

2022

Annual Report



ENB Financial Corp

DEAR SHAREHOLDERS, CUSTOMERS & FRIENDS

It is once again my privilege to provide you with an annual update on the performance of ENB Financial Corp and our wholly owned subsidiary, Ephrata National Bank. The past few years have been both challenging and exciting, and 2022 was no exception. The economy continued its steady growth with fears of recession on the horizon but unrealized. Jobs were added at a rate that defied expectations. While an economy with many jobs is a boon for job seekers, it continued to create challenges. Employers looking to fill open positions experienced a strain on corporate earnings resulting from higher costs to attract and retain workers. A booming job market also continued to combine with other factors, including lingering COVID-19 related supply chain issues and accommodative monetary policy, to fan the flames of inflation. In response, the Federal Reserve took aggressive action in the form of rapid rate increases. Their response created both challenges and opportunities for Ephrata National Bank.

While reflecting on the prior year, I found myself reviewing my letter in our 2021 annual report. In it, I shared my optimism for 2022 as the bank was seeing momentum growing in lending, and we were well positioned to take advantage of interest rate increases projected by the Federal Reserve. Both came to pass as the bank grew loan balances 29.3% in 2022, which in combination with rate increases that exceeded expectations,

allowed the bank to significantly increase interest income. Although rising interest rates were predictable and favorable to growing interest income, the aggressiveness of the Federal Reserve's increases was not easily foreseeable and presented challenges. Mortgage production was stable in 2022 compared to 2021, but the rate increases caused a change in customer behavior resulting in a significant decrease in gains on the sale of mortgages. Instead of generating fixed-rate mortgages and selling them on the secondary market, economic conditions resulted in an uptick in adjustable-rate mortgage origination with the loans held on the Bank's balance sheet. Rising interest rates also affected our ability to sell securities at a gain, which resulted in lower noninterest



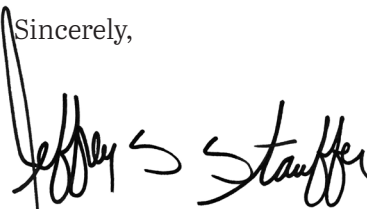
income and prevented us from redeploying more of these assets into higher yielding loans. As a result, we deployed our excess cash into loan growth and relied on our strong portfolio of core deposits as our primary source of liquidity. Our rapidly growing balance sheet did stress our capital ratios, which resulted in the Corporation issuing subordinated debt to ensure capital levels remain well above regulatory requirements.

One prediction I made in my 2021 letter, in which I had a very high degree of confidence, was that the resilience, hard work, talent and dedication of the ENB team would enable us to generate strong earnings for our shareholders. Not surprisingly, the team delivered, and I am happy to report that ENB Financial Corp and its wholly owned subsidiary, Ephrata National Bank, recorded solid earnings of \$14,631,000 for the year ended December 31, 2022. This was a \$285,000 or 1.9% decrease from the record earnings of \$14,916,000 for the year ended December 31, 2021. Basic and diluted earnings per share for 2022 were \$2.62 compared to \$2.68 in 2021, representing a 2.2% decrease. The Corporation also experienced strong growth as it ended 2022 with \$1.86 billion in assets, which was an 8.1% increase from \$1.72 billion at the end of 2021. This performance allowed us to continue our consistency in dividend payments resulting in an annual payment totaling \$0.68 per share.

When I reflect back on 2022, I think of the year as one in which we started to fully realize the significant potential of our organization to positively impact our shareholders, customers, communities and

teammates as we executed our strategic plan, refined our business model and continued our journey toward becoming a top performing financial institution. It was also a year in which the bank's leadership team and I re-evaluated what our We Care commitment truly means. We collectively concluded that there are unequivocal truths that guide us beyond a mission statement, strategic plan, budget and objectives. They define the higher aspirations we all share for ourselves, our customers, our shareholders and our communities. For us, it is about doing what's right, making it easy, building financial well-being, and creating community. If we do all of these things, our success will assuredly continue. We recognize this is a journey. It is easy to identify and share our truths, but living them will be a challenge at times. There will be obstacles both expected and unexpected along the way, but as we take this journey, my commitment to you is that we will face these obstacles head on. We will adapt and overcome. Most importantly, we will continue to be an organization you can be proud of supporting with your investment and patronage. I welcome you all to continue on this journey with us.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeffrey S. Stauffer". The signature is fluid and cursive, with the first name "Jeffrey" and last name "Stauffer" clearly distinguishable.

