

2021

ANNUAL REPORT



ENB Financial Corp

At the beginning of 2021, the team at Ephrata National Bank and I looked forward with cautious optimism after 2020 proved to be an extraordinary year filled with challenges resulting from the COVID-19 pandemic. After months of closed Community Banking Office lobbies and virtual meetings, we were able to re-open our lobbies to customers and resume in-person meetings. A second round of PPP loans authorized by the Consolidated Appropriations Act provided another opportunity for our customer-focused team to help local businesses weather the COVID storm guiding them through the application and forgiveness process with a high touch approach. The economy also started to recover as GDP improved and new jobs were created; although workers, for a variety of reasons, were slow to return to the work force. Inflation proved to be less transitory than originally believed as persisting supply chain disruptions and consumers flush with cash caused more dollars to chase fewer resources. As we entered the holiday season, COVID threw us another curveball in the form of the Omicron variant causing ENB and other businesses to again work quickly and decisively to mitigate transmission in order to maintain normal business operations.

Although challenged, our optimism proved not to be misplaced as ENB Financial Corp and its wholly owned subsidiary, Ephrata National Bank, recorded our fourth



consecutive year of record earnings. Net income for the year ended December 31, 2021, was \$14,916,000. This was a \$2,617,000 or 21.3% increase over earnings of \$12,299,000 for the year ended December 31, 2020. Basic and diluted earnings per share for 2021 were \$2.68 compared to \$2.20 in 2020, representing a 21.8% increase. 2021 was also a year of significant growth as the Corporation ended the year with \$1.72 billion in assets, which was a 17.8% increase from \$1.46 billion at the end of 2020.

As I write this letter in early 2022, I'm feeling cautiously optimistic. There are indications that lending momentum is growing, and the Bank is well-positioned to take advantage of the interest rate increases

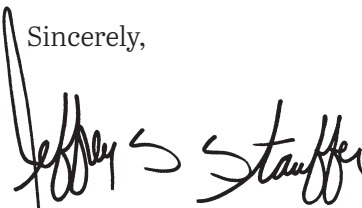
many are projecting by the Federal Reserve. Undoubtedly, there will also be challenges. Demand for mortgages has shown signs of decline. Competition from traditional banks and fintechs has increased as both see opportunity in our markets and in changing consumer preferences. Rapid balance sheet growth has put pressure on capital ratios, and we have been challenged to effectively deploy excess liquidity resulting from accommodative monetary policy. In spite of those challenges, I'm confident the resilience, hard work, talent and dedication of the ENB team will enable us to generate strong earnings for our shareholders.

When I reflect back on 2021, I'm amazed at all we were able to accomplish, as highlighted in the subsequent pages of this annual report, while also looking forward and building on our solid foundation for continued future success. This was primarily done through an honest assessment of our organizational structure and performance. While we are proud of the record earnings we've achieved over the past 4 years, we understand the realities of our current operating, competitive, economic and regulatory environment. Resting on our laurels would ignore the hard work that needs to be done in order to be a top performing financial institution and remain an independent community bank. In response, we updated our mission statement to reflect our current desires for all of our stakeholders. We also took a hard look at our current organizational structure and determined that changes needed to be made. As a result, we restructured the Bank's organization, which resulted in the creation of two new executive level positions. William J. Kitsch accepted the new role of Senior Executive Vice

President, Chief Revenue Officer and Chad E. Neiss accepted the role of Senior Executive Vice President, Chief Strategy Officer. Both have made significant contributions to the success of ENB throughout their tenure, and I look forward to working with them in these new capacities.

In 2021, our board or directors, executive team and senior management team developed a strategic plan that will guide us for the next 3 years. I'm excited by the opportunities we've uncovered and the high expectations to which we have committed to holding ourselves accountable. ENB will continue to look forward and evolve as a purpose-driven financial institution that is valuable to all of our stakeholders. High performing employees, both from within and those that desire to join us, will deliver a superior customer experience in-person and digitally. Customers will gravitate to our customer experience, longevity, brand and higher purpose, and be a significant source of new business referrals. Our communities will benefit from having us in them while our shareholders enjoy a consistent return on their investment. I look forward to taking this journey with you and thank you for your support. It is a pleasure serving you.

Sincerely,

A handwritten signature in black ink, reading "Jeffrey S. Stauffer". The signature is fluid and cursive, with a large initial "J" and "S".

Jeffrey S. Stauffer

Chairman of the Board
President and CEO
ENB Financial Corp

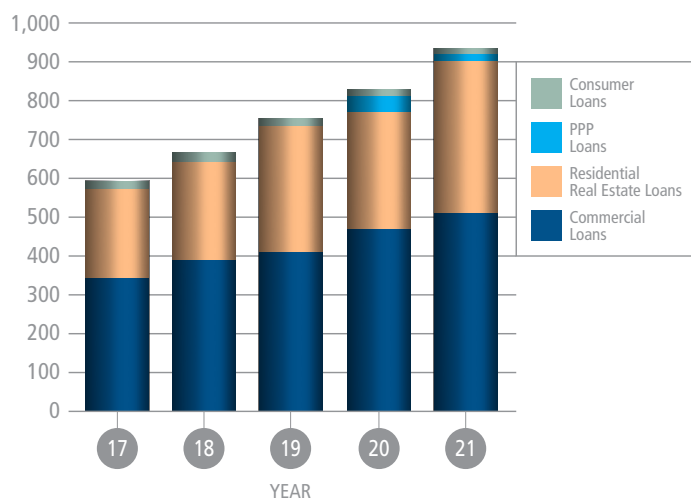
FINANCIAL HIGHLIGHTS

	2021	2020	2019	% Change 2021/2020	% Change 2020/2019
Income Statement (dollars in thousands)					
Interest income	\$43,591	\$42,094	\$41,737	3.56%	0.86%
Interest expense	\$3,020	\$3,846	\$5,119	-21.48%	-24.87%
Net interest income	\$40,571	\$38,248	\$36,618	6.07%	4.45%
Provision for loan losses	\$475	\$2,950	\$770	-83.90%	283.12%
Other income	\$17,881	\$15,360	\$11,306	16.41%	35.86%
Other expenses	\$40,441	\$36,074	\$33,633	12.11%	7.26%
Income before income taxes	\$17,536	\$14,584	\$13,521	20.24%	7.86%
Provision for federal income taxes	\$2,620	\$2,285	\$2,126	14.66%	7.48%
Net income	\$14,916	\$12,299	\$11,395	21.28%	7.93%
Per Share Data					
Net income (basic and diluted)	\$2.68	\$2.20	\$2.01	21.82%	9.45%
Cash dividends paid	\$0.67	\$0.64	\$0.62	4.69%	3.23%
Book value at year-end	\$24.59	\$23.39	\$20.69	5.13%	13.05%
Balance Sheet Data (dollars in thousands)					
Total assets	\$1,717,230	\$1,462,313	\$1,171,750	17.43%	24.80%
Total loans	\$920,904	\$823,370	\$753,618	11.85%	9.26%
Securities	\$567,075	\$483,533	\$314,805	17.28%	53.60%
Deposits	\$1,512,213	\$1,252,811	\$974,088	20.71%	28.61%
Total long-term debt	\$63,886	\$74,391	\$77,872	-14.12%	-4.47%
Stockholders' equity	\$137,288	\$130,216	\$116,688	5.43%	11.59%
Selected Ratios					
Return on average assets	0.95%	0.96%	1.01%	-1.04%	-4.95%
Return on average stockholders' equity	11.16%	10.16%	10.36%	9.84%	-1.93%
Average equity to average assets ratio	8.53%	9.46%	9.76%	-9.83%	-3.07%
Dividend payout ratio	25.00%	29.09%	30.85%	-14.06%	-5.71%
Efficiency ratio	69.08%	67.19%	69.82%	2.81%	-3.77%
Net interest margin	2.81%	3.24%	3.53%	-13.27%	-8.22%

FIVE-YEAR PERFORMANCE

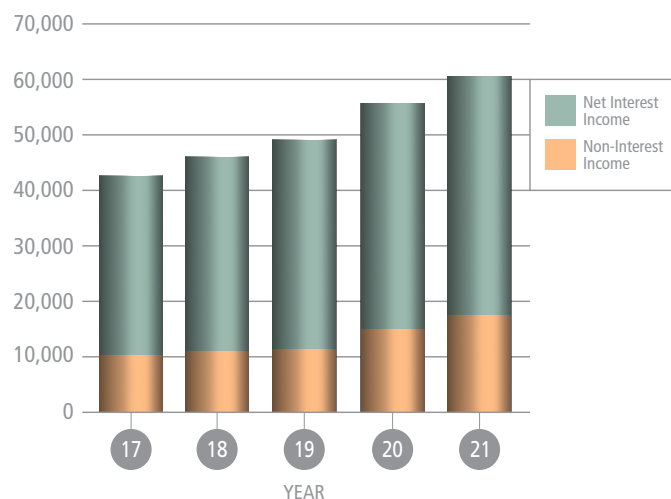
OUTSTANDING LOANS

MILLIONS



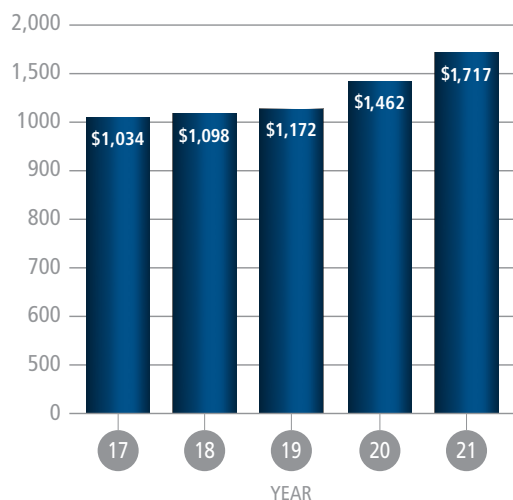
TOTAL REVENUE

THOUSANDS



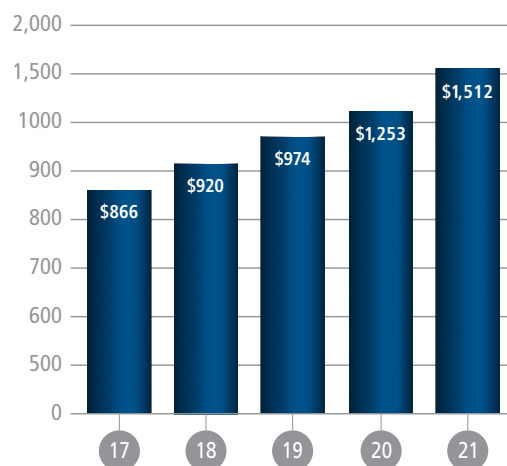
ASSETS

MILLIONS



DEPOSITS

MILLIONS



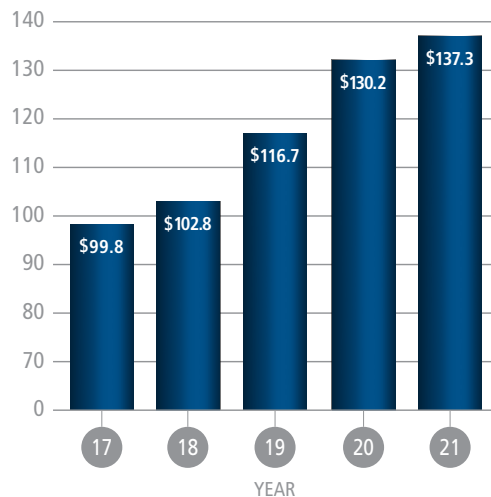
NET INCOME

MILLIONS



STOCKHOLDERS' EQUITY

MILLIONS



MISSION

Creating a plan for future success

2022 – 2024 Strategic Plan: In 2021, ENB took several important steps to ensure that ENB remains an independent community bank. Throughout the year, the Board of Directors and Senior Management Team, with input from leadership throughout the organization, evaluated our performance and operating environment in order to finalize a plan that will guide our focus over the next three years and beyond.

As our leadership became immersed in the strategic planning process, they recognized the evolution necessary for the bank to continue to be successful and determined our Mission Statement also needed to evolve to effectively highlight the bank's stakeholders and our goals for how we will serve them.

Corporate Restructure: To achieve the objectives of this plan, ENB reorganized its corporate structure into the following business channels; sales and revenue, operations, strategy, enterprise risk management, human resources and training, and finance and investment. The ENB Executive Committee was also restructured to provide leadership to each business channel and includes the President and CEO, SEVP Chief Revenue Officer, SEVP Chief Operating Officer, SEVP Chief Strategy Officer, EVP Chief Financial Officer, and EVP Chief Human Resources Officer. Advisors to the Executive Committee include the EVP Chief Risk Officer and SVP General Counsel.

ENB also continued its comprehensive analysis of each department's structure throughout the organization. Current and proposed positions essential to future growth have been identified with standards for performance and evaluation that are aligned with the strategic direction of the Bank.

- To remain **an independent community bank of undisputed integrity** so the communities we serve benefit from our prosperity.
- To help **our employees find career fulfillment** through professional growth, personal empowerment and mutual achievement.
- To help **our customers achieve financial health and wellbeing**, as defined by them, throughout their lifetime.
- To provide **our shareholders with a consistent return on their investment** by being a top performing financial institution.

ENB 2022 – 2024 Strategic Objectives

1. Evolve Purposeful Leadership Capabilities
2. Achieve Operational Excellence
3. Develop a Robust Sales Culture
4. Manage Risk to Achieve Greater Profitability
5. Pursue Emerging Opportunities that Align with our Mission



Pictured l to r: Nick Klein, EVP Chief Risk Officer; Adrienne Miller, SVP General Counsel; William Kitsch, SEVP Chief Revenue Officer; Cindy Hoffman, EVP Chief Human Resources Officer; Jeff Stauffer, Chairman, President and CEO; Matt Long, SEVP Chief Operating Officer; Rachel Bitner, EVP Chief Financial Officer; Chad Neiss, SEVP Chief Strategy Officer

A growing franchise

In 2021, ENB worked to expand its footprint and customer base through a variety of strategies.



November 8—Opened our first Community Lending Office at 222 South Market Street, Elizabethtown. The focus of the office will be to generate commercial and mortgage loans in western Lancaster County.

March 25—The ENB Money Management Group entered into an agreement with Muncy Bank and Trust to acquire the assets of their trust department. These assets have an approximate market value of \$67,105,000 and are estimated to generate \$240,000 in annual revenue. The acquisition is scheduled for completion in 2022.



November 30—Received approval from the Office of the Comptroller of the Currency to open a new Community Banking Office at 101 East State Street, Quarryville. This will be a full service office that continues our expansion into southern Lancaster County.



Continuing digital transformation

Improving efficiency is an important component in meeting our strategic objective of achieving operational excellence. Providing digital services consumers have come to expect is essential to attracting customers and supports our strategic objective of developing a robust sales culture. Throughout 2021, ENB continued to implement new technologies to help us accomplish both objectives.

