/s/ Roger L. Zimmerman</u> (Roger L. Zimmerman)	Director	March 29, 2021

Exhibit 21

Subsidiaries of ENB Financial Corp

Subsidiary

Incorporation

Ephrata National Bank

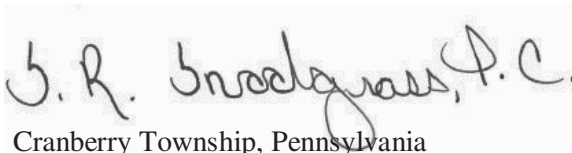
National Banking Association

Exhibit 23



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements File No. 333-152212, File No. 333-167323, File No. 333-182412, File No. 333-238920, and File No. 333-249211 on Form S-8 and Registration Statement File No. 333-152211 on Form S-3 of ENB Financial Corp of our report dated March 23, 2021, relating to our audit of the consolidated financial statements, which appears in the Annual Report to Stockholders, which is incorporated in this Annual Report on Form 10-K of ENB Financial Corp for the year ended December 31, 2020.



Cranberry Township, Pennsylvania
March 29, 2021

Exhibit 31.1

CERTIFICATION

I, **Jeffrey S. Stauffer**, certify that:

1. I have reviewed this annual report on Form 10-K of **ENB Financial Corp.**;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2021

By: /s/ Jeffrey S. Stauffer
Jeffrey S. Stauffer
Chairman of the Board
Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, **Scott E. Lied**, certify that:

1. I have reviewed this annual report on Form 10-K of **ENB Financial Corp**;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure control and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal controls over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2021

By: /s/ Scott E. Lied
Scott E. Lied, CPA
Treasurer
(Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of ENB Financial Corp (the "Corporation") for the year ended December 31, 2020, as filed with the Securities and Exchange Commission (the "Report"), I, Jeffrey S. Stauffer, Chief Executive Officer and President (Principal Executive Officer), of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation as of and for the period covered by the Report.

Date: March 29, 2021

By: /s/ Jeffrey S. Stauffer
Jeffrey S. Stauffer
Chairman of the Board
Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADDED BY
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of ENB Financial Corp (the "Corporation") for the year ended December 31, 2020, as filed with the Securities and Exchange Commission (the "Report"), I, Scott E. Lied, Treasurer (Principal Financial Officer), of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. To my knowledge, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation as of and for the period covered by the Report.

Date: March 29, 2021

By: /s/ Scott E. Lied
Scott E. Lied, CPA
Treasurer
(Principal Financial Officer)

SHAREHOLDER INFORMATION

Market Information

The price of the Corporation's common stock ranged from \$17.55 to \$23.25 in 2020 and from \$17.11 to \$21.50 in 2019. In 2020, the Corporation paid cash dividends of \$0.64 per share, compared to \$0.62 paid in 2019. The following table presents the quarterly high and low prices of the Corporation's common stock for the years 2020 and 2019, respectively, along with the quarterly dividend amount.

	High \$	2020 Low \$	Dividend \$	High \$	2019 Low \$	Dividend \$
First Quarter	23.25	17.73	0.160	18.04	17.11	0.150
Second Quarter	21.50	18.25	0.160	20.13	17.63	0.155
Third Quarter	19.50	17.55	0.160	21.50	18.90	0.155
Fourth Quarter	19.25	17.60	0.160	20.88	20.16	0.160

Investor Information

The Corporation's common stock is traded on the OTCQX Best Market under the symbol, ENBP. The following brokerage firms trade our stock on a recurring basis:

Boenning & Scattergood, Inc.
West Conshohocken, PA
(800) 842-8928
(610) 832-1212

Morgan Stanley Smith Barney
Lancaster, PA
(800) 237-1700
(717) 730-1800

Hazlett, Burt & Watson, Inc.
Lancaster, PA
(800) 657-9944
(717) 397-5515

Janney Montgomery Scott
Lancaster, PA
(800) 548-2104
(717) 560-4100

Stifel Nicolaus & Co., Inc.
Florham Park, NJ
(866) 220-4216
(610) 567-1900

RBC Wealth Management
Lancaster, PA
(866) 237-9851
(717) 519-5931

Transfer Agent and Stock Registrar

Computershare Shareholder Services
P.O. Box 505000
Louisville, KY 40233-5000
www-us.computershare.com/investor
(800) 368-5948

Dividend Reinvestment and Direct Deposit

ENB Financial Corp offers its shareholders the convenience of the direct deposit of cash dividends or the Dividend Reinvestment Plan that gives shareholders registered with the Corporation the opportunity to have their quarterly dividends invested automatically in additional shares of the Corporation's Common Stock. Shareholders who prefer a cash dividend may have their quarterly dividends deposited directly into a checking or savings account at their financial institution. For additional information for either program, contact the Stock Registrar.

Form 10-K

A copy of the Corporation's Annual Report to the Office of the Comptroller of the Currency on Form 10-K may be obtained without charge to shareholders by writing to: Adrienne L. Miller, Esq., Vice President and Corporate Secretary, ENB Financial Corp, 31 East Main Street, PO Box 457, Ephrata, Pennsylvania 17522-0457.

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, May 11, 2021, at 1:00 p.m., eastern time, virtually via the internet at www.meetingcenter.io/224128655. To access the virtual meeting, you must provide the information printed in the shaded bar located on the Proxy Card you received by mail. All inquiries regarding the Annual Meeting should be mailed to Adrienne L. Miller, Esq., Vice President and Corporate Secretary, 31 East Main Street, P.O. Box 457, Ephrata, Pennsylvania 17522 or by phone at (717) 733-4181.



ENB Financial Corp

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Ephrata, Pennsylvania 17522
877-773-6605
www.enbfinancial.q4ir.com