Jeffrey S. Stauffer

Chairman of the Board
President and CEO
ENB Financial Corp

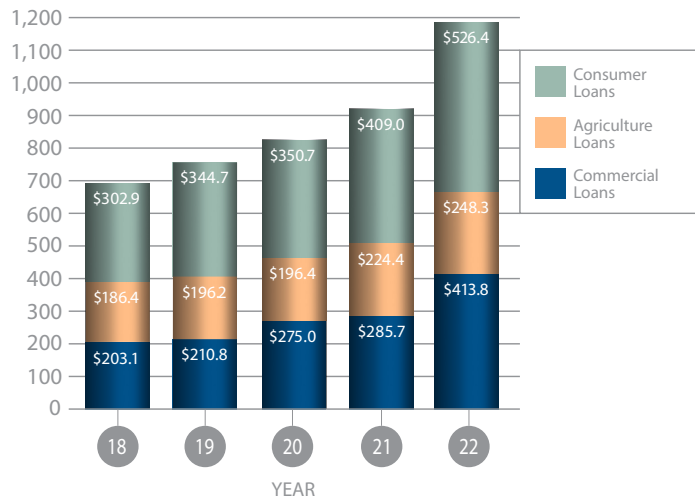
FINANCIAL HIGHLIGHTS

	2022	2021	2020	% Change 2022/2021	% Change 2021/2020
Income Statement (dollars in thousands)					
Interest income	\$55,959	\$43,591	\$42,094	28.37%	3.56%
Interest expense	\$5,376	\$3,020	\$3,846	78.01%	-21.48%
Net interest income	\$50,583	\$40,571	\$38,248	24.68%	6.07%
Provision for loan losses	\$1,300	\$475	\$2,950	173.68%	-83.90%
Other income	\$13,564	\$17,881	\$15,360	-24.14%	16.41%
Other expenses	\$45,929	\$40,441	\$36,074	13.57%	12.11%
Income before income taxes	\$16,918	\$17,536	\$14,584	-3.52%	20.24%
Provision for federal income taxes	\$2,287	\$2,620	\$2,285	-12.71%	14.66%
Net income	\$14,631	\$14,916	\$12,299	-1.91%	21.28%
Per Share Data					
Net income (basic and diluted)	\$2.62	\$2.68	\$2.20	-2.24%	21.82%
Cash dividends paid	\$0.68	\$0.67	\$0.64	1.49%	4.69%
Book value at year-end	\$17.27	\$24.59	\$23.39	-29.77%	5.13%
Balance Sheet Data (dollars in thousands)					
Total assets	\$1,858,716	\$1,717,230	\$1,462,313	8.24%	17.43%
Total loans	\$1,191,117	\$920,904	\$823,370	29.34%	11.85%
Securities	\$538,260	\$567,075	\$483,533	-5.08%	17.28%
Deposits	\$1,638,958	\$1,512,213	\$1,252,811	8.38%	20.71%
Total debt	\$113,435	\$63,886	\$74,391	77.56%	-14.12%
Stockholders' equity	\$97,335	\$137,288	\$130,216	-29.10%	5.43%
Selected Ratios					
Return on average assets	0.83%	0.95%	0.96%	-12.63%	-1.04%
Return on average stockholders' equity	13.63%	11.16%	10.16%	22.13%	9.84%
Average equity to average assets ratio	6.08%	8.53%	9.46%	-28.72%	-9.83%
Dividend payout ratio	25.95%	25.00%	29.09%	3.80%	-14.06%
Efficiency ratio*	70.28%	69.08%	67.19%	1.74%	2.81%
Net interest margin	3.03%	2.81%	3.24%	7.83%	-13.27%

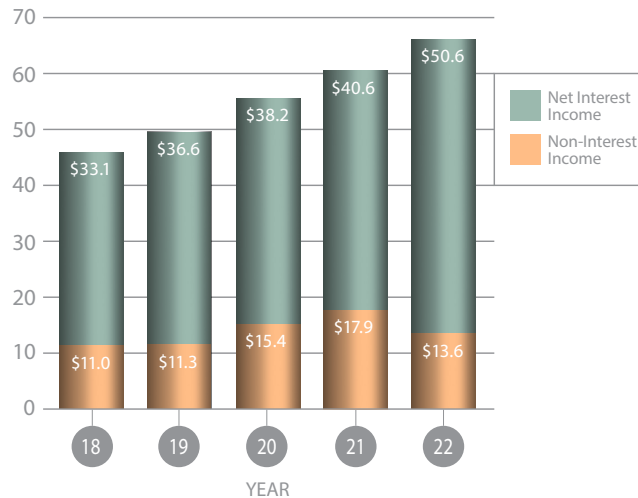
*Includes net interest income on a fully tax-equivalent basis.