- ENB** ENB Mortgage began using “bots” to automate the ordering of title insurance, flood certifications, and title work as well as USPS verification. This new automated technology has saved 15-20 minutes of manual processes per loan which equates to eliminating approximately 350 – 400 hours of labor per month associated with the opening of mortgage loans, freeing our team to focus their energy on more robust tasks.
- ENB** ENB Mortgage also installed Ellie Mae’s TPO Connect, which allows third party originators of mortgages to connect directly with our loan origination system (LOS). This connectivity eliminates manual processes saving 2-3 hours per loan and enables us to service additional TPO partners without adding staff.
- ENB** To more quickly and efficiently make underwriting decisions on small business loans, ENB implemented a new business loan underwriting program called Credit Express. Credit Express automates underwriting of qualified business loans under \$250,000 with a goal of making decisions within 24 hours and funding the loan within 3 business days. Shortening time spent on underwriting allows us to perform a more thorough analysis of the customer’s lending needs prior to application without increasing the overall time it takes to get the loan closed and funded.
- ENB** We also helped our PPP loan customers with a streamlined application process that enabled them to provide required documentation through an online portal, cutting down the time it took to submit applications, receive approvals, disburse funds and forgive loans.
- ENB** At the core of everything we do at ENB is the aptly named core processing system. The ENB management team has recognized the need for an updated system that allows our team to more efficiently open accounts, accurately maintain customer account information, facilitate the movement of information across the organization, and integrate with ancillary systems. A search for a new system was initiated, which required the involvement of many employees throughout the organization spending hundreds of hours dedicated to evaluating new solutions and selecting a finalist with whom we are in the process of negotiating an agreement.
- ENB** ENB’s Money Management Group (MMG) installed a new trust accounting system that will allow the streamlining and automation of current manual processes associated with processing trades and reconciling transactions through enhanced functionality and integration with different systems needed for portfolio management.
- ENB** Helping customers discover products that can meet their individual financial needs and improve their financial wellbeing continued to be important in 2021. To enhance our ability to identify customers’ needs for certain products, we installed Q2 Smart, which enables the Bank to present products within ENB Online Banking to customers who have the greatest propensity to have need for them.
- ENB** To help familiarize new customers with online services and enroll in them, ENB developed an enhanced onboarding process. This process uses automated marketing software to send new customers emails containing service information and educational videos at strategic points in their onboarding journey allowing them to quickly and easily enroll in those that interest them.

ENB Our customer experience research found that we were not meeting customers' expectations for finding information quickly through our website's search function. In response, we developed an enhanced search capability that expanded our ability to provide fast answers to frequently asked questions.

ENB Our previous investment in a streamlined and intuitive online loan application began to pay dividends in 2021 as the volume of online loan applications more than doubled from \$3.5 million in 2020 to \$7.4 million in 2021.

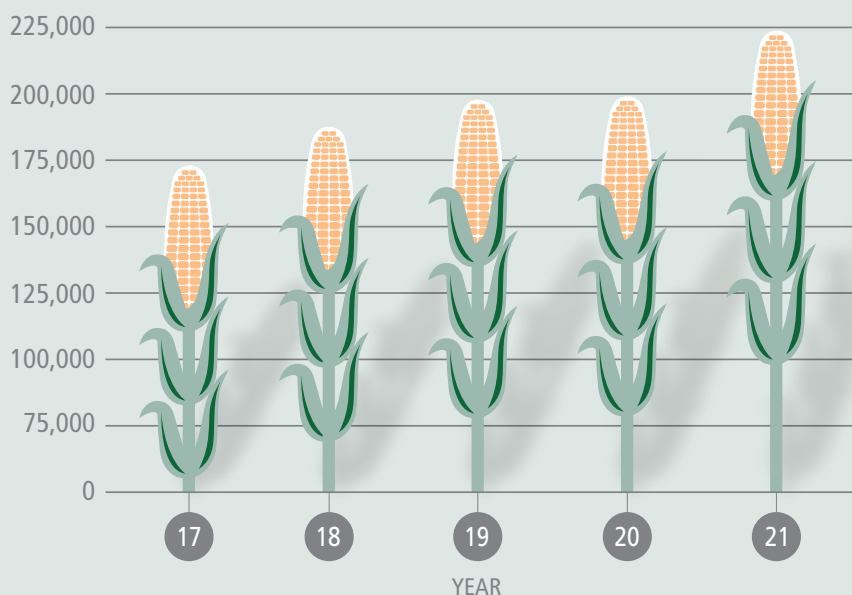
ENB On the deposit side, ENB expanded customers' ability to open personal deposit accounts online to include 12 month and 60 month certificates of deposit in addition to checking, savings and money market accounts.

ENB Customers continue to look for expanded methods in which they can make payments quickly and easily. In response ENB introduced Zelle, which is a person to person payment solution that allows customers to send money directly to the accounts of friends, family and any other trusted person within minutes.

Expanding our commitment to agriculture

In June, ENB received approval from the United States Department of Agriculture as a Preferred Lender for Farm Service Agency (FSA) guaranteed loans. Participating in this program allows ENB to greatly improve the availability of agricultural credit in our marketplace. FSA guarantees are provided on loans made to eligible applicants meeting certain repayment, collateral, legal and regulatory requirements. This guarantee allows ENB to extend loans to farmers who may have difficulty qualifying for a standard agricultural loan because they are just starting their operation or have a limited financial history. Loans are also available to farmers who may not otherwise meet standard loan qualifications for a variety of reasons, such as experiencing a financial setback or natural disaster hardship.

TOTAL AG LOANS
THOUSANDS



Farm Service Agency (FSA) guaranteed loans allow ENB to greatly improve the availability of agricultural credit in our marketplace.

Sharing our prosperity

Helping our communities benefit from our prosperity will always be part of ENB's mission. As we grow our revenue and net income, we are delighted to share more with organizations that improve the quality of life in our communities by addressing workforce development, economic advancement, physical and mental health, community revitalization, education, poverty, and cultural enlightenment. In 2021, we were proud to contribute a record \$740,317 through sponsorships, donations and educational improvement tax credits. In addition, our dividend payments on shares of ENB Financial Corp stock owned by the J. Harry Hibshman Charitable Trust resulted in us awarding \$1.55 million in scholarships to 78 Ephrata High School seniors pursuing higher education.



J. Harry Hibshman SCHOLARSHIP BY THE NUMBERS

78

scholarships awarded in 2021

1.55M

\$ of scholarships awarded in 2021

57

years scholarships have been awarded

4,473

scholarships awarded since inception

30.2M

\$ of scholarships awarded since inception

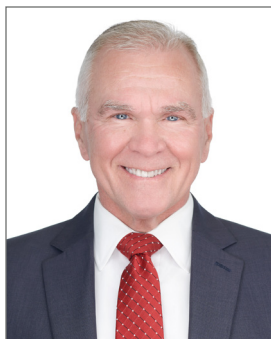


Making the holidays brighter

To expand our reach to organizations whom we may not be aware, ENB introduced the Letters to Santa contest during the holiday season. The Letters to Santa contest asked community non-profits to submit a letter to ENB sharing how they had been good at supporting the community and what they would like to receive funding to support. Awareness for the contest was spread through our community contacts and social media channels resulting in 57 entrants. Letters from those organizations were reviewed by our Contributions Committee with 3 finalists being selected. ENB then created and shared videos highlighting the good work of these organizations via our social media. The community then voted on their favorite with the \$15,000 1st prize going to Stratosphere Cheerabilities, \$5,000 2nd prize going to the Ephrata Cloister, and \$3,000 3rd prize going to Mental Health America.



Board of Directors—ENB Financial Corp and Ephrata National Bank



Aaron L. Groff, Jr.



Joshua E. Hoffman,
MBA, CPA, CMA, CPCU



Jay S. Martin, CISSP



Susan Young
Nicholas, Esq.



Brian K. Reed, DVM, MBA



Jeffrey S. Stauffer



Mark C. Wagner



Judith A. Weaver



Roger L. Zimmerman

Willis R. Lefever (*not pictured*)

ENB Financial Corp Management



Jeffrey S. Stauffer
Chairman, President
and CEO



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



Rachel G. Bitner,
Principal Financial
Officer and Treasurer

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, 2021

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:

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

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

Title of each class
Common Stock, Par Value \$0.10 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, 2021, was approximately \$74,223,402.

The number of shares of the registrant's Common Stock outstanding as of March 4, 2022, was 5,583,956.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's Definitive Proxy Statement for its 2022 Annual Meeting of Shareholders to be held on May 10, 2022, 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 any other pandemic, epidemic, or health-related crisis 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
- Inflation and monetary fluctuations and volatility
- 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 concerning taxes, banking, securities and insurance and their application with which the Corporation and its subsidiaries must comply
- Potential impacts from continually evolving cybersecurity and other technological risks and attacks, including additional costs, reputational damage, regulatory penalties, and financial losses

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, 2021, the Corporation employed 272 persons, consisting of 251 full-time and 21 part-time employees. The number of full-time employees decreased by one employee, and the number of part-time employees decreased by three from the previous year-end. The decrease in the number of full-time and part-time employees is attributable to retirements that were expected. The Bank expects to evaluate opportunities to align headcount with operational efficiencies in 2022, while investing in roles to improve the Bank’s growth initiatives. 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 (Myerstown) in 2013 and a full service office in southern Berks County (Morgantown) 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. The Corporation ranks a commanding first in deposit market share in the Ephrata area with 41.1% of deposits as of June 30, 2021, based on data compiled annually by the Federal Deposit Insurance Corporation (FDIC). The Corporation's deposit market share in the Ephrata area was 37.8% as of June 30, 2020. 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 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. 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. The business activities of the Corporation are generally not seasonal in nature. However, 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 such as the Corporation. SOX includes significant additional disclosure requirements and expanded corporate governance rules and the SEC has adopted extensive additional disclosures, corporate governance provisions, and other related rules pursuant to it. The Corporation has expended and will continue to expend, considerable time and money in complying with SOX.

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, 2021, and December 31, 2020. 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. The total FDIC assessments paid by the Bank in 2021 were \$408,000, compared to \$232,000 in 2020.

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 July 12, 2021.

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	$\geq 4.0^*$
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. 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 amended 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.

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 the Consolidated Statements of Income on page 59 as found in this Form 10-K filing.

Available Information

The Corporation maintains a website on the Internet at www.enbfc.com. The Corporation makes available free of charge, on or through its website, its proxy statements, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC). This reference to the Corporation's Internet address shall not, under any circumstances, be deemed to incorporate the information available at such Internet address into this Form 10-K or other SEC filings. The information available at the Corporation's Internet address is not part of this Form 10-K or any other report filed by the Corporation with the SEC. The Corporation's SEC filings can also be obtained on the SEC's website on the Internet at <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, 2021, 43.6% of the Corporation's loan portfolio consisted of commercial, industrial, and construction loans secured by real estate. Another 11.9% 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

As of December 31, 2021, ENB Financial Corp and Ephrata National Bank owned and leased buildings in the normal course of business. The headquarters of ENB Financial Corp and main office of Ephrata National Bank is at 31 East Main Street, Ephrata, Pennsylvania. As of December 31, 2021, the Bank owned 16 properties and leased four properties.

For more information concerning the amounts recorded for premises and equipment and commitments under current leasing agreements, see Notes D and Q of the Notes to Consolidated Financial Statements included in Item 8. “Financial Statements and Supplementary Data” of this report on Form 10-K.

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**

The Corporation has only one class of stock authorized, issued, and outstanding, which consists of common stock with a par value of \$0.10 per share. As of December 31, 2021, there were 24,000,000 shares of common stock authorized with 5,739,114 shares issued, and 5,583,956 shares outstanding to 1,376 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.

	2021			2020		
	High	Low	Dividend	High	Low	Dividend
First quarter	\$ 22.00	\$ 18.60	\$ 0.16	\$ 23.25	\$ 17.73	\$ 0.16
Second quarter	22.00	20.70	0.17	21.50	18.25	0.16
Third quarter	23.75	21.13	0.17	19.50	17.55	0.16
Fourth quarter	22.23	21.15	0.17	19.25	17.60	0.16

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 regular 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 a dividend payout ratio between 25.0% and 29.1% for 2021 and 2020, 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, 2021.

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 2021	-	-	-	172,100
November 2021	2,500	\$ 22.14	2,500	169,600
December 2021	2,500	\$ 21.75	2,500	167,100
Total	<u>5,000</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, 2021, a total of 32,900 shares were repurchased at a total cost of \$669,362, for an average cost per share of \$20.35.

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.

Item 6. [Reserved]

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 its market area and 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 140 years of existence. The Board and Management are committed to the principals and values that have served the company well over its history and the desire is to produce strong financial results that will ensure trust from the Bank's customers and favorable returns to the shareholders.

Results of Operations

Overview

The year ended December 31, 2021 was positively impacted by a number of items resulting in strong financial results. The COVID-19 pandemic and governmental and business responses thereto continues to impact customer behavior and balance sheet growth, but as of the date of this report there has not been significant negative impacts on earnings or credit. Customers have adapted to changes in behavior and the Corporation continues to seek ways to manage the structure of the balance sheet to achieve positive financial results now and in future time periods.

The Corporation recorded net income of \$14,916,000 for the year ended December 31, 2021, a \$2,617,000, or 21.3% increase over the year ended December 31, 2020. The earnings per share, basic and diluted, were \$2.68 in 2021, compared to \$2.20 in 2020, a 21.8% increase. The increase in the Corporation's 2021 earnings was caused primarily by growth in other income and net interest income, coupled with a decline in the provision for loan losses.

Non-interest income excluding security and mortgage gains increased by \$2,524,000, or 28.8%, for the year ended December 31, 2021, due to many positive trends such as higher trust income, higher commissions on debit card interchange fees, and lower mortgage servicing asset amortization. Mortgage gains were elevated for the second year in a row at \$5,526,000, compared to \$5,850,000 in 2020. Additionally, gains on debt and equity securities were \$321,000, or 43.8% higher in 2021 compared to the prior year.

The Corporation's net interest income (NII) increased by \$2,323,000, or 6.1%, in 2021, compared to 2020. The increase in NII primarily resulted from an increase in interest on securities available for sale of \$2,097,000, or 31.0%, for the year ended December 31, 2021, compared to 2020. In addition, interest expense on deposits and borrowings decreased by \$826,000, or 21.5%, in 2021 compared to the prior year. The low interest rate environment has caused a rapid decline in asset yield, but also a decline in the cost of funds, which has resulted in these much lower levels of interest expense.

The Corporation recorded a \$475,000 provision for loan losses in 2021, compared to \$2,950,000 in 2020. The higher provision in 2020 was primarily caused by increasing the qualitative factors across industry lines to various degrees as a result of potential forward credit concerns related to COVID-19 and a higher specific allocation related to one commercial borrower that paid off in 2021.

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.

ENB FINANCIAL CORP
Management's Discussion and Analysis

Key Performance Ratios

	Year ended December 31,	
	2021	2020
Return on Average Assets	0.95%	0.96%
Return on Average Equity	11.16%	10.16%

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

NII represents the largest portion of the Corporation's operating income. In 2021, NII generated 69.4% of the Corporation's revenue stream, which consists of NII and non-interest income, compared to 71.3% in 2020. This decrease is a result of much higher levels of non-interest income in 2021 compared to 2020. The overall performance of the Corporation is highly dependent on the changes in NII since it comprises such a significant portion of operating income.

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. The FTE NII shown in both tables below will exceed the NII reported on the consolidated statements of income, which is not shown on an FTE basis.

Net Interest Income
(DOLLARS IN THOUSANDS)

	Year ended December 31,	
	2021	2020
	\$	\$
Total interest income	43,591	42,094
Total interest expense	3,020	3,846
Net interest income	40,571	38,248
Tax equivalent adjustment	1,141	814
Net interest income (fully taxable equivalent)	41,712	39,062

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

NII is impacted by yields earned on assets and rates paid on liabilities. With the decrease in the short-term Federal Reserve rates in 2020, asset yields have declined significantly and the U.S. Treasury curve has been relatively flat.