FIVE-YEAR PERFORMANCE

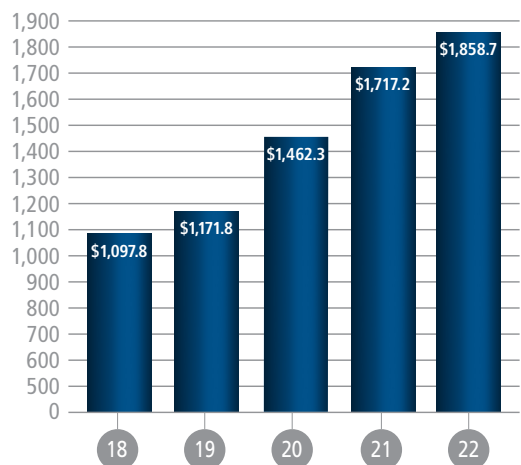
OUTSTANDING LOANS
MILLIONS



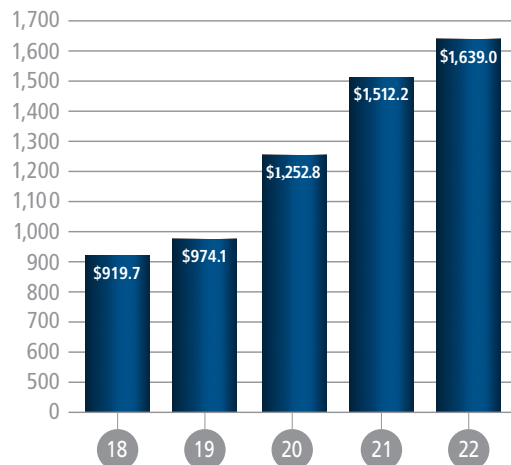
TOTAL REVENUE
MILLIONS



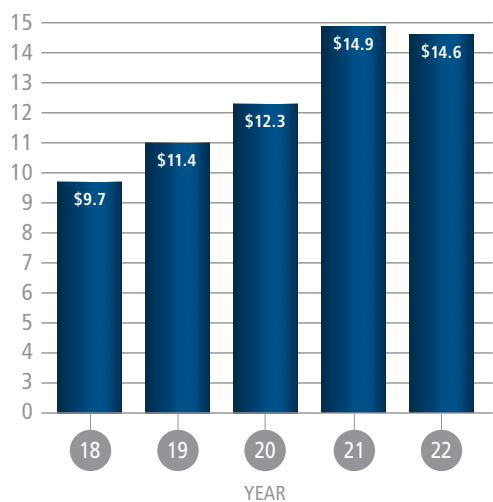
ASSETS
MILLIONS



DEPOSITS
MILLIONS



NET INCOME
MILLIONS



STOCKHOLDERS' EQUITY
MILLIONS



Executing a Plan for Future Success

ENB's strategic plan is of vital importance as it outlines objectives the Bank's senior leadership team and board of directors deem imperative in order to remain an independent community bank. This year ENB began the work of meeting the objectives in our 2022–2024 plan. The following highlights areas where ENB made significant progress during the past year.

MISSION

- ▶ 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.

Evolve Purposeful Leadership Capabilities

In developing ENB's 2022–2024 strategic plan, the Bank's leadership recognized that top performing financial institutions typically have high performing leaders. However, in the banking industry, it is not uncommon for financial institutions, especially community banks, to promote individuals based on their performance in a current position while ignoring the need to develop the leadership skills of these individuals as they advance. To counter this trend and create a competitive advantage for the Bank, ENB University was created and launched its first

college—the College of Leadership Excellence. The College's curriculum focuses on three different levels of purposeful leadership. The essentials level focuses on foundational leadership concepts. The advanced level focuses on transformational leadership concepts and the strategic level focuses on executive leadership concepts. The objectives of the College include enabling leaders at all levels to act intentionally and courageously to overcome real-world business challenges; equipping leaders to embrace change, enhance effectiveness and motivate teams while embodying wisdom, conviction, responsibility, commitment, openness and belief in others and their capabilities.

At the end of 2022, 13 senior leaders were enrolled in Executive Purposeful Leadership with an additional 20 enrolled in Purposeful Leadership Essentials.

Develop a Robust Sales Culture

At ENB, sales opportunities were historically the result of customers visiting community banking offices seeking products and services. During this fast-paced era of technological advancement, which accelerated during the COVID-19 pandemic, banking rapidly evolved. With fewer customers coming into branch offices, the Bank recognized our sales ability and culture needed to keep pace. The first step toward achieving this objective was to create an organizational structure that aligned sales and revenue within one business channel reporting to the newly created SEVP, Chief Revenue Officer position. This structure, created in late 2021, placed a greater focus on business development and cross-departmental cooperation needed to bring solutions from all lines of business to our customers. In 2022, we created a small business lending team focused on meeting the borrowing needs of small businesses often overlooked by our larger competitors. Recognizing that these customers frequently have additional needs for retail banking and cash management solutions, we further refined our organizational structure to create better synergy between these

three areas of the bank. To accomplish this, all 3 lines of business were reassigned to the newly created role of SVP, Chief Retail and Small Business Banking Officer, which was filled internally by Todd Keagy.

The second step toward achieving our objective was to integrate sales and marketing more closely in alignment with a concept referred to as SMarketing. This concept recognizes that as consumers and businesses evaluate a potential new banking relationship, they no longer collect information needed for their evaluation in person but through various channels. Often, their decision is made before they ever step foot into a bank office. As a result, Marketing drives sales enablement by developing and delivering information in a targeted manner to generate awareness and interest in the Bank's solutions in order to move prospects further down the sales funnel toward consideration, intent and evaluation. This allows sales teams to focus

on presenting solutions that make sense for the prospect and lead to purchase. In order to best facilitate this marketing and sales integration, Marketing was moved into the sales and revenue channel and the position of VP, Sales Enablement Officer was created. This position, filled internally by Marie Foltz, will work with sales teams to fully leverage marketing and informational resources while creating a mechanism for sales feedback.

With an organizational structure in place to ensure integration of sales and marketing, the final step toward the development of a robust sales culture was training. Throughout 2022, discussions were held, strategy was developed and needed sales skills were identified in order to build curriculum for ENB University's College of Sales Excellence. Fundamental sales skills taught within the curriculum include strategic sales and tactical methods, mechanics, language, psychology and tracking. Sales leadership skills embedded in

The Impact of Sales Enablement

Sales enablement is a component of SMarketing that creates a close partnership between ENB's marketing and sales teams. This partnership is cultivated by the Vice President, Sales Enablement Officer who communicates the objectives, messaging, target markets and media for marketing initiatives. Educating sales teams on how to best leverage marketing tools and reinforce messaging enables them to close more business. As feedback on customer responses is gathered, the VP, Sales Enablement Officer creates a feedback loop in order to adjust the marketing approach and maximize success. In 2022, sales enablement had a significant impact on sales of the ENB HomeLine home equity line of credit. Booked loans grew by \$31.7 million, which was a 50.8% increase over 2021.



2022 YEAR IN REVIEW

the curriculum include coaching, accountability, pipeline management, performance execution, analytics tracking and linking business objectives to sales strategy. The first programming in the College became available in January 2023 for sales leaders.

Initial performance indicators established to measure our performance relative to this objective have been promising. On the loan side, outstanding commercial loans grew \$128.1 million or 44.8% and consumer loans, which include residential real estate grew \$117.4 million or 28.7%. Since ramping up on September 30, our small business lending team quickly booked \$450,000 in loans and added an additional \$855,000 to its sales pipeline with momentum continuing into 2023.

Pursue Emerging Opportunities that Align with our Mission

During 2022, ENB took advantage of several opportunities to increase revenue and grow our franchise. On March 14, 2022, ENB officially opened its newest Community Banking Office at 101 East State Street, Quarryville. The grand opening of the office was celebrated on March 18 with local dignitaries and members of the community in attendance. In August, construction began on expanding the office to include drive-thru service, which became available in November. Performance of the office has been solid with deposit balances of \$12.1 million as of December 31, 2022.