ENB FINANCIAL CORP
Management's Discussion and Analysis

During 2021, longer-term U.S. Treasury rates did increase adding some slope to the yield curve, but asset yields are still constrained, which adds strain to NII and net interest margin (NIM).

As a result of a larger balance sheet in 2021, even with much lower asset yields, the Corporation's NII on a tax equivalent basis increased while the Corporation's margin decreased to 2.81% for year ended December 31, 2021, compared to 3.24% in 2020. Loan yields were lower in 2021 due to the 150 basis point Fed rate decline during the first quarter of 2020 as well as competitive pressure throughout 2020 and 2021. The Corporation's NII in 2021 increased over 2020, by \$2,650,000, or 6.8%.

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, security reinvestment had generally been occurring at lower yields. With slightly higher Treasury rates in 2021, security yields have increased slightly, but still remain compressed compared to years prior to 2020.

The Corporation's overall cost of funds, including non-interest bearing funds, remained stable through 2021 between 19 and 13 basis points. Core deposit interest rates were reduced throughout 2020 and time deposit rates have also decreased resulting in maturing time deposits repricing at lower levels or moving into core deposit products. The average balance of borrowings was slightly higher in 2021 compared to 2020, resulting in higher interest expense of \$25,000. Additionally, the \$20 million sub debt issuance beginning on December 30, 2020, carried a higher rate of interest than FHLB long-term advances. As a result, the total cost of borrowings increased \$145,000 when comparing 2021 to 2020, resulting in a total increase in borrowings interest expense of \$170,000.

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)

	2021 vs. 2020			2020 vs. 2019		
	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	65	(114)	(49)	179	(410)	(231)
Securities available for sale:						
Taxable	1,844	(987)	857	542	(1,479)	(937)
Tax-exempt	2,139	(548)	1,591	559	(191)	368
Total securities	3,983	(1,535)	2,448	1,101	(1,670)	(569)
Loans	2,180	(2,597)	(417)	3,929	(2,610)	1,319
Regulatory stock	(64)	(94)	(158)	2	(99)	(97)
Total interest income	6,164	(4,340)	1,824	5,211	(4,789)	422
INTEREST EXPENSE						
Deposits:						
Demand deposits	99	(441)	(342)	137	(1,298)	(1,161)
Savings deposits	16	(14)	2	17	(60)	(43)
Time deposits	(109)	(547)	(656)	(118)	(91)	(209)
Total deposits	6	(1,002)	(996)	36	(1,449)	(1,413)
Borrowings:						
Total borrowings	25	145	170	(137)	277	140
Total interest expense	31	(857)	(826)	(101)	(1,172)	(1,273)
NET INTEREST INCOME	6,133	(3,483)	2,650	5,312	(3,617)	1,695

ENB FINANCIAL CORP
Management's Discussion and Analysis

In 2021, the Corporation's NII on an FTE basis increased by \$2,650,000, a 6.8% increase over 2020. Total interest income increased \$1,824,000, or 4.3%, while interest expense decreased \$826,000, or 21.5%, from 2020 to 2021. The FTE interest income from the securities portfolio increased by \$2,448,000, or 32.5%, while loan interest income decreased \$417,000, or 1.2%. During 2021, additional loan volume added \$2,180,000 to net interest income, and lower yields primarily due to the Prime rate decreases in the first quarter of 2020, caused a \$2,597,000 decrease, resulting in a net decrease of \$417,000. Higher balances in the securities portfolio caused an increase of \$3,983,000 in net interest income, while lower yields on securities caused a \$1,535,000 decrease, resulting in a net increase of \$2,448,000.

The average balance of interest bearing liabilities increased by 18.0% during 2021, driven by the growth in deposit balances. Deposit rates decreased significantly throughout 2020 and 2021 more than offsetting the slightly higher interest expense caused by much higher balances of deposits. Lower interest rates contributed to \$1,002,000 of interest expense reduction while higher balances only caused \$6,000 of increased expense, resulting in a total decline in interest expense of \$996,000.

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 \$342,000 in 2021, with \$441,000 due to lower rates, offsetting the higher balances that caused an increase of \$99,000. Higher balances in savings accounts caused an increase of \$16,000, while lower rates caused a decrease of \$14,000, resulting in the net increase in interest expense of \$2,000 on savings deposits. Time deposit balances declined throughout 2021, resulting in lower interest expense of \$109,000, while lower rates caused a decline of \$547,000, resulting in a net decrease of \$656,000.

The average balance of total borrowings increased by \$643,000, or 0.9%, from December 31, 2020, to December 31, 2021. The increase in total borrowings increased interest expense by \$25,000. Higher rates on borrowings, driven by the subordinated debt issued at the end of 2020, resulted in higher interest expense of \$145,000. The aggregate of these amounts was an increase in interest expense of \$170,000 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.

ENB FINANCIAL CORP
Management's Discussion and Analysis

COMPARATIVE AVERAGE BALANCE SHEETS AND NET INTEREST INCOME
(TAXABLE EQUIVALENT BASIS, DOLLARS IN THOUSANDS)

	December 31,					
	2021			2020		
	Average Balance \$	Interest \$	Yield/ Rate %	Average Balance \$	Interest \$	Yield/ Rate %
ASSETS						
Interest earning assets:						
Federal funds sold and deposits at other banks	59,199	91	0.15	35,261	140	0.40
Securities available for sale:						
Taxable	363,883	5,001	1.37	238,995	4,144	1.73
Tax-exempt	185,972	4,973	2.67	108,154	3,382	3.13
Total securities (d)	549,855	9,974	1.81	347,149	7,526	2.17
Loans (a)	868,460	34,388	3.96	815,563	34,805	4.27
Regulatory stock	5,870	279	4.75	7,010	437	6.23
Total interest earning assets	1,483,384	44,732	3.02	1,204,983	42,908	3.56
Non-interest earning assets (d)	82,827			74,391		
Total assets	1,566,211			1,279,374		
LIABILITIES & STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Demand deposits	344,783	170	0.05	279,280	512	0.18
Savings accounts	315,161	63	0.02	242,572	61	0.03
Time deposits	117,320	910	0.78	126,742	1,566	1.24
Borrowed funds	70,473	1,877	2.66	69,830	1,707	2.44
Total interest bearing liabilities	847,737	3,020	0.36	718,424	3,846	0.54
Non-interest bearing liabilities:						
Demand deposits	579,996			435,495		
Other	4,867			4,409		
Total liabilities	1,432,600			1,158,328		
Stockholders' equity	133,611			121,046		
Total liabilities & stockholders' equity	1,566,211			1,279,374		
Net interest income (FTE)		41,712			39,062	
Net interest spread (b)			2.66			3.02
Effect of non-interest bearing funds			0.15			0.22
Net yield on interest earning assets (c)			2.81			3.24

- (a) Includes balances of non-accrual loans and the recognition of any related interest income. Average balances also include net deferred loan costs of \$1,755,000 in 2021, \$1,277,000 in 2020, and \$1,753,000 in 2019. Such fees recognized through income and included in the interest amounts totaled \$1,201,000 in 2021, \$993,000 in 2020, and (\$523,000) in 2019.
- (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.

ENB FINANCIAL CORP
Management's Discussion and Analysis

The Corporation's average balance on securities increased by \$202.7 million, or 58.4%, in 2021 compared to 2020 and the tax equivalent yield on investments declined by 36 basis points. Interest income on securities increased due to the volume growth which offset the declining yield due to lower market rates. Security reinvestment in 2021 has been occurring at slightly higher rates due to the increase in U.S. Treasury rates, but reinvestment throughout the majority of 2020 was at much lower yields. 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.

Average balances on loans increased by \$52.9 million, or 6.5%, for the year ended December 31, 2021, compared to the prior year. Loan yields declined by 31 basis points for the year and loan interest income decreased \$417,000, or 1.2% as a result of these lower yields.

The average balance of interest-bearing deposit accounts increased by \$128.7 million, or 19.8%, in 2021 compared to 2020. While the average balance of time deposits did decrease for the year-to-date time periods, the average balance of demand and savings accounts increased significantly and more than offset the decline in time deposits. The interest rate paid on deposits decreased as well. This resulted in a decrease in interest expense on deposits of \$996,000, or 46.6%, for the year ended December 31, 2021, compared to 2020.

The Corporation's average balance on borrowed funds increased marginally in 2021. The Corporation's borrowed funds consist of FHLB advances as well as subordinated debt issued in December of 2020 which was used to support capital growth for the Corporation. The subordinated debt issuance caused average borrowings to increase year-over-year, but the Corporation also paid off \$10.6 million in FHLB advances during the year. The rate paid on borrowed funds increased by 22 basis points for 2021, compared to 2020 as a result of the issuance of subordinated debt which carries a 4.00% rate, significantly higher than the rate on FHLB advances.

For the year ended December 31, 2021, the net interest spread decreased by 36 basis points to 2.66%, compared to 3.02% for 2020. The effect of non-interest bearing funds decreased to 15 basis points from 22 basis points when comparing both years. The effect of non-interest bearing funds refers to the benefit gained from deposits on which the Corporation does not pay interest. As rates go lower, the benefit of non-interest bearing deposits decreases because there is less difference between non-interest bearing funds and interest bearing liabilities. The Corporation's NIM for 2021 was 2.81%, compared to 3.24% for 2020.

Provision for Loan Losses

The allowance for credit losses (ACL) 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 management determines necessary to ensure the ACL 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.

The Corporation recorded a provision of \$475,000 in 2021, compared to \$2,950,000 in 2020. The provision expense was elevated in 2020 due to the onset of COVID-19 and the deteriorating economic conditions that were expected to impact credit risk moving forward. The Corporation also provided \$1.1 million in a specific allocation to one commercial borrower in 2020. This loan paid off during 2021 resulting in a reversal of that specific allocation and an overall reduction in provision expense. As of December 31, 2021, the allowance as a percentage of total loans was 1.40%, compared to 1.50% at December 31, 2020.

ENB FINANCIAL CORP
Management's Discussion and Analysis

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.

Other Income

Other income for 2021 was \$17,881,000, an increase of \$2,521,000, or 16.4%, compared to the \$15,360,000 earned in 2020. The following table details the categories that comprise other income.

OTHER INCOME

(DOLLARS IN THOUSANDS)

	2021 vs. 2020			
	2021	2020	Increase (Decrease)	
	\$	\$	\$	%
Trust and investment services	2,362	1,974	388	19.7
Service charges on deposit accounts	1,069	1,047	22	2.1
Other fees	1,443	1,615	(172)	(10.7)
Commissions	3,702	2,963	739	24.9
Net gains on debt and equity securities	1,054	733	321	43.8
Gains on sale of mortgages	5,526	5,850	(324)	(5.5)
Earnings on bank-owned life insurance	880	829	51	6.2
Other miscellaneous income	1,845	349	1,496	428.7
Total other income	17,881	15,360	2,521	16.4

Trust and investment services income increased by 19.7% from 2020 to 2021 primarily as a result of higher income on the non-deposit investment services side which increased by \$281,000, or 38.6%. Service charges on deposit accounts has remained stable from the prior year and other fees have decreased by 10.7% as a result of lower fees on a third party sweep product in 2021. Commissions increased by \$739,000, or 24.9% for the year ended December 31, 2021, compared to 2020, driven by higher debit card interchange commissions. Gains on debt and equity securities were higher in 2021 driven by solid gains on debt securities sold and gains recognized on the sale of equity securities and gains from the market value increases on equity securities. Mortgage gains were very strong in both years but were higher in 2020 due to slightly higher refinancing volume and better margins on loans sold. Earnings on bank-owned life insurance increased marginally year-over-year and other miscellaneous income was significantly higher due to improvements in net mortgage servicing income and investment adjustments that positively impacted this category of income.

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Operating Expenses

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

OPERATING EXPENSES

(DOLLARS IN THOUSANDS)

	2021 vs. 2020			
	2021	2020	Increase (Decrease)	
	\$	\$	\$	%
Salaries and employee benefits	24,465	22,062	2,403	10.9
Occupancy expenses	2,621	2,407	214	8.9
Equipment expenses	1,053	1,196	(143)	(12.0)
Advertising & marketing expenses	992	894	98	11.0
Computer software & data processing expenses	4,420	3,148	1,272	40.4
Shares tax	1,282	1,060	222	20.9
Professional services	2,099	2,317	(218)	(9.4)
Other operating expenses	3,509	2,990	519	17.4
Total operating expenses	40,441	36,074	4,367	12.1

Salaries and employee benefits are the largest category of operating expenses. For the year 2021, salaries and benefits increased \$2,403,000, or 10.9%, compared to 2020. This was primarily due to merit and cost of living increases, additions to staff, and higher costs to replace employees who retired or left the organization due to nationwide staffing challenges. Occupancy and equipment expenses in total did not change significantly from the prior year. Advertising and marketing expenses increased by 11.0% which is typical as the Corporation grows and promotes new market areas and new products and services. Computer software and data processing expenses are growing at a rapid pace, 40.4% year-over-year, as a result of higher technology costs and new bank-wide initiatives that rely heavily on software platforms. Shares tax expense is based on the Corporation's levels of shareholders' equity and has grown substantially in the past two years commensurate with the growth in shareholders' equity. Professional services expenses declined by 9.4% in 2021 compared to the prior year driven lower by a decline in outside services. Other operating expenses increased by 17.4% year-over-year primarily as a result of higher loan-related costs as well as higher FDIC insurance costs.

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 bank-owned 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, 2021, the Corporation recorded a tax provision of \$2,620,000, compared to \$2,285,000 for 2020. This increase in tax expense can be attributed to higher pretax earnings. The effective tax rate for the Corporation was 14.9% for 2021 and 15.7% for 2020. 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

Balance Sheet Overview and Liquidity

We maintain liquid assets at adequate levels in order to meet the needs of our balance sheet. Our primary source of liquidity is core deposits and our available-for-sale investment portfolio both of which provide more than enough liquidity to fund loans to customers and any other funding needs.

A portion of our liquidity consists of cash and cash equivalents and borrowings. At December 31, 2021, cash and equivalents amounted to \$158.4 million, an increase of \$63.5 million, or 66.9%, from balances at December 31, 2020. Our primary sources of cash are principal repayments on loans, proceeds from the sales, calls, and maturities of investment securities, principal repayments of mortgage-backed securities, and increases in deposit accounts. As of December 31, 2021, we had borrowings outstanding from the FHLB of \$44.2 million and subordinated debt of \$19.7 million.

At December 31, 2021, we had \$491.4 million in loan commitments outstanding, which included \$99.0 million in firm loan commitments, \$379.6 million in unused lines of credit, and open letters of credit of \$12.8 million. Certificates of deposit due within one year totaled \$63.6 million, or 55.8% of certificates of deposit. We believe, based on past experience that a significant portion of our certificates of deposit will remain with us upon maturity and we have ample liquidity outside of these funds. We have the ability to attract and retain deposits by adjusting the interest rates offered.

As reported in the Consolidated Statements of Cash Flows, our cash flows are classified for financial reporting purposes as operating, investing or financing cash flows. Net cash provided by operating activities was \$13.3 million and \$16.4 million for the years ended December 31, 2021 and 2020, respectively. Net cash used for investing activities was \$195.2 million and \$232.5 million in fiscal years 2021 and 2020, respectively, reflecting our loan and investment security activities in the respective periods. Cash provided by financing activities amounted to \$245.5 million and \$269.9 million for years ended December 31, 2021 and 2020, respectively primarily representing increases in our core deposits through the year.