Ephrata National Bank's leadership recognizes that diversifying the Bank's revenue streams to reduce reliance on interest income is important to the continued viability of the Bank. This becomes increasingly important as traditional sources of non-interest income, such as overdraft fees, receive increased regulatory scrutiny. As a step toward this diversification objective, the Bank launched ENB Insurance on June 29, 2022. In addition to providing an additional non-interest income source, offering insurance aligns with our mission of helping customers achieve financial wellbeing, whether by helping them reduce their annual insurance premiums or preventing financial catastrophe in the event of an accident. Products offered include vehicle, property, business and life insurance. As we ramp up this business and develop a solid base of premium payments, we expect to see its impact on earnings begin in 2023 and accelerate in successive years.

The past year was also busy for the ENB Money Management Group, which officially changed its name on November 1 to ENB Wealth Solutions. Earlier in the year, the acquisition of trust accounts from Muncy Bank was completed, which is expected to immediately generate an additional \$240,000 in annual revenue. ENB Wealth Solutions also finalized a partnership with Fidelity Investments to deliver 401K solutions to small businesses. This partnership will allow us



to deliver better technological capabilities, more investment options, timely reporting and expanded online capabilities typically only available through large banks with the personal touch and service our customers and communities have come to expect from ENB.

Achieve Operational Excellence

In 2022, ENB took several steps toward becoming a more effective organization through operational improvements that increased efficiency and created

verifies the income and employment of applicants before forwarding to Fannie Mae's automated underwriting system. This all takes place before the application comes into ENB Mortgage's underwriting system, which eliminates several tasks requiring human involvement resulting in faster decisions without increasing manpower.

As banking preferences increasingly migrate to online and mobile channels, it is incumbent on financial institutions to evolve their solutions to meet customer demands for functionality and

experience. To keep pace, ENB upgraded our online banking system in November. The new system features a user-friendly dashboard with intuitive navigation allowing customers to perform their banking transactions quickly. In addition, the system includes several tools to assist customers with their financial wellbeing including credit score monitoring, aggregating accounts from multiple financial institutions

and personal financial management tools to track spending and set saving goals.

As a result of COVID-19, ENB implemented a remote work model and now allows employees to both work remotely and in the office. This has expanded the area from which the bank can hire and has created a deeper talent pool for positions where candidates are scarce. To facilitate this dynamic, our HR team upgraded our payroll system to include enhanced services that increase efficiency, including the automation of multi-state payroll.

Ephrata National Bank's approach to commercial and small business lending depends on customization and speed. Being able to provide expertly structured loans quickly is our key



better customer experiences. ENB Mortgage went live with our Hybrid eClose solution for mortgage loans. This solution, which went live in August, allows customers to view their entire loan closing package several days prior to their scheduled settlement. It also facilitates the electronic signing of most loan documents at home on the day of settlement. This allows borrowers to review all documents at their own pace and shortens time required for in-person settlement. Feedback from customers has been overwhelmingly positive as 75% of closings are now performed using this option versus the traditional mortgage loan closing process.

ENB Mortgage also introduced an enhanced online mortgage application. The application instantly

2022 YEAR IN REVIEW

differentiator in the marketplace. A comprehensive evaluation of our commercial lending application and underwriting process revealed we were falling short of this objective as a result of too many required touch points and interactions with customers. To deliver on our promise, we needed to reimagine the entire process to create a better experience. In so doing, we worked to reduce redundancies, eliminate unnecessary tasks and better leverage existing software. The result of these changes was a decrease in the average time from application to decision from 17 business days at the beginning of 2022 to 10.5 business days by the end.

For any bank, data is critical to making effective strategic decisions across the organization. The challenge is the fragmented manner in which information is compiled and organized within disparate systems. Accessing this data requires the allocation of significant time and human resources to build reports, which requires comprehensive analysis. To more quickly extract data and make it easily accessible to decision makers, ENB partnered with Klarivis. Their data analytics tool compiles and houses data from sources across the bank so that decision makers can easily monitor bank performance and understand customer behaviors and preferences in order to make key strategic decisions.



ENB in the Community

ENB was once again proud to support our communities in 2022 through contributions totaling \$754,262 in addition to many hours spent by our teammates volunteering their time and talents with local organizations. It is our pleasure to support so many different facets of what make our communities great, whether it be fighting poverty and homelessness, creating community vibrancy through the arts, supporting education and financial literacy or expanding access to physical and mental healthcare. It was also the 58th year in which dividend payments on shares of ENB Financial Corp stock owned by the J. Harry Hibshman Charitable Trust provided scholarships to Ephrata High School seniors pursuing higher education.



J. Harry Hibshman SCHOLARSHIP

BY THE NUMBERS

61

scholarships awarded in 2022

1.22M

\$ of scholarships awarded in 2022

58

years scholarships have been awarded

4,534

scholarships awarded since inception

31.4M

\$ of scholarships awarded since inception



CORPORATE LEADERSHIP

Board of Directors—ENB Financial Corp and Ephrata National Bank



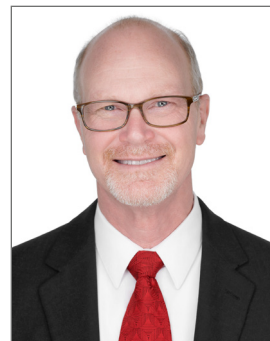
Joshua E. Hoffman,
MBA, CPA, CMA, CPCU



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, J. Daniel Stolfus (*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, 2022

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. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

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, 2022, was approximately \$53,163,455.

The number of shares of the registrant's Common Stock outstanding as of March 13, 2023, was 5,626,631.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's Definitive Proxy Statement for its 2023 Annual Meeting of Shareholders to be held on May 9, 2023, 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
- 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
- Effects of war, acts of terrorism, and international and domestic instabilities
- 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
- Effects of economic conditions particularly with regard to the lingering effects 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

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 Bank has one subsidiary, ENB Insurance, which is a full-service insurance agency that offers a broad range of insurance products to commercial and personal clients. 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, the “Market Area”. Eleven full service community banking offices are located in Lancaster County with one full service community banking office in Lebanon County and one full service community banking 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 the Market Area. 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 Wealth Solutions.

As of December 31, 2022, the Corporation employed 298 persons, consisting of 286 full-time and 12 part-time employees. The number of full-time employees increased by 35 employees, and the number of part-time employees decreased by 9 from the previous year-end. The increase in the number of full-time employees is aligned to support the Corporation’s growth and the decrease in part-time employees is attributable to the Corporation converting part-time positions into full-time positions, allowing the Corporation to fully maximize staff. The Corporation expects to add additional personnel to support the initiatives within technology and customer experience in 2023. A collective bargaining agent does not represent the employees and management believes it maintains good relationships with its 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. The Bank has one subsidiary, ENB Insurance, which is a full-service insurance agency that offers a broad range of insurance products to commercial and personal clients. ENB Insurance is managed separately from the banking and related financial services that the Corporation offers.

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 eleven full service offices are located and areas of 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 downtown 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 43.9% of deposits as of June 30, 2022, based on data compiled annually by the Federal Deposit Insurance Corporation (FDIC). The Corporation's deposit market share in the Ephrata area was 41.1% as of June 30, 2021. The Corporation's very high market share in the Ephrata area has led to the expansion of the Corporation's branch network outside of the Ephrata area but within the Corporation's Market Area.

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 certain specific, limited 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, 2022, and December 31, 2021. 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 2022 were \$528,000, compared to \$408,000 in 2021.

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.

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 57 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, 2022, 43.7% of the Corporation's loan portfolio consisted of commercial, industrial, and construction loans secured by real estate. Another 12.1% 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.

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 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, Dodd-Frank has had and will continue to have a significant impact on our business operations as its provisions have taken effect. 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'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.

Other Events

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

Severe weather, natural disasters, acts of war or terrorism, domestic and international instability, 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, 2022, 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, 2022, the Bank owned 18 properties and leased five properties. These properties are adequate for their intended and present utilization.

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 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, 2022, there were 24,000,000 shares of common stock authorized with 5,739,114 shares issued, and 5,635,533 shares outstanding to approximately 847 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.

	2022			2021		
	High	Low	Dividend	High	Low	Dividend
First quarter	\$ 22.40	\$ 21.15	\$ 0.17	\$ 22.00	\$ 18.60	\$ 0.16
Second quarter	22.40	17.67	\$ 0.17	22.00	20.70	\$ 0.17
Third quarter	18.55	16.10	\$ 0.17	23.75	21.13	\$ 0.17
Fourth quarter	18.03	16.00	\$ 0.17	22.23	21.15	\$ 0.17

Dividends

The Corporation, and before it the Bank, since 1973 has generally 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 and legal restrictions. The dividend payments reflected above amount to a dividend payout ratio between 25.0% and 26.0% for 2021 and 2022, 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, 2022.