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, 2021, the Corporation had \$567.1 million of debt and equity securities, compared to \$483.5 million at December 31, 2020, an increase of \$83.6 million, or 17.3%.

The largest movements within the securities portfolio were shaped by market factors, such as:

- slope of the U.S. Treasury curve and projected forward rates
- interest spread versus U.S. Treasury rates on the various securities
- pricing of the instruments, including supply and demand for the product
- structure of the instruments, including duration and average life
- portfolio weightings versus policy guidelines
- prepayment speeds on mortgage-backed securities and collateralized mortgage obligations
- credit risk of each instrument and risk-based capital considerations
- Federal income tax considerations with regard to obligations of tax-free states and political subdivisions.

The Corporation purchased \$14.8 million of U.S. Treasuries during 2021 and held no Treasuries in 2020. U.S. Treasuries represent a safe credit at a market appropriate yield which added some diversity to the portfolio. The Corporation's U.S. government agency sector decreased by \$25.3 million, or 46.6%, since December 31, 2020. Management had purchased \$35.5 million of short-term discount notes at the end of 2020 to offset the Corporation's shares tax expense. These bonds were sold in the first quarter of 2021 and are responsible for the decline in this category. Management has increased the allocations of both asset-backed securities (ABS) and obligations of states and political subdivisions (municipals) since December 31, 2020, in order to better structure the portfolio to achieve higher yields while also protecting in preparation for a rates-up environment.

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The Corporation's asset-backed securities (ABS) and municipal sectors have increased significantly since December 31, 2020, with ABS increasing \$40.7 million, or 67.4%, and municipals increasing \$53.7 million, or 27.7%. ABS securities are floating rate student loan pools which are instruments that will perform well in a rates-up environment and offset the interest rate risk of the longer fixed-rate municipal bonds. These securities provide a variable rate return materially above the overnight Federal funds rate in a safe investment with a risk rating very similar to that of U.S. Agency bonds. The asset-backed securities generally provide monthly principal and interest payments to complement the Corporation's ongoing cash flows. With liquidity and cash levels remaining high, management views the ABS sector as a safe, higher yielding option than cash, with the qualities of cash in a rates-up environment.

Obligations of states and political subdivisions, or municipal bonds, consist of both tax-free and taxable securities that generally provide the highest yield in the securities portfolio. They also carry the longest duration on average of any instrument in the securities portfolio. These instruments also experience significant fair market value gains and losses when interest rates decrease and increase. Municipal bonds represented 44.3% of the debt securities portfolio as of December 31, 2021, compared to 40.7% as of December 31, 2020.

The Corporation's U.S. agency MBS and CMO sectors decreased in total by \$23.0 million, or 21.7%, from December 31, 2020 to December 31, 2021. Management desires to maintain a portfolio of MBS and CMOs in order to assist in adding to and maintaining a stable five-year ladder of cash flows, which is important in providing stable liquidity to the balance sheet. U.S. agency MBS and CMO securities pay contractual monthly principal and interest, but are also subject to additional prepayment of principal.

As of December 31, 2021, the fair value of the Corporation's corporate bonds increased by \$20.8 million, or 33.7%, from balances at December 31, 2020. Corporate bonds add diversity to the portfolio and provide strong yields for short maturities; however, by their very nature, corporate bonds carry a high level of credit risk should the entity experience financial difficulties.

The following table shows the weighted-average life and yield on the Corporation's debt securities by maturity intervals as of December 31, 2021, 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. Securities are assigned to categories based on stated contractual maturity except for MBS and CMOs, which are based on anticipated payment periods.

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. Treasuries	-	-	-	-	14,821	1.40	-	-	14,821	1.40
U.S. government agencies	-	-	15,713	0.78	13,900	0.80	-	-	29,613	0.79
U.S. agency mortgage-backed securities	15,044	0.57	23,706	0.87	11,625	1.30	1,589	1.38	51,964	0.90
U.S. agency collateralized mortgage obligations	5,742	1.37	9,035	2.07	15,878	1.29	262	1.94	30,917	1.54
Corporate bonds	3,605	1.24	39,590	1.74	39,422	2.08	-	-	82,617	1.88
Obligations of states and political subdivisions	-	-	4,090	3.38	22,232	2.89	216,485	2.43	242,807	2.49
Asset-backed securities	3,957	0.78	17,660	0.77	30,269	0.78	49,112	0.85	100,998	0.82
Total securities available for sale	28,348	0.85	109,794	1.35	148,147	1.60	267,448	2.13	553,737	1.77

Loans

Net loans outstanding increased \$97.0 million, or 12.0%, from \$811.0 million at December 31, 2020, to \$908.0 million at December 31, 2021. Most major loan categories showed an increase in balances over the prior year but the majority of loan growth came from the commercial and consumer real estate categories with a decline in the commercial and industrial category as PPP loan balances declined by \$36.6 million during 2021.

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Commercial real estate loans increased to \$400.8 million at December 31, 2021, from \$342.1 million at December 31, 2020, a 17.2% increase. Commercial mortgages increased by \$34.7 million, or 24.3%, agriculture mortgages increased by \$27.7 million, or 15.7%, and commercial construction loans decreased by \$3.8 million, or 16.2% from December 31, 2020, to December 31, 2021.

The consumer real estate category represents the largest group of loans for the Corporation. The consumer residential real estate category of total loans increased from \$345.6 million on December 31, 2020, to \$403.9 million on December 31, 2021, a 16.9% 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 first lien 1-4 family mortgages increased by \$53.5 million, or 20.3%, from December 31, 2020, to December 31, 2021. 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 2021, mortgage production increased 18.1% over the prior year. The increase in overall production was due to a large increase in portfolio production, which was up 73% over last year, while secondary market production decreased by 23%. The percentage of mortgage originations that went into the Corporation's held for investment mortgage portfolio increased to 63% compared to 55% in 2020. The interest rate environment throughout the year remained relatively stable and created a nice balance within our mix; 36% of volume in 2021 was purchase, 31% was residential construction lending, and 33% was refinance activity. The volume of mortgage production in 2021 led to a 20.7% increase in growth of the held for investment residential loan portfolio and a 22.8% increase in the servicing on behalf of others portfolio, with mortgage servicing rights growing to over \$1.7 million.

As of December 31, 2021, the remainder of the residential real estate loans consisted of \$11.2 million of fixed rate junior lien home equity loans, and \$75.7 million of variable rate home equity lines of credit (HELOCs). This compares to \$10.7 million of fixed rate junior lien home equity loans, and \$71.3 million of HELOCs as of December 31, 2020. Therefore, combined, these two types of home equity loans increased from \$82.0 million to \$86.9 million, an increase of 6.0%.

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 loans decreased from \$129.2 million at December 31, 2020, to \$109.3 million at December 31, 2021, a 15.4% decrease, primarily attributable to the forgiveness of PPP loans throughout 2021. 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. PPP loan balances declined by \$36.6 million during 2021, and ended the year with a balance of only \$11.3 million. Management expects that virtually all of the remaining balance will be forgiven during 2022.

Consumer loans not secured by real estate represent a very small portion of the Corporation's loan portfolio, at \$5.1 million as of December 31, 2021 and December 31, 2020. These loans consist of personal loans, automobile loans, and other consumer-related loans.

The following tables show the maturities for the loan portfolio as of December 31, 2021, 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 Through 15 Years \$	Due After 15 Years \$	Total \$
Commercial real estate					
Commercial mortgages	3,904	22,540	73,512	77,440	177,396
Agriculture mortgages	9,999	4,464	51,902	137,360	203,725
Construction	342	2,479	4,931	11,887	19,639
Total commercial real estate	14,245	29,483	130,345	226,687	400,760
Consumer real estate					
1-4 family residential mortgages	9,658	10,554	68,371	228,454	317,037
Home equity loans	5,409	901	3,700	1,171	11,181
Home equity lines of credit	76	2,005	8,269	65,348	75,698
Total consumer real estate	15,143	13,460	80,340	294,973	403,916
Commercial and industrial					
Commercial and industrial	21,601	40,520	2,950	544	65,615
Tax-free loans	-	256	12,033	10,720	23,009
Agriculture loans	13,313	5,151	2,253	-	20,717
Total commercial and industrial	34,914	45,927	17,236	11,264	109,341
Consumer	1,995	3,057	80	-	5,132
Total amount due	66,297	91,927	228,001	532,924	919,149

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

	Fixed Rates \$	Floating or Adjustable Rates \$	Total \$
Commercial real estate			
Commercial mortgages	46,832	126,660	173,492
Agriculture mortgages	7,948	185,778	193,726
Construction	3,956	15,341	19,297
Total commercial real estate	58,736	327,779	386,515
Consumer real estate			
1-4 family residential mortgages	143,967	163,412	307,379
Home equity loans	3,202	2,570	5,772
Home equity lines of credit	7,711	67,911	75,622
Total consumer real estate	154,880	233,893	388,773
Commercial and industrial			
Commercial and industrial	38,657	5,357	44,014
Tax-free loans	6,936	16,073	23,009
Agriculture loans	6,505	899	7,404
Total commercial and industrial	52,098	22,329	74,427
Consumer	3,137	-	3,137
Total amount due	268,851	584,001	852,852

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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. Out of all the loans due after one year, \$268.9 million, or 31.5%, are fixed-rate loans as of December 31, 2021. These loans will not reprice to a higher or lower interest rate unless they mature or are refinanced by the borrower. The remaining \$584.0 million, or 68.5% of loans due after one year, are made up of loans that are true floating loans and loans that will reprice at a predetermined time in the amortization of the loan. 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, 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,	
	2021	2020
	\$	\$
Non-accrual loans	2,556	725
Loans past due 90 days or more and still accruing	325	1,373
Troubled debt restructurings, non-performing	-	-
Total non-performing loans	2,881	2,098
Other real estate owned	-	-
Total non-performing assets	2,881	2,098
Non-accrual loans to total loans	0.28%	0.09%
Non-performing loans to total loans	0.31%	0.25%
Allowance for credit losses to total loans	1.40%	1.50%
Allowance for credit losses to non-accrual loans	505.91%	1700.28%
Allowance for credit losses to non-performing loans	448.84%	587.56%

Non-performing assets increased by \$783,000, or 37.3%, from December 31, 2020, to December 31, 2021, primarily as a result of increases in non-accrual loans and partially offset by a decline in loans past due 90 days or more and still accruing. Several customer relationships were added to non-accrual during 2021 resulting in an increase of \$1,831,000 in the total balance of non-accrual loans. As of December 31, 2021, there were fifteen loans to seven unrelated borrowers totaling \$2,556,000 on non-accrual compared to three loans to three unrelated borrowers totaling \$725,000 as of December 31, 2020. The largest non-accrual relationship at December 31, 2021, was a commercial loan to a single borrower with a balance of \$466,000.

Loans past due 90 days or more and still accruing declined by \$1,048,000 during 2021 partially offsetting the increases in non-accrual loans. There were no loans considered non-performing troubled debt restructurings (TDR) as of December 31, 2021 or 2020. 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.

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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. 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, 2021 and 2020, 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.

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

The Corporation's strong credit and collateral policies have been instrumental in producing a favorable history of loan losses. In recent years, the Corporation has primarily recorded 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.

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The Net Charge-Off table below shows the net charge-offs as a percentage of average loans outstanding for each segment of the Corporation's loan portfolio as of December 31, 2021 and 2020.

Net Charge-Offs

(DOLLARS IN THOUSANDS)

	2021 \$	2020 \$
Loans charged-off:		
Commercial real estate	-	45
Consumer real estate	20	-
Commercial and industrial	-	23
Consumer	35	20
Total loans charged-off	55	88
Recoveries of loans previously charged-off		
Commercial real estate	109	11
Consumer real estate	2	-
Commercial and industrial	56	4
Consumer	17	3
Total recoveries	184	18
Net charge-offs (recoveries)		
Commercial real estate	(109)	34
Consumer real estate	18	-
Commercial and industrial	(56)	19
Consumer	18	17
Total net charge-offs (recoveries)	(129)	70
Average loans outstanding		
Commercial real estate	357,727	323,881
Consumer real estate	328,969	301,008
Commercial and industrial	176,212	184,951
Consumer	5,552	5,722
Total average loans outstanding	868,460	815,562
Net charge-offs (recoveries) as a % of average loans outstanding		
Commercial real estate	(0.03%)	0.01%
Consumer real estate	0.01%	0.00%
Commercial and industrial	(0.03%)	0.01%
Consumer	0.32%	0.30%
Total net charge-offs (recoveries) as a % of average loans outstanding	(0.01%)	0.01%

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. During 2021, recoveries exceeded charge-offs by \$129,000, representing a net recovery position of (0.01%) of average loans outstanding as reflected above. Net charge-offs for 2020 were very low at \$70,000, resulting in a net charge-off as a percentage of average loans of 0.01% for the year.

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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,			
	2021		2020	
	\$	% of Loans	\$	% of Loans
Real estate	10,097	87.5	9,778	83.7
Commercial and industrial	2,112	11.9	1,972	15.7
Consumer	87	0.6	52	0.6
Unallocated	635	-	525	-
Total allowance for loan losses	12,931	100.0	12,327	100.0

Real estate loans represent 87.5% of total loans with 78.1% 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. 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 2021, the dollar amount of allocation for commercial and industrial loans increased by \$140,000, or 7.1%, with this allocation accounting for 16.3% of the total allowance as of December 31, 2021. As of December 31, 2021, commercial and industrial loans make up 11.9% of all loans. 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 \$635,000 unallocated portion of the allowance as of December 31, 2021, increased slightly from the balance at the end of 2020, and the unallocated portion as a percentage of the total allowance increased from 4.3% at December 31, 2020, to 4.9% at December 31, 2021.

Premises and Equipment

Premises and equipment, net of accumulated depreciation, decreased by \$284,000, or 1.1%, from December 31, 2020, to December 31, 2021. During 2021, 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. The Corporation had \$369,000 in construction in process at the end of 2021 compared to \$385,000 at the end of 2020. 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 \$5,380,000 of regulatory stock holdings as of December 31, 2021, consisted of \$4,742,000 of FHLB of Pittsburgh stock, \$601,000 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.

Bank-Owned Life Insurance (BOLI)

The Corporation owned life insurance with a total recorded cash surrender value (CSV) of \$35,414,000 on December 31, 2021, compared to \$29,646,000 on December 31, 2020. The Corporation holds two distinct BOLI programs. The first, with a CSV of \$5,270,000, 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

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1979 through 1999. 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 Corporation made a \$5 million investment in this BOLI plan during 2021, so the CSV was \$30,144,000 as of December 31, 2021.

Deposits

The Corporation's total ending deposits at December 31, 2021, increased by \$259.4 million, or 20.7%, from December 31, 2020. Customer deposits are the Corporation's primary source of funding for loans and securities. In the past few years, the economic concerns and volatility of the equity markets continued to lead customers to banks for safe places to invest money, despite historically low interest rates. The mix of the Corporation's deposit categories has changed moderately since December 31, 2020, with the changes being a \$151.4 million, or 28.3% increase in non-interest bearing demand deposit accounts, a \$15.9 million, or 33.8% increase in interest bearing demand balances, a \$2.0 million, or 1.4% increase in NOW balances, a \$28.2 million, or 20.1% increase in money market account balances, a \$66.9 million, or 24.4% increase in savings account balances, and a \$5.2 million, or 4.3% decrease in time deposit balances.