Period	Issuer Purchase of Equity Securities			
	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 2022	-	-	-	164,100
November 2022	3,456	\$ 18.06	3,456	160,644
December 2022	-	-	-	160,644
Total	<u>3,456</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, 2022, a total of 39,356 shares were repurchased at a total cost of \$785,020, for an average cost per share of \$19.95.

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. 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 141 years of existence. The Board and Management are committed to the principles 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, 2022 was positively impacted by a number of items resulting in solid financial results. The Corporation grew interest-earning assets rapidly during 2022 resulting in significantly higher levels of net interest income. The growth in net interest income was also supported by the rapid increase in the Federal Funds rate and concurrently the Prime rate as the Federal Reserve moved to combat inflation by increasing overnight rates dramatically. While years prior to 2022 were marked by significant balance sheet growth because of growth in the deposit portfolio, 2022 was marked by significant loan growth.

The Corporation recorded net income of \$14,631,000 for the year ended December 31, 2022, a \$285,000, or 1.9% decrease from the year ended December 31, 2021. The earnings per share, basic and diluted, were \$2.62 in 2022, compared to \$2.68 in 2021, a 2.2% decrease. The decrease in the Corporation's 2022 earnings was caused primarily by a decline in non-interest income in addition to an increase in operating expenses and provision expense that was partially offset by the increase in net interest income.

The Corporation's net interest income (NII) increased by \$10,012,000, or 24.7%, in 2022, compared to 2021. The increase in NII primarily resulted from an increase in interest and fees on loans of \$7,698,000, or 22.5%, and interest on securities available for sale of \$4,406,000, or 49.8%. Interest expense on deposits and borrowings increased by \$2,356,000, or 78.0%, in 2022 compared to the prior year. The increasing interest rate environment has caused an increase in asset yield, but also an increase in the cost of funds, which has resulted in these much higher levels of net interest income.

The Corporation recorded a \$1,300,000 provision for loan losses in 2022, compared to \$475,000 in 2021. The higher provision in 2022 was primarily caused by the rapid volume growth in the loan portfolio. The increase in the provision was constrained by a decline in classified loan balances throughout the year and a decrease in several qualitative factors as a result of improved conditions.

Non-interest income excluding security and mortgage gains increased by \$951,000, or 8.4%, for the year ended December 31, 2022, compared to the prior year, due to many positive trends such as higher trust income, higher service fees, and higher earnings on bank-owned life insurance from two death benefit payouts. Mortgage gains decreased in 2022 to \$1,302,000, compared to \$5,526,000 in 2021. Mortgage production was stable in 2022 compared to 2021, but the rapid market rate increases affected the margin that the Corporation was able to obtain on the sale of mortgages. The majority of mortgage production during 2022 were adjustable rate mortgages that were generated and retained on the Corporation's balance sheet. Additionally, gains on debt and equity securities were \$1,044,000, or 99.1% lower in 2022 compared to the prior year due to higher interest rates which resulted in fewer security sales.

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Management's Discussion and Analysis

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.

Key Performance Ratios

	Year ended December 31,	
	2022	2021
Return on Average Assets	0.83%	0.95%
Return on Average Equity	13.63%	11.16%

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 2022, NII generated 78.9% of the Corporation's revenue stream, which consists of NII and non-interest income, compared to 69.4% in 2021. This increase is a result of much higher levels of interest-earning assets in 2022 compared to 2021 with lower non-interest income as a result of the changes in mortgage activity. 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,	
	2022	2021
	\$	\$
Total interest income	55,959	43,591
Total interest expense	5,376	3,020
Net interest income	50,583	40,571
Tax equivalent adjustment	1,210	1,141
Net interest income (fully taxable equivalent)	51,793	41,712

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

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Management's Discussion and Analysis

- 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 rapid increase in the short-term Federal Reserve rates in 2022, asset yields have increased and the U.S. Treasury curve increased dramatically on the short end but has been relatively flat on the long end.

As a result of a larger balance sheet in 2022, with higher asset yields, the Corporation's NII on a tax equivalent basis increased significantly and the Corporation's margin increased to 3.03% for year ended December 31, 2022, compared to 2.81% in 2021. Loan and investment yields were higher in 2022 due to the 425 basis point Fed rate increases during the year positively impacting yields on variable rate instruments and increasing the yields on new volume. The Corporation's NII on a tax equivalent basis in 2022 increased over 2021, by \$10,081,000, or 24.2%.