The growth across most categories of core deposit accounts is a direct result of the PPP funding, government stimulus payments, and the change in customer's spending habits during the uncertain economic conditions brought on by COVID-19. Customers view demand deposit, money market and savings accounts as the safest, most convenient place to maintain funds for maximum flexibility.

The Deposits by Major Classification table, shown below, provides the balances of each category for December 31, 2021 and December 31, 2020.

DEPOSITS BY MAJOR CLASSIFICATION

(DOLLARS IN THOUSANDS)

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

	December 31,			
	2021		2020	
	\$	%	\$	%
Non-interest bearing demand	579,996	-	435,495	-
Interest-bearing demand	55,819	0.10	39,116	0.20
NOW accounts	130,328	0.03	107,104	0.11
Money market deposit accounts	158,635	0.05	133,059	0.24
Savings accounts	315,161	0.02	242,572	0.03
Time deposits	117,320	0.78	126,742	1.24
Total deposits	1,357,259		1,084,088	

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 \$282.6 million, or 29.5%, since December 31, 2020. 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. In 2021, time deposits declined in both dollars and as a percentage of the Corporation's deposits with the average balance decreasing by \$9.4 million, or 7.4%, compared to 2020 average balances. 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.

As of December 31, 2021, time deposits over \$250,000 made up 7.3% of the total time deposits. This compares to 6.8% on December 31, 2020. The total dollar amount of time deposits over \$250,000 increased \$234,000, or 2.9%, from December 31, 2020 to December 31, 2021. Since time deposits over \$250,000 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 \$250,000 or more for the past two years by maturity distribution.

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Management's Discussion and Analysis

MATURITY OF TIME DEPOSITS OF \$250,000 OR MORE

(DOLLARS IN THOUSANDS)

	December 31,	
	2021	2020
	\$	\$
Three months or less	1,592	721
Over three months through six months	575	1,539
Over six months through twelve months	1,655	1,896
Over twelve months	4,499	3,931
Total	8,321	8,087

As of December 31, 2021 and 2020, the total uninsured deposits of the Corporation were \$313,122,000 and \$217,770,000, respectively. Total uninsured deposits is calculated based on regulatory reporting requirements and reflects the portion of any deposit of a customer at an insured depository institution that exceeds the applicable FDIC insurance coverage for that depositor at that institution and amounts in any other uninsured investment or deposit accounts that are classified as deposits and not subject to any federal or state deposit insurance regime.

Borrowings

Total borrowings were \$63.9 million as of December 31, 2021, and \$74.4 million as of December 31, 2020. The Corporation had no short-term borrowings at either year-end. Long-term borrowings with the Federal Home Loan Bank (FHLB) decreased to \$44.2 million as of December 31, 2021, from \$54.8 million as of December 31, 2020. The Corporation primarily uses 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. 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, 2021, all the borrowings of FHLB were fixed-rate loans. The Corporation continues to be well under the FHLB maximum borrowing capacity which is \$505.1 million as of December 31, 2021.

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, 2021, \$16.0 million of funds were invested in the Bank. The Corporation paid an issuance fee of 2% 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, as well as the Bank, as the solely owned subsidiary of the Corporation, maintains capital ratios well above those minimum levels. The risk-weighted capital ratios are calculated by dividing capital by total risk-weighted assets. Regulatory guidelines determine the risk-weighted assets by assigning assets to specific risk-weighted categories. The calculation of tier I capital to risk-weighted average assets does not include an add-back to capital for the amount of the allowance for credit losses, thereby making this ratio lower than the total capital to risk-weighted assets ratio.

The consolidated asset limit on small bank holding companies is \$3 billion and a company with assets under that limit is not subject to the consolidated capital rules but may disclose capital amounts and ratios. The Corporation has elected to disclose those amounts and ratios.

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The following tables reflect the capital ratios for the Corporation and Bank compared to the regulatory capital requirements.

REGULATORY CAPITAL RATIOS:

As of December 31, 2021	Capital Ratios	Regulatory Requirements	
		Adequately Capitalized	Well Capitalized
Total Capital to Risk-Weighted Assets			
Consolidated	15.6%	N/A	N/A
Bank	14.9%	8.0%	10.0%
Tier 1 Capital to Risk-Weighted Assets			
Consolidated	12.5%	N/A	N/A
Bank	13.6%	6.0%	8.0%
Common Equity Tier 1 Capital to Risk-Weighted Assets			
Consolidated	12.5%	N/A	N/A
Bank	13.6%	4.5%	6.5%
Tier 1 Capital to Average Assets			
Consolidated	8.2%	N/A	N/A
Bank	9.1%	4.0%	5.0%
As of December 31, 2020			
Total Capital to Risk-Weighted Assets			
Consolidated	16.1%	N/A	N/A
Bank	15.3%	8.0%	10.0%
Tier I Capital to Risk-Weighted Assets			
Consolidated	12.8%	N/A	N/A
Bank	14.0%	6.0%	8.0%
Common Equity Tier I Capital to Risk-Weighted Assets			
Consolidated	12.8%	N/A	N/A
Bank	14.0%	4.5%	6.5%
Tier I Capital to Average Assets			
Consolidated	9.0%	N/A	N/A
Bank	9.8%	4.0%	5.0%

As of December 31, 2021 the Bank's Tier 1 Leverage Ratio stood at 9.1% while the Corporation's Tier 1 Leverage Ratio was 8.2%. 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.

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, 2021, 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.

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Management's Discussion and Analysis

CONTRACTUAL OBLIGATIONS

(DOLLARS IN THOUSANDS)

	Less than 1 year \$	1-3 years \$	4-5 years \$	More than 5 years \$	Total \$
Time deposits (Note F)	63,603	35,178	15,155	-	113,936
Borrowings (Notes G and H)	-	31,223	32,663	-	63,886
Operating Leases	189	349	91	-	629
Total contractual obligations	63,792	66,750	47,909	-	178,451

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, 2021. 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, 2021 \$
Commitments to extend credit:	
Revolving home equity loans	154,144
Construction loans	33,811
Real estate loans	119,140
Business loans	163,612
Consumer loans	1,478
Other	5,152
Standby letters of credit	12,756
Total	490,093

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

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Management's Discussion and Analysis

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 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, and 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. 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, paydowns, maturities, and sales of investment securities, borrowings, and 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.

Gap ratios have been increasing for the Corporation throughout 2020 and 2021. 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.

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, 2021, the Corporation had elevated cash levels due to excess liquidity generated from large increases in the deposit portfolio. These items caused a spike in the short-term gap ratios resulting in the six-month ratio of 362.6% and the one-year ratio of 287.3%. In a rising rate environment, having more assets maturing than liabilities is beneficial because those assets can be reinvested at higher yields.

The table below shows the six-month, one-year, three-year, and five-year cumulative gaps as of December 31, 2021, 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.

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Management's Discussion and Analysis

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	300,562	131,596	372,862	235,154	491,865
Liabilities maturing	82,893	67,549	221,023	161,734	1,000,784
Maturity gap	217,669	64,047	151,839	73,420	(508,919)
Cumulative maturity gap	217,669	281,716	433,555	506,975	(1,944)
Maturity gap %	362.6%	194.8%	168.7%	145.4%	49.1%
Cumulative maturity gap %	362.6%	287.3%	216.7%	195.1%	99.9%
Cumulative maturity gap % guideline	45% to 155%	60% to 140%	75% to 125%	85% to 115%	

As of December 31, 2021, all cumulative maturity gap ratios were higher than the upper policy guideline. The six-month cumulative gap ratio was 362.6% as of December 31, 2021, higher than the upper guideline of 155%. The one-year, three-year, and five-year ratios were also higher than guidelines at 287.3%, 216.7%, and 195.1%, respectively, compared to guidelines of 140%, 125%, and 115%. In a likely rising rate environment in 2022, higher gap ratios are actually beneficial so these target guidelines exceptions are viewed as acceptable. With potentially rising rates continuing throughout 2022, the risk of liabilities repricing to higher rates is greater and Management anticipates having the ability to control deposit and borrowings costs and potentially achieving limited savings on the liability side. Management will continue to monitor all gap ratios to ensure proper positioning for future interest rate cycles.

It is likely that, should market interest rates rise in 2022, 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, driven by concerns of inflation. 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 2022.

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

As of December 31, 2021, the Corporation was within guidelines for all of the above measurements except for the securities portfolio liquidity measurements. These measurements were on the low side when not factoring in cash on hand, but were on the high side when factoring in cash. While liquidity from the securities portfolio had decreased with the stagnant rate environment and the higher balance sheet, the very high levels of cash held by the Corporation more than offset these lower levels of security liquidity.

Throughout 2021, 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 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. The 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 \$158.4 million by December 31, 2021.

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 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, 2021, and December 31, 2020. 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.

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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.

CHANGES IN NET INTEREST INCOME

	2021 Percentage Change	2020 Percentage Change	Policy Guidelines %
300 basis point rise	1.6	4.7	(15.00)
200 basis point rise	0.3	3.4	(10.00)
100 basis point rise	0.5	2.1	(5.00)
Base rate scenario	-	-	-
25 basis point decline	(0.7)	0.2	(1.25)
50 basis point decline	(1.8)	(1.0)	(2.50)
75 basis point decline	(3.1)	(1.9)	(3.75)

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 negative impact to the Corporation's net interest income in all the 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. The analysis above focuses on immediate rate movements, referred to as rate shocks, and measured over the course of one year.

In all rates-up scenarios, modeled net interest income increases marginally and all rates-up scenarios show slightly less benefit compared to the results as of December 31, 2020. 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 and 2021. The analysis above assumes no growth of the Corporation's balance sheet and no change in the mix of earning assets. This is a very conservative analysis but importantly still shows 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.

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, 2021 and December 31, 2020. 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, 2021, the Corporation was within guidelines for all up-rate scenarios but was outside of guidelines for the down-rate scenarios. The positive impact of higher rates on both loans and securities was up from December 31, 2020. 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 and 2021 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, 2021 and 2020.

CHANGES IN NET PORTFOLIO VALUE

	2021 Percentage Change	2020 Percentage Change	Policy Guidelines %
300 basis point rise	28.5	31.2	(15.00)
200 basis point rise	21.7	26.8	(10.00)
100 basis point rise	14.7	17.7	(5.00)
Base rate scenario	-	-	-
25 basis point decline	(6.3)	(6.9)	(3.75)
50 basis point decline	(14.1)	(17.2)	(7.50)
75 basis point decline	(22.5)	(26.5)	(11.25)

This table shows the effect of an immediate interest rate shock on the net portfolio value of the Corporation's assets and liabilities. Base rate is the Prime rate.

The results as of December 31, 2021, indicate that the Corporation's net portfolio value would experience valuation gains in all up-rate scenarios with a gain of 14.7% in the rates-up 100 basis point scenario, and gains of 21.7% and 28.5%, 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. 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.

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. 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 (PCAOB ID 00074)_____	55
Consolidated Balance Sheets _____	58
Consolidated Statements of Income _____	59
Consolidated Statements of Comprehensive Income _____	60
Consolidated Statements of Changes in Stockholders' Equity _____	61
Consolidated Statements of Cash Flows _____	62
Notes to Consolidated Financial Statements _____	63

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, 2021 and 2020; 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, 2021 and 2020, 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 \$920.9 million as of December 31, 2021, and the associated ALL was \$12.9 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 lending policies and practices, national and local economic trends and conditions, trends in the nature and volume of the loan portfolio, experience, ability, and depth of lending staff and management, levels of and trends in delinquency, non-accruals, and charge-offs, changes in quality of credit risk and oversight of Board of Directors, changes in underlying value of collateral, concentrations of credit, and external factors such as competition, law, and regulations.

Auditing the Company's ALL involved a high degree of subjectivity due to the judgment involved in management's determination of commercial loan credit risk ratings and identification and measurement of qualitative factor adjustments included in the estimate of the allowance for loan losses.

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.

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.



Allowance for Loan Losses (ALL)

Regarding the measurement of the qualitative adjustments, we evaluated the completeness, accuracy, and relevance of the data and inputs utilized in management's estimate. We evaluated the inputs and data to the Company's historical loan performance data and third-party macroeconomic data. 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 to perform procedures on a sample of commercial loans to test the Company's credit risk ratings by comparing key attributes used in the determination of the credit risk rating to supporting documentation such as borrowers' financial statements, underlying collateral, financial health of the guarantor, and loan payment history.

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



S.R. Snodgrass, P.C.
Cranberry Township, Pennsylvania
March 21, 2022

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2021 \$	December 31, 2020 \$
ASSETS		
Cash and due from banks	19,930	21,665
Interest-bearing deposits in other banks	138,519	73,274
Total cash and cash equivalents	158,449	94,939
Securities available for sale (at fair value)	558,093	476,428
Equity securities (at fair value)	8,982	7,105
Loans held for sale	3,194	3,029
Loans (net of unearned income)	920,904	823,370
Less: Allowance for credit losses	12,931	12,327
Net loans	907,973	811,043
Premises and equipment	24,476	24,760
Regulatory stock	5,380	6,107
Bank owned life insurance	35,414	29,646
Other assets	15,269	9,256
Total assets	1,717,230	1,462,313
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	686,278	534,853
Interest-bearing	825,935	717,958
Total deposits	1,512,213	1,252,811
Long-term debt	44,206	54,790
Subordinated debt	19,680	19,601
Other liabilities	3,843	4,895
Total liabilities	1,579,942	1,332,097
Stockholders' equity:		
Common stock, par value \$0.10		
Shares: Authorized 24,000,000		
Issued 5,739,114 and Outstanding 5,583,956 as of 12/31/21		
and 5,566,230 as of 12/31/20	574	574
Capital surplus	4,520	4,444
Retained earnings	131,856	120,670
Accumulated other comprehensive income net of tax	3,441	7,958
Less: Treasury stock cost on 155,158 shares as of 12/31/21		
172,884 shares as of 12/31/20	(3,103)	(3,430)
Total stockholders' equity	137,288	130,216
Total liabilities and stockholders' equity	1,717,230	1,462,313

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

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

	Year Ended December 31,	
	2021	2020
	\$	\$
Interest and dividend income:		
Interest and fees on loans	34,246	34,654
Interest on securities available for sale		
Taxable	4,881	4,040
Tax-exempt	3,975	2,719
Interest on deposits at other banks	91	140
Dividend income	398	541
Total interest and dividend income	43,591	42,094
Interest expense:		
Interest on deposits	1,143	2,139
Interest on borrowings	1,877	1,707
Total interest expense	3,020	3,846
Net interest income	40,571	38,248
Provision for loan losses	475	2,950
Net interest income after provision for loan losses	40,096	35,298
Other income:		
Trust and investment services income	2,362	1,974
Service fees	2,512	2,662
Commissions	3,702	2,963
Gains on sale of debt securities, net	730	809
Gains (losses) on equity securities, net	324	(76)
Gains on sale of mortgages	5,526	5,850
Earnings on bank-owned life insurance	880	829
Other income	1,845	349
Total other income	17,881	15,360
Operating expenses:		
Salaries and employee benefits	24,465	22,062
Occupancy	2,621	2,407
Equipment	1,053	1,196
Advertising & marketing	992	894
Computer software & data processing	4,420	3,148
Shares tax	1,282	1,060
Professional services	2,099	2,317
Other expense	3,509	2,990
Total operating expenses	40,441	36,074
Income before income taxes	17,536	14,584
Provision for federal income taxes	2,620	2,285
Net income	14,916	12,299
Earnings per share of common stock	2.68	2.20
Cash dividends paid per share	0.67	0.64
Weighted average shares outstanding	5,567,950	5,583,118

See Notes to the Consolidated Financial Statements

ENB FINANCIAL CORP

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2021	2020
	\$	\$
Net income	14,916	12,299
Other comprehensive income (loss), net of tax:		
Net change in unrealized (losses) gains:		
Securities available for sale not other-than-temporarily impaired:		
Unrealized (losses) gains arising during the period	(4,986)	8,854
Income tax effect	1,046	(1,857)
	(3,940)	6,997
Gains recognized in earnings	(730)	(809)
Income tax effect	153	170
	(577)	(639)
Other comprehensive (loss) income, net of tax	(4,517)	6,358
Comprehensive Income	10,399	18,657

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, 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
Net income	-	-	14,916	-	-	14,916
Other comprehensive loss, net of tax	-	-	-	(4,517)	-	(4,517)
Treasury stock purchased -22,900 shares	-	-	-	-	(482)	(482)
Treasury stock issued - 40,626 shares	-	76	-	-	809	885
Cash dividends paid, \$0.67 per share	-	-	(3,730)	-	-	(3,730)
Balances, December 31, 2021	574	4,520	131,856	3,441	(3,103)	137,288

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2021	2020
	\$	\$
Cash flows from operating activities:		
Net income	14,916	12,299
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of securities premiums and discounts and loan fees	3,945	2,580
Amortization of operating leases right-of-use assets	112	180
Increase in interest receivable	(608)	(778)
Decrease in interest payable	(71)	(196)
Provision for loan losses	475	2,950
Gain on sale of debt securities, net	(730)	(809)
(Gain) loss on equity securities, net	(324)	76
Gains on sale of mortgages	(5,526)	(5,850)
Loans originated for sale	(97,578)	(127,871)
Proceeds from sales of loans	102,939	133,034
Earnings on bank-owned life insurance	(880)	(829)
Depreciation of premises and equipment and amortization of software	1,560	1,509
Deferred income tax	(15)	(646)
Amortization of deferred fees on subordinated debt	79	-
Other assets and other liabilities, net	(5,038)	794
Net cash provided by operating activities	13,256	16,443
Cash flows from investing activities:		
Securities available for sale:		
Proceeds from maturities, calls, and repayments	74,972	65,702
Proceeds from sales	79,019	54,291
Purchases	(245,788)	(283,041)
Equity securities:		
Proceeds from sales	460	-
Purchases	(2,013)	(473)
Purchase of regulatory bank stock	(556)	(1,248)
Redemptions of regulatory bank stock	1,283	2,432
Purchase of bank-owned life insurance	(4,888)	-
Net increase in loans	(96,204)	(68,829)
Purchases of premises and equipment, net	(1,036)	(1,104)
Purchase of computer software	(486)	(200)
Net cash used for investing activities	(195,237)	(232,470)
Cash flows from financing activities:		
Net increase in demand, NOW, and savings accounts	264,554	294,820
Net decrease in time deposits	(5,152)	(16,097)
Net decrease in short-term borrowings	-	(200)
Proceeds from long-term debt	-	23,996
Repayments of long-term debt	(10,584)	(47,078)
Proceeds from issuance of subordinated debt	-	19,601
Dividends paid	(3,730)	(3,573)
Proceeds from sale of treasury stock	885	660
Treasury stock purchased	(482)	(2,216)
Net cash provided by financing activities	245,491	269,913
Increase in cash and cash equivalents	63,510	53,886
Cash and cash equivalents at beginning of period	94,939	41,053
Cash and cash equivalents at end of period	158,449	94,939
Supplemental disclosures of cash flow information:		
Interest paid	3,089	4,047
Income taxes paid	2,875	2,940
Supplemental disclosure of non-cash investing and financing activities:		
Fair value adjustments for securities available for sale	5,716	(8,045)
Recognition of lease operating right-of-use assets	80	-
Recognition of operating lease liabilities	80	-

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.

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 \$910,000 as of December 31, 2021, and \$798,000 as of December 31, 2020. 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, 2021, or December 31, 2020.

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 \$1,768,000 of MSRs as of December 31, 2021, compared to \$1,076,000 as of December 31, 2020. The value of MSRs increased during 2021 as valuation of new assets outpaced amortization on existing assets. The year ended December 31, 2021, was the second year of elevated mortgage volume resulting in this increase in MSRs. 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. Ultimately the value of the MSRs would be at what level a willing buyer and seller would exchange the MSRs. MSRs are

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Notes to Consolidated Financial Statements

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, 2021 and 2020.

MORTGAGE SERVICING RIGHTS

(DOLLARS IN THOUSANDS)

	December 31,	
	2021	2020
	\$	\$
Beginning Balance	1,076	892
Additions	877	753
Amortization	(48)	(420)
Disposals	(137)	(149)
Ending Balance	1,768	1,076

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 \$35,414,000 and \$29,646,000 as of December 31, 2021, and 2020, respectively. The increase in BOLI cash surrender value was primarily due to an additional BOLI investment of \$5 million in 2021 and 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, 2021 and 2020 were \$992,000 and \$894,000, 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 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.

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 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. 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.

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Notes to Consolidated Financial Statements

NOTE B - SECURITIES

(DOLLARS IN THOUSANDS)

DEBT SECURITIES

The amortized cost and fair value of debt securities held at December 31, 2021, and 2020, are as follows:

	Amortized Cost \$	Gross Unrealized Gains \$	Gross Unrealized Losses \$	Fair Value \$
December 31, 2021				
U. S. Treasuries	14,821	14	(22)	14,813
U.S. government agencies	29,613	50	(642)	29,021
U.S. agency mortgage-backed securities	51,964	502	(478)	51,988
U.S. agency collateralized mortgage obligations	30,917	241	(81)	31,077
Asset-backed securities	100,998	605	(384)	101,219
Corporate bonds	82,617	420	(528)	82,509
Obligations of states and political subdivisions	242,807	5,848	(1,189)	247,466
Total securities available for sale	<u>553,737</u>	<u>7,680</u>	<u>(3,324)</u>	<u>558,093</u>
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	<u>466,356</u>	<u>10,733</u>	<u>(661)</u>	<u>476,428</u>

The amortized cost and fair value of debt securities available for sale at December 31, 2021, 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	28,348	28,490
Due after one year through five years	109,795	110,615
Due after five years through ten years	148,147	147,710
Due after ten years	267,447	271,278
Total debt securities	<u>553,737</u>	<u>558,093</u>

Securities available for sale with a par value of \$94,283,000 and \$86,849,000 at December 31, 2021 and 2020, 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 \$96,521,000 at December 31, 2021, and \$91,666,000 at December 31, 2020.

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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.

PROCEEDS FROM SALES OF SECURITIES AVAILABLE FOR SALE
(DOLLARS IN THOUSANDS)

	Securities Available for Sale	
	2021	2020
	\$	\$
Proceeds from sales	79,019	54,291
Gross realized gains	809	836
Gross realized losses	79	27

Information pertaining to securities with gross unrealized losses at December 31, 2021, and December 31, 2020, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

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, 2021						
U.S. Treasuries	4,959	(22)	-	-	4,959	(22)
U.S. government agencies	16,386	(519)	7,375	(123)	23,761	(642)
U.S. agency mortgage-backed securities	24,090	(468)	2,458	(10)	26,548	(478)
U.S. agency collateralized mortgage obligations	14,206	(66)	2,965	(15)	17,171	(81)
Asset-backed securities	50,466	(338)	2,826	(46)	53,292	(384)
Corporate bonds	44,907	(528)	-	-	44,907	(528)
Obligations of states & political subdivisions	70,021	(1,043)	6,023	(146)	76,044	(1,189)
Total temporarily impaired securities	225,035	(2,984)	21,647	(340)	246,682	(3,324)
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)

In the debt security portfolio, there are 115 positions carrying unrealized losses as of December 31, 2021. There were no instruments considered to be other-than-temporarily impaired at December 31, 2021.

The Corporation evaluates 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. 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

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Notes to Consolidated Financial Statements

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, 2021 and December 31, 2020.

(DOLLARS IN THOUSANDS)	Amortized Cost \$	Gross Unrealized Gains \$	Gross Unrealized Losses \$	Fair Value \$
December 31, 2021				
CRA-qualified mutual funds	7,240	-	-	7,240
Bank stocks	1,570	184	(12)	1,742
Total equity securities	8,810	184	(12)	8,982

(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	7,158	53	(106)	7,105

The following table presents the net gains and losses on the Corporation's equity investments recognized in earnings during the year ended December 31, 2021 and 2020, and the portion of unrealized gains and losses for the periods that relates to equity investments held as of December 31, 2021 and 2020.

NET GAINS AND LOSSES ON EQUITY INVESTMENTS RECOGNIZED IN EARNINGS (DOLLARS IN THOUSANDS)

	Year Ended December 31, 2021 \$	Year Ended December 31, 2020 \$
Net gains (losses) recognized in equity securities during the period	324	(76)
Less: Net gains realized on the sale of equity securities during the period	(99)	-
Unrealized gains (losses) recognized in equity securities held at reporting date	225	(76)

Proceeds from the sale of equity securities during 2021 totaled \$460,000. No equity securities were sold during 2020.

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES

The following table presents the Corporation's loan portfolio by category of loans for 2021 and 2020.

LOAN PORTFOLIO (DOLLARS IN THOUSANDS)

	December 31,	
	2021	2020
	\$	\$
Commercial real estate		
Commercial mortgages	177,396	142,698
Agriculture mortgages	203,725	176,005
Construction	19,639	23,441
Total commercial real estate	400,760	342,144
Consumer real estate (a)		
1-4 family residential mortgages	317,037	263,569
Home equity loans	11,181	10,708
Home equity lines of credit	75,698	71,290
Total consumer real estate	403,916	345,567
Commercial and industrial		
Commercial and industrial	65,615	97,896
Tax-free loans	23,009	10,949
Agriculture loans	20,717	20,365
Total commercial and industrial	109,341	129,210
Consumer	5,132	5,155
Gross loans prior to deferred costs and allowance for loan losses	919,149	822,076
Deferred loan costs, net	1,755	1,294
Allowance for credit losses	(12,931)	(12,327)
Total net loans	907,973	811,043

(a) Real estate loans serviced for others, which are not included in the Consolidated Balance Sheets, totaled \$289,263,000 and \$235,437,000 as of December 31, 2021, and 2020, 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, 2021 and 2020. 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.
- Loss – loans classified as a loss are considered uncollectible, or of such value that continuance as an asset is not warranted.

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COMMERCIAL CREDIT EXPOSURE

CREDIT RISK PROFILE BY INTERNALLY ASSIGNED GRADE

(DOLLARS IN THOUSANDS)

December 31, 2021	Commercial Mortgages	Agriculture Mortgages	Construction	Commercial and Industrial	Tax-free Loans	Agriculture Loans	Total
	\$	\$	\$	\$	\$	\$	\$
Grade:							
Pass	172,540	192,943	13,544	57,214	23,009	19,980	479,230
Special Mention	2,443	2,542	6,095	4,657	-	90	15,827
Substandard	2,413	8,240	-	3,744	-	647	15,044
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	177,396	203,725	19,639	65,615	23,009	20,717	510,101

COMMERCIAL CREDIT EXPOSURE

CREDIT RISK PROFILE BY INTERNALLY ASSIGNED GRADE

(DOLLARS IN THOUSANDS)

December 31, 2020	Commercial Mortgages	Agriculture Mortgages	Construction	Commercial and Industrial	Tax-free Loans	Agriculture Loans	Total
	\$	\$	\$	\$	\$	\$	\$
Grade:							
Pass	133,853	166,102	21,142	87,767	10,949	18,586	438,399
Special Mention	3,683	1,651	2,299	5,592	-	774	13,999
Substandard	5,162	8,252	-	4,537	-	1,005	18,956
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	142,698	176,005	23,441	97,896	10,949	20,365	471,354

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, 2021 and 2020:

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CONSUMER CREDIT EXPOSURE

CREDIT RISK PROFILE BY PAYMENT PERFORMANCE

(DOLLARS IN THOUSANDS)

December 31, 2021	1-4 Family Residential Mortgages	Home Equity Loans	Home Equity Lines of Credit	Consumer	Total
Payment performance:	\$	\$	\$	\$	\$
Performing	316,722	11,181	75,659	5,132	408,694
Non-performing	315	-	39	-	354
Total	317,037	11,181	75,698	5,132	409,048

CONSUMER CREDIT EXPOSURE

CREDIT RISK PROFILE BY PAYMENT PERFORMANCE

(DOLLARS IN THOUSANDS)

December 31, 2020	1-4 Family Residential Mortgages	Home Equity Loans	Home Equity Lines of Credit	Consumer	Total
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

The following tables present an age analysis of the Corporation's past due loans, segregated by loan portfolio class, as of December 31, 2021 and 2020:

AGING OF LOANS RECEIVABLE

(DOLLARS IN THOUSANDS)

December 31, 2021	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	22	-	184	206	177,190	177,396	-
Agriculture mortgages	232	-	1,838	2,070	201,655	203,725	-
Construction	-	-	-	-	19,639	19,639	-
Consumer real estate							
1-4 family residential mortgages	1,464	68	315	1,847	315,190	317,037	276
Home equity loans	19	-	-	19	11,162	11,181	-
Home equity lines of credit	-	-	39	39	75,659	75,698	39
Commercial and industrial							
Commercial and industrial	43	-	395	438	65,177	65,615	10
Tax-free loans	-	-	-	-	23,009	23,009	-
Agriculture loans	-	9	110	119	20,598	20,717	-
Consumer	22	-	-	22	5,110	5,132	-
Total	1,802	77	2,881	4,760	914,389	919,149	325

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AGING OF LOANS RECEIVABLE

(DOLLARS IN THOUSANDS)

December 31, 2020	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	-	-	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

As of December 31, 2021, and 2020, all of the Corporation's non-homogeneous loans on non-accrual status were also considered impaired.

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)

	2021 \$	2020 \$
Commercial real estate		
Commercial mortgages	184	208
Agriculture mortgages	1,838	-
Construction	-	-
Consumer real estate		
1-4 family residential mortgages	39	48
Home equity loans	-	-
Home equity lines of credit	-	-
Commercial and industrial		
Commercial and industrial	385	469
Tax-free loans	-	-
Agriculture loans	110	-
Consumer	-	-
Total	2,556	725

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No loan modifications were made during 2021 that would be considered a troubled debt restructuring (TDR). There was one loan modification made during 2020 that was considered a 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. This loan paid off in the third quarter of 2021. 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. 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. Included in the impaired loan portfolio is one loan to a commercial borrower that is being reported as a TDR. The balance of this TDR loans was \$768,000 as of December 31, 2021. This TDR is not non-accrual.

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The following table summarizes information in regards to impaired loans by loan portfolio class as of December 31, 2021:

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	223	263	-	2,153	106
Agriculture mortgages	2,055	2,066	-	1,313	54
Construction	-	-	-	-	-
Total commercial real estate	2,278	2,329	-	3,466	160
Commercial and industrial					
Commercial and industrial	385	438	-	419	-
Tax-free loans	-	-	-	-	-
Agriculture loans	-	-	-	-	-
Total commercial and industrial	385	438	-	419	-
Total with no related allowance	2,663	2,767	-	3,885	160
With an allowance recorded:					
Commercial real estate					
Commercial mortgages	-	-	-	-	-
Agriculture mortgages	551	559	37	144	-
Construction	-	-	-	-	-
Total commercial real estate	551	559	37	144	-
Commercial and industrial					
Commercial and industrial	-	-	-	-	-
Tax-free loans	-	-	-	-	-
Agriculture loans	110	111	110	26	-
Total commercial and industrial	110	111	110	26	-
Total with a related allowance	661	670	147	170	-
Total by loan class:					
Commercial real estate					
Commercial mortgages	223	263	-	2,153	106
Agriculture mortgages	2,606	2,625	37	1,457	54
Construction	-	-	-	-	-
Total commercial real estate	2,829	2,888	37	3,610	160
Commercial and industrial					
Commercial and industrial	385	438	-	419	-
Tax-free loans	-	-	-	-	-
Agriculture loans	110	111	110	26	-
Total commercial and industrial	495	549	110	445	-
Total	3,324	3,437	147	4,055	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, 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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The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2021:

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

	Commercial Real Estate \$	Commercial Consumer Real Estate \$	Commercial and Industrial \$	Consumer \$	Unallocated \$	Total \$
Allowance for credit losses:						
Beginning balance	6,329	3,449	1,972	52	525	12,327
Charge-offs	-	(20)	-	(35)	-	(55)
Recoveries	109	2	56	17	-	184
Provision	(175)	403	84	53	110	475
Ending balance	6,263	3,834	2,112	87	635	12,931
Ending balance: individually evaluated for impairment	37	-	110	-	-	147
Ending balance: collectively evaluated for impairment	6,226	3,834	2,002	87	635	12,784
Loans receivable:						
Ending balance	400,760	403,916	109,341	5,132		919,149
Ending balance: individually evaluated for impairment	2,829	-	495	-		3,324
Ending balance: collectively evaluated for impairment	397,931	403,916	108,846	5,132		915,825

The dollar amount of the allowance increased for all loan segments except commercial real estate since December 31, 2020. The lower provision in the commercial real estate sector was due to a specific allocation of \$1.1 million made during 2020 for a customer with ongoing business concerns. This loan paid off in 2021 resulting in a reversal of this specific allocation. The higher provisions across the other categories were primarily caused by growth within these segments of the loan portfolio. Recoveries exceeded charge-offs during the year ended December 31, 2021, so the provision expense was primarily related to loan portfolio growth and minor increases in qualitative factors.

The Corporation's allowance allocation is still overweighted toward commercial real estate loans due to the higher historical losses experienced. Approximately 48% of the allowance is dedicated to this sector that comprises 44% of total loan balances. This compares to 30% of the allowance being allocated to the consumer real estate sector which comprises 44% 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, 2021 ending balance of the allowance was up \$604,000, or 4.9%, from December 31, 2020, and the allowance as a percentage of total loans was 1.40% as of December 31, 2021, and 1.50% as of December 31, 2020.

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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, 2020:

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

	Commercial Real Estate	Commercial Consumer Real Estate	Commercial and Industrial	Commercial 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 (credit)	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.

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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,	
	2021	2020
	\$	\$
Land	5,043	5,043
Buildings and improvements	30,265	29,742
Furniture and equipment	10,864	15,890
Construction in process	369	385
Total	46,541	51,060
Less accumulated depreciation	(22,065)	(26,300)
Premises and equipment	24,476	24,760

Depreciation expense, which is included in operating expenses, amounted to \$1,320,000 for 2021, and \$1,377,000 for 2020. 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, 2021 and 2020, 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, 2021, the Bank held \$4,742,000 in stock of the FHLB compared to \$5,919,000 as of December 31, 2020.

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 5.25% annualized on activity stock and 1.25% annualized on membership stock as of December 31, 2021. 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 \$601,000 of Federal Reserve Bank stock and \$37,000 of Atlantic Community Bancshares, Inc. stock, the Bank Holding Company of ACBB, as of December 31, 2021, compared to \$151,000 and \$37,000, respectively, as of December 31, 2020.

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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,	
	2021	2020
	\$	\$
Non-interest bearing demand	686,278	534,853
Interest-bearing demand	63,015	47,092
NOW accounts	139,366	137,279
Money market deposit accounts	168,327	140,113
Savings accounts	341,291	274,386
Time deposits under \$250,000	105,615	111,001
Time deposits of \$250,000 or more	8,321	8,087
Total deposits	1,512,213	1,252,811

At December 31, 2021, the scheduled maturities of time deposits are as follows:

2022	63,603
2023	18,057
2024	17,121
2025	6,863
2026	8,292
Total	113,936

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, 2021 and 2020:

	2021	2020
	\$	\$
Total short-term borrowings outstanding at year end	-	-
Average interest rate at year end		-
Maximum outstanding at any month end		11,01
Average amount outstanding for the year	22	22,342
Weighted-average interest rate for the year	0.25%	0.33%

As of December 31, 2021, 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 \$28.3 million as of December 31, 2021. 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, 2021, and 2020, are summarized as follows:

		December 31,			
		2021		2020	
		Weighted-Average		Weighted-Average	
		Amount	Rate	Amount	Rate
		\$	%	\$	%
FHLB fixed rate loans					
2022		-	-	10,584	2.13
2023		13,816	2.77	13,816	2.77
2024		17,407	2.02	17,407	2.02
2025		12,983	1.47	12,983	1.47
2026					
Total other borrowings		44,206	2.09	54,790	2.10

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 \$505.1 million as of December 31, 2021 with remaining borrowing capacity of \$457.6 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, 2021 and 2020 was as follows:

		December 31,					
		2021	2020				
		Carrying	Carrying				
		Amount	Amount	Rate	Issued		
		\$	\$	%	Amount	Date Issued	Maturity
Issued by	Ranking						
ENB Financial Corp	Subordinated (1)(2)	19,680	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 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, 2021, a total of 32,900 shares were repurchased at a total cost of \$669,000, for an average cost per share of \$20.33.

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 15% 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 25,982 shares issued through the ESPP in 2021 with 281,870 shares issued since existence. The DRP was started in 2005 with 12,227 shares issued in 2021 and 229,453 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 2,417 shares were issued in connection with this plan in 2021 and 39,949 since existence. In 2020, there were 20,624 shares issued through the ESPP, 12,773 shares issued through the DRP, and 1,494 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 2021 and 2020 was 40,626 and 34,891, respectively. As of December 31, 2021, the Corporation held 155,158 treasury shares, at a weighted-average cost of \$20.00 per share, with a cost basis of \$3,103,000.

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 2021 and 2020, for persons under age 50, and for persons over age 50 was \$26,000 in both years. 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 \$423,000 and \$398,000 for 2021 and 2020, 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 \$290,000 in 2021 and \$285,000 in 2020. Total expenses of the plan were \$936,000 and \$622,000, for 2021 and 2020, 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

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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, 2021, and December 31, 2020. The death benefits totaled \$6,843,000 at December 31, 2021, and \$6,734,000 at December 31, 2020. The cash surrender value of the above policies totaled \$5,270,000 and \$5,177,000 as of December 31, 2021, and 2020, 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,			
	2021		2020	
	\$	%	\$	%
Income tax at statutory rate	3,683	21.0	3,063	21.0
Tax-exempt interest income	(954)	(5.4)	(695)	(4.8)
Non-deductible interest expense	47	0.3	50	0.3
Bank-owned life insurance	(160)	(0.9)	(151)	(1.0)
Other	4	0.0	18	0.1
Income tax expense	2,620	15.0	2,285	15.6

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.

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 2018.

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Significant components of income tax expense are as follows:
(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2021	2020
	\$	\$
Current tax expense	2,605	2,931
Deferred tax expense (benefit)	15	(646)
Income tax expense	2,620	2,285

Components of the Corporation's net deferred tax position are as follows:
(DOLLARS IN THOUSANDS)

	December 31,	
	2021	2020
	\$	\$
Deferred tax assets		
Allowance for credit losses	2,715	2,589
Allowance for off-balance sheet extensions of credit	191	168
Interest on non-accrual loans	6	11
Other	110	47
Total deferred tax assets	3,022	2,815
Deferred tax liabilities		
Premises and equipment	(926)	(987)
Net unrealized holding gains on securities available for sale	(915)	(2,115)
Mortgage servicing rights	(193)	(93)
Discount on investment securities	(114)	(45)
Other	(129)	(15)
Total deferred tax liabilities	(2,277)	(3,255)
Net deferred tax assets (liabilities)	745	(440)

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.

The consolidated asset limit on small bank holding companies is \$3 billion and a company with assets under that limit is not subject to the consolidated capital rules but may disclose capital amounts and ratios. The Corporation has elected to disclose those amounts and ratios.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, 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 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, 2021 and 2020, the Bank was 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, 2021 and December 31, 2020, 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, 2021						
Total Capital to Risk-Weighted Assets						
Consolidated.....	166,878	15.6	N/A	N/A	N/A	N/A
Bank.....	162,375	14.9	87,281	8.0	109,101	10.0
Tier I Capital to Risk-Weighted Assets						
Consolidated.....	133,848	12.5	N/A	N/A	N/A	N/A
Bank.....	148,735	13.6	65,461	6.0	87,281	8.0
Common Equity Tier I Capital to Risk-Weighted Assets						
Consolidated.....	133,848	12.5	N/A	N/A	N/A	N/A
Bank.....	148,735	13.6	49,095	4.5	70,916	6.5
Tier I Capital to Average Assets						
Consolidated.....	133,848	8.2	N/A	N/A	N/A	N/A
Bank.....	148,735	9.1	65,721	4.0	81,701	5.0
As of December 31, 2020						
Total Capital to Risk-Weighted Assets						
Consolidated.....	153,801	16.1	N/A	N/A	N/A	N/A
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	N/A	N/A	N/A	N/A
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	N/A	N/A	N/A	N/A
Bank.....	133,505	14.0	42,890	4.5	61,952	6.5
Tier I Capital to Average Assets						
Consolidated.....	122,258	9.0	N/A	N/A	N/A	N/A
Bank.....	133,505	9.8	54,334	4.0	67,918	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 \$19.3 million, plus an additional amount equal to the Corporation's net profits for 2022, 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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Notes to Consolidated Financial Statements

LOANS TO INSIDERS
(DOLLARS IN THOUSANDS)

	Year Ended December 31, 2021 \$	Year Ended December 31, 2020 \$
Balance, beginning of year	31	640
Advances	40	16
Repayments	(71)	(622)
Other changes	194	(3)
Balance, end of year	<u>194</u>	<u>31</u>

In the Corporation's case, other changes in the table above for the year ended December 31, 2021, represented the addition of an executive officer, and for the year ended December 31, 2020, represented the retirement of one director.

Deposits from the insiders totaled \$2,855,000 as of December 31, 2021, and \$2,313,000 as of December 31, 2020.

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, 2021, firm loan commitments totaled approximately \$99.0 million; unused lines of credit totaled \$378.3 million; and open letters of credit totaled \$12.8 million. The sum of these commitments, \$490.1 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, 2020, totaled \$408.0 million, representing firm loan commitments of \$77.1 million, unused lines of credit of \$322.4 million, and open letters of credit totaling \$8.5 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, 2021, the Corporation's legal lending limit was \$24,356,000, and the Corporation's lending policy limit was \$18,267,000. This compared to a legal lending limit of \$21,815,000, and lending policy limit of \$16,361,000 as of

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December 31, 2020. As of December 31, 2021 and 2020, 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 \$403.9 million, or 43.9%, of the \$919.1 million gross loans outstanding as of December 31, 2021. This compares to \$345.6 million, or 42.0%, of the \$822.1 million of gross loans outstanding as of December 31, 2020. Residential real estate consists of first mortgages and home equity loans. A concentration in commercial real estate of 43.6%, or \$400.8 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 22.2% of gross loans as of December 31, 2021, compared to 21.4% as of December 31, 2020; 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, 2021, the largest specific industry type categories were dairy cattle and milk production loans of \$93.8 million, or 10.2% of gross loans, non-residential real estate investment loans of \$118.0 million, or 12.8% of gross loans, and residential real estate investment loans with a balance of \$51.8 million, or 5.6% 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 \$109.3 million of loans designated as commercial and industrial for the Uniform Bank Performance Reports, the largest concentration within that area is \$23.0 million of loans to political subdivisions, which account for 2.5% 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, 2021, were obligations of states and political subdivisions located in the states of Pennsylvania, California, and Texas. Based on fair market value, the Corporation had 20.3% of its portfolio invested in Pennsylvania municipals, 17.4% in California, and 7.7% in Texas. As of December 31, 2021, no municipal bonds were below an A3/A- credit rating.

The Corporation held \$82.6 million of corporate bonds based on amortized cost as of December 31, 2021. Out of the \$82.6 million of total corporate securities, \$66.6 million is domestic and \$16.0 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. In addition, \$52.6 million, or 63.7%, of the corporate bonds held are invested in national or foreign banks, bank holding companies, brokerage firms, or finance companies. The remaining \$30.0 million of non-financial related corporate paper consists of \$8.0 million in energy companies, \$2.0 million in insurance companies, \$5.6 million in consumer goods, \$5.2 million in healthcare, and \$9.2 million in technology.

Within the corporate bond segment of the portfolio, \$11.9 million is in subordinated debt from 14 different issuers. The majority of these bonds are non-rated, with one bond being rated.

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, 2021, 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.

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Notes to Consolidated Financial Statements

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. For the Corporation, Topic 842 primarily affects 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.

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, 2021		December 31, 2020
Lease Right-of-Use Assets				
Operating lease right-of use assets	Other Assets	\$	617	\$ 728
Lease Liabilities				
Operating lease liabilities	Other Liabilities	\$	629	\$ 740

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.

	December 31, 2021	December 31, 2020
Weighted-average remaining lease term		
Operating leases	3.7 years	4.4 years
Weighted-average discount rate		
Operating leases	2.82%	3.11%

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, 2021 were as follows:

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Notes to Consolidated Financial Statements

Lease Payment Schedule

(Dollars in Thousands)

	Operating Leases
Twelve Months Ended:	
December 31, 2022	\$ 189
December 31, 2023	173
December 31, 2024	176
December 31, 2025	106
December 31, 2026	20
Thereafter	-
Total Future Minimum Lease Payments	<u>664</u>
Amounts Representing Interests	<u>(35)</u>
Present Value of Net Future Minimum Lease Payments	<u>\$ 629</u>

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.

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, 2021 and December 31, 2020, 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, 2021			
	Level I	Level II	Level III	Total
	\$	\$	\$	\$
U.S. Treasuries	-	14,813	-	14,813
U.S. government agencies	-	29,021	-	29,021
U.S. agency mortgage-backed securities	-	51,988	-	51,988
U. S. agency collateralized mortgage obligations	-	31,077	-	31,077
Asset-backed securities	-	101,219	-	101,219
Corporate bonds	-	82,509	-	82,509
Obligations of states and political subdivisions	-	247,466	-	247,466
Marketable equity securities	8,982	-	-	8,982
Total securities	<u>8,982</u>	<u>558,093</u>	<u>-</u>	<u>567,075</u>

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Notes to Consolidated Financial Statements

On December 31, 2021, 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, 2021, the CRA fund investments had a \$7,240,000 book and market value and the bank stocks had a book value of \$1,570,000 and a market value of \$1,742,000.

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, 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.

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Notes to Consolidated Financial Statements

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, 2021 and December 31, 2020, by level within the fair value hierarchy:

ASSETS MEASURED ON A NONRECURRING BASIS

(DOLLARS IN THOUSANDS)

		December 31, 2021			
		Level I	Level II	Level III	Total
		\$	\$	\$	\$
Assets:					
Impaired Loans		-	-	3,177	3,177
		-	-	3,177	3,177
		December 31, 2020			
		Level I	Level II	Level III	Total
		\$	\$	\$	\$
Assets:					
Impaired Loans		-	-	4,632	4,632
Total		-	-	4,632	4,632

The Corporation had a total of \$3,324,000 of impaired loans as of December 31, 2021, with \$147,000 of specific allocation against these loans. As of December 31, 2020, the Corporation had a total of \$5,763,000 of impaired loans with \$1,131,000 of specific allocation against these loans. The value of impaired loans is generally determined through independent appraisals of the underlying collateral.

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, 2021		
		Fair Value Estimate	Valuation Techniques	Unobservable Input
				Range (Weighted Avg)
Impaired loans	3,177	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expenses (2)	0% to -20% (-20%) 0% to -10% (-10%)
		December 31, 2020		
		Fair Value Estimate	Valuation Techniques	Unobservable Input
				Range (Weighted Avg)
Impaired loans	4,632	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expenses (2)	0% to -20% (-20%) 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.

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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, 2021 and December 31, 2020:

FINANCIAL INSTRUMENTS NOT REQUIRED TO BE MEASURED OR REPORTED AT FAIR VALUE

(DOLLARS IN THOUSANDS)

	Carrying Amount \$	Fair Value \$	December 31, 2021		
			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	158,449	158,449	158,449	-	-
Regulatory stock	5,380	5,380	5,380	-	-
Loans held for sale	3,194	3,194	3,194	-	-
Loans, net of allowance	907,973	914,251	-	-	914,251
Mortgage servicing assets	1,768	2,129	-	-	2,129
Accrued interest receivable	5,152	5,152	5,152	-	-
Bank owned life insurance	35,414	35,414	35,414	-	-
Financial Liabilities:					
Demand deposits	686,278	686,278	686,278	-	-
Interest-bearing demand deposits	63,015	63,015	63,015	-	-
NOW accounts	139,366	139,366	139,366	-	-
Money market deposit accounts	168,327	168,327	168,327	-	-
Savings accounts	341,291	341,291	341,291	-	-
Time deposits	113,936	113,919	-	-	113,919
Total deposits	1,512,213	1,512,196	1,398,277	-	113,919
Long-term debt	44,206	43,060	-	-	43,060
Subordinated debt	19,680	19,088	-	-	19,088
Accrued interest payable	251	251	251	-	-

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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
Short-term borrowings	54,790	51,800	-	-	51,800
Long-term debt	19,601	19,601	-	-	19,601
Accrued interest payable	320	320	320	-	-

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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, 2021 and 2020 is as follows:

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

	Unrealized Gains on Securities Available-for-Sale \$
Balance at January 1, 2021	<u><u>7,958</u></u>
Other comprehensive income (loss) before reclassifications	(3,940)
Amount reclassified from accumulated other comprehensive income	<u>(577)</u>
Period change	<u>(4,517)</u>
Balance at December 31, 2021	<u><u>3,441</u></u>
Balance at January 1, 2020	<u><u>1,600</u></u>
Other comprehensive income before reclassifications	6,997
Amount reclassified from accumulated other comprehensive loss	<u>(639)</u>
Period change	<u>6,358</u>
Balance at December 31, 2020	<u><u>7,958</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
	2021 \$	2020 \$	
Securities available for sale:			
Net securities gains reclassified into earnings	730	809	Gains on sale of debt securities, net
Related income tax expense	<u>(153)</u>	<u>(170)</u>	Provision for federal income taxes
Net effect on accumulated other comprehensive income (loss) for the period	577	639	
Total reclassifications for the period	<u><u>577</u></u>	<u><u>639</u></u>	

(1) Amounts in parentheses indicate debits.

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Notes to Consolidated Financial Statements

NOTE U – CONDENSED PARENT ONLY DATA

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

	December 31,	
	2021	2020
	\$	\$
Assets		
Cash	2,638	7,705
Equity securities	1,743	929
Equity in bank subsidiary	152,176	141,463
Other assets	452	165
Total assets	157,009	150,262
Liabilities		
Subordinated debt	19,680	19,601.00
Other Liabilities	41	445
Total Liabilities	19,721	20,046.00
Stockholders' Equity		
Common stock	574	574
Capital surplus	4,520	4,444
Retained earnings	131,856	120,670
Accumulated other comprehensive income, net of tax	3,441	7,958
Treasury stock	(3,103)	(3,430)
Total stockholders' equity	137,288	130,216
Total liabilities and stockholders' equity	157,009	150,262

Condensed Statements of Comprehensive Income
(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2021	2020
	\$	\$
Income		
Dividend income - investment securities	52	27
Gains (losses) on equity securities, net	324	(76)
Dividend income	3,730	5,073
Undistributed earnings of bank subsidiary	11,730	7,541
Total income	15,836	12,565
Expense		
Subordinated debt interest expense	800	4
Shareholder expenses	132	153
Other expenses	130	109
Total expense	1,062	266
Provision (benefit) for income taxes	(142)	-
Net Income	14,916	12,299
Comprehensive Income	10,399	18,657

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Notes to Consolidated Financial Statements

Condensed Statements of Cash Flows

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2021	2020
	\$	\$
Cash Flows from Operating Activities:		
Net Income	14,916	12,299
Equity in undistributed earnings of subsidiaries	(11,730)	(7,541)
(Gains)losses on securities transactions, net	(324)	76
Net amortization of subordinated debt fees	79	-
Net increase in other assets	(287)	(48)
Net (decrease) increase in other liabilities	(404)	444
Net cash provided by operating activities	2,250	5,230
Cash Flows from Investing Activities:		
Proceeds from sales of equity securities	460	-
Purchases of equity securities	(950)	(367)
Net cash used for investing activities	(490)	(367)
Cash Flows from Financing Activities:		
Proceeds from sale of treasury stock	885	660
Proceeds from issuance of subordinated debt	-	19,601
Dividend to bank subsidiary	(3,500)	(12,500)
Treasury stock purchased	(482)	(2,216)
Dividends paid	(3,730)	(3,573)
Net cash (used for) provided by financing activities	(6,827)	1,972
Cash and Cash Equivalents:		
Net change in cash and cash equivalents	(5,067)	6,835
Cash and cash equivalents at beginning of period	7,705	870
Cash and cash equivalents at end of period	2,638	7,705

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Notes to Consolidated Financial Statements

The unaudited quarterly results of operations for the years ended 2021 and 2020, are as follows:

NOTE V - SUMMARY OF QUARTERLY FINANCIAL DATA (UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	2021			
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
	\$	\$	\$	\$
Interest income	10,530	10,537	11,417	11,108
Interest expense	851	806	789	574
Net interest income	9,679	9,731	10,628	10,534
Less provision (credit) for loan losses	375	-	(250)	350
Net interest income after provision (credit) for loan losses	9,304	9,731	10,878	10,184
Other income	5,318	4,077	4,139	4,347
Operating expenses:				
Salaries and employee benefits	5,699	5,959	6,142	6,665
Occupancy and equipment expenses	950	920	909	897
Other operating expenses	2,538	2,817	3,067	3,878
Total operating expenses	9,187	9,696	10,118	11,440
Income before income taxes	5,435	4,112	4,899	3,091
Provision for Federal income taxes	931	561	760	370
Net income	4,504	3,551	4,139	2,721
FINANCIAL RATIOS				
Per share data:				
Net income	0.81	0.64	0.74	0.49
Cash dividends paid	0.16	0.17	0.17	0.17

	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

NOTE W – RISKS AND UNCERTAINTIES

COVID-19 Update

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 60% of the loan proceeds are used for payroll expenses, with the remaining 40% of the loan proceeds used for other qualifying expenses such as utilities.

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 2020. Congress then passed an additional allocation of funds for the PPP loans, allowing a second round of applications to begin. The Corporation generated PPP loans under this initial plan in the amount of approximately \$78 million. In the first quarter of 2021, the SBA made another round of PPP funding available and the Corporation made additional loans to qualifying small businesses. Additionally, all rounds of PPP loans became eligible for forgiveness. As a result of the forgiveness of some of the original PPP loans, the initiation of additional PPP loans, and the forgiveness of a portion of these loans, the total balance of PPP loans at December 31, 2021, was \$11.3 million compared to \$48.0 million at December 31, 2020. Management's focus has been to serve the customers and market area that the Corporation serves.

In accordance with the SBA terms and conditions on these PPP loans, as of December 31, 2021, the Corporation received approximately \$5.5 million in fees associated with the processing of all PPP loans originated in 2020 and 2021. All fee income is being deferred over the expected life of each PPP loan. The 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 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. This income amounted to \$2,496,000 during 2021, and \$2,356,000 during 2020. The Corporation expects there to be few loans that are on the books until the stated maturity dates.

COVID-19 Loan Forbearance Programs

Section 4013 of the CARES Act provides that banks may elect not to categorize a loan modification as a TDR if the loan modification is (1) related to COVID-19; (2) executed on a loan that was not more than 30 days past due as of December 31, 2019; and (3) executed between March 1, 2020, and the earlier of (A) 60 days after the date on which the national emergency concerning the novel coronavirus disease (COVID-19) outbreak declared by the President on March 13, 2020, under the National Emergencies Act terminates, or (B) December 31, 2020.

On December 27, 2020, the president signed into law the Consolidated Appropriations Act, 2021, which amended CARES Act Section 4013. The amendment extends the applicable period for which a financial institution is able to (a) suspend the requirements under United States generally accepted accounting principles for loan modifications related to the coronavirus disease (COVID-19) pandemic that would otherwise be categorized as a troubled debt restructuring and (b) any determination of a loan modified as a result of the effects of the COVID-19 pandemic as being a TDR, including impairment for accounting purposes. The amended end date for the relief related to a financial institution electing to suspend TDR and loan impairment accounting for qualifying modifications was extended from the earlier of December 31, 2020, or 60 days after the national emergency concerning COVID-19 declared by the president terminates to the earlier of January 1, 2022, or 60 days after the national emergency concerning COVID-19 declared by the president terminates.

On April 7, 2020, federal banking regulators issued a revised interagency statement that included guidance on their approach for the accounting of loan modifications in light of the economic impact of the COVID-19 pandemic. The guidance interprets current accounting standards and indicates that a lender can conclude that a borrower is not

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

experiencing financial difficulty if short-term modifications are made in response to COVID-19, such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant related to the loans in which the borrower is less than 30 days past due on its contractual payments at the time a modification program is implemented.

According to the Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus (Revised) issued by the federal bank regulatory agencies on April 7, 2020, short-term loan modifications not otherwise eligible under Section 4013 that are made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief are not TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant.

As of December 31, 2021, all of the Corporation's customers who had previously requested payment deferrals were now paying as scheduled. In addition, the risk-rating on COVID-19 modified loans did not change, and these loans were not considered past due during their deferment periods. The credit quality of these loans remains intact and the Corporation's delinquent and non-performing levels were not materially impacted.

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, 2021, 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, 2021, 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, 2021, 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, 2021, 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.

/s/ Jeffrey S. Stauffer
Jeffrey S. Stauffer
Chairman of the Board
Chief Executive Officer and President
(Principal Executive Officer)

/s/ Rachel G. Bitner
Rachel G. Bitner
Treasurer
(Principal Financial Officer)

Ephrata, PA
March 23, 2022

Item 9B. Other Information

None

Item 9C. Disclosures Regarding Foreign Jurisdictions that Prevent Inspections

Not Applicable

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 10, 2022, 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 2021.

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 10, 2022, 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 10, 2022, 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 10, 2022, 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 captions, “Audit Committee Report” and “Proposal No. 4: To Ratify the Selection of Independent Registered Public Accounting Firm” of the Corporation’s definitive Proxy Statement to be used in connection with the Annual Meeting of Shareholders to be held on May 10, 2022, 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 July 21, 2021.)
- 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.

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 23, 2022
<u>/s/ Rachel G. Bitner</u> (Rachel G. Bitner)	Treasurer (Principal Financial Officer)	March 23, 2022
<u>/s/ Aaron L. Groff, Jr.</u> (Aaron L. Groff, Jr.)	Director	March 23, 2022
<u>/s/ Joshua E. Hoffman</u> (Joshua E. Hoffman)	Director	March 23, 2022
<u>/s/ Willis R. Lefever</u> (Willis R. Lefever)	Director	March 23, 2022
<u>/s/ Jay S. Martin</u> (Jay S. Martin)	Director	March 23, 2022
<u>/s/ Susan Young Nicholas, Esq.</u> (Susan Young Nicholas)	Director	March 23, 2022
<u>/s/ Dr. Brian K. Reed</u> (Dr. Brian K. Reed)	Director	March 23, 2022
<u>/s/ Mark C. Wagner</u> (Mark C. Wagner)	Director	March 23, 2022
<u>/s/ Judith A. Weaver</u> (Judith A. Weaver)	Director	March 23, 2022
<u>/s/ Roger L. Zimmerman</u> (Roger L. Zimmerman)	Director	March 23, 2022

Exhibit 21

Subsidiaries of ENB Financial Corp

Subsidiary

Incorporation

Ephrata National Bank

National Banking Association

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 21, 2022, 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, 2021.



S.R. Snodgrass, P.C.
Cranberry Township, Pennsylvania
March 21, 2022

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 23, 2022

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, **Rachel G. Bitner**, 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 23, 2022

By: /s/ Rachel G. Bitner

Rachel G. Bitner
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, 2021, 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 23, 2022

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, 2021, as filed with the Securities and Exchange Commission (the "Report"), I, Rachel G. Bitner, 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 23, 2022

By: /s/ Rachel G. Bitner
Rachel G. Bitner
Treasurer
(Principal Financial Officer)

SHAREHOLDER INFORMATION

Market Information

The price of the Corporation's common stock ranged from \$18.60 to \$23.75 in 2021 and from \$17.55 to \$23.25 in 2020. In 2021, the Corporation paid cash dividends of \$0.67 per share, compared to \$0.64 paid in 2020. The following table presents the quarterly high and low prices of the Corporation's common stock for the years 2021 and 2020, respectively, along with the quarterly dividend amount.

	High \$	2021 Low \$	Dividend \$	High \$	2020 Low \$	Dividend \$
First Quarter	22.00	18.60	0.16	23.25	17.73	0.16
Second Quarter	22.00	20.70	0.17	21.50	18.25	0.16
Third Quarter	23.75	21.13	0.17	19.50	17.55	0.16
Fourth Quarter	22.23	21.15	0.17	19.25	17.60	0.16

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, PA 17522-0457.

Annual Meeting

The Annual Meeting of Shareholders will be held on Tuesday, May 10, 2022 at 1 p.m., eastern time, at the Corporation's main office at 31 East Main Street, Ephrata, Pennsylvania. Those unable to attend the meeting are urged to exercise their right to vote by returning the proxy form sent to them by mail. All inquiries regarding the annual meeting should be mailed to Adrienne L. Miller, Esq., Vice President and Corporate Secretary, ENB Financial Corp, 31 East Main Street, P.O. Box 457, Ephrata, PA 17522-0457 or by phone at (717) 733-4181.



ENB Financial Corp

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