The Corporation's overall cost of funds on a monthly annualized basis, including non-interest bearing funds, remained stable through the first half of 2022 between 18 and 22 basis points. In the second half of the year, core deposit interest rates as well as time deposit rates were increased resulting in a much higher cost of funds for the second half of 2022 ranging between 25 and 67 basis points. The average balance and interest rates of borrowings was higher in 2022 compared to 2021, resulting in higher interest expense of \$509,000, or 39.9%. The Corporation now carries a total of \$40 million of subordinated debt that was issued at the holding company; \$20 million beginning on December 30, 2020, at a rate of 4.00%, and \$20 million beginning on July 22, 2022, at a rate of 5.75%. The additional subordinated debt resulted in an increase in interest expense of \$511,000, or 63.9%, when comparing 2022 to 2021.

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)

	2022 vs. 2021			2021 vs. 2020		
	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	(48)	129	81	65	(114)	(49)
Securities available for sale:						
Taxable	855	3,419	4,274	1,844	(987)	857
Tax-exempt	440	(187)	253	2,139	(548)	1,591
Total securities	1,295	3,232	4,527	3,983	(1,535)	2,448
Loans	7,041	713	7,754	2,180	(2,597)	(417)
Regulatory stock	1	74	75	(64)	(94)	(158)
Total interest income	8,289	4,148	12,437	6,164	(4,340)	1,824
INTEREST EXPENSE						
Deposits:						
Demand deposits	42	1,572	1,614	99	(441)	(342)
Savings deposits	11	18	29	16	(14)	2
Time deposits	(5)	(31)	(36)	(109)	(547)	(656)
Total deposits	48	1,559	1,607	6	(1,002)	(996)
Borrowings:						
Total borrowings	509	240	749	25	145	170
Total interest expense	557	1,799	2,356	31	(857)	(826)
NET INTEREST INCOME	7,732	2,349	10,081	6,133	(3,483)	2,650

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Management's Discussion and Analysis

In 2022, the Corporation's NII on an FTE basis increased by \$10,081,000, a 24.2% increase over 2021. Total interest income increased \$12,437,000, or 27.8%, while interest expense increased \$2,356,000, or 78.0%, from 2021 to 2022. The FTE interest income from the securities portfolio increased by \$4,527,000, or 45.4%, while loan interest income increased \$7,754,000, or 22.5%. During 2022, additional loan volume added \$7,041,000 to net interest income, and higher yields primarily due to the Prime rate increases in 2022, caused a \$713,000 increase. Higher balances in the securities portfolio caused an increase of \$1,295,000 in net interest income, while higher yields on securities caused a \$3,232,000 increase, resulting in a net increase of \$4,527,000.

The average balance of interest bearing liabilities increased by 16.3% during 2022, driven by the growth in deposit and borrowings balances. Deposit rates increased in 2022 causing a significant increase in interest expense. Higher interest rates contributed to \$1,559,000 of increased interest expense while higher deposit balances caused \$48,000 of increased expense, resulting in a total increase in interest expense of \$1,607,000.

Interest-bearing demand deposits repriced causing a large increase in interest expense due to the large quantity of accounts that were adjusted. Demand deposit interest expense increased a total of \$1,614,000 in 2022, with \$1,572,000 due to higher rates, while higher balances caused an increase of \$42,000. Higher balances in savings accounts caused an increase of \$11,000, while higher rates caused an increase of \$18,000, resulting in the net increase in interest expense of \$29,000 on savings deposits. Time deposit balances declined throughout 2022, resulting in lower interest expense of \$5,000, while lower rates caused a decline of \$31,000, resulting in a net decrease of \$36,000. While some time deposit rates increased towards the end of 2022, time deposits were still repricing to lower levels throughout the majority of the year.

The average balance of total borrowings increased by \$17,295,000, or 24.5%, from December 31, 2021, to December 31, 2022. The increase in total borrowings increased interest expense by \$509,000. Higher rates on borrowings, affected by the Fed rate increases and the subordinated debt issued in July 2022, resulted in higher interest expense of \$240,000. The aggregate of these amounts was an increase in interest expense of \$749,000 related to total borrowings.

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

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Management's Discussion and Analysis

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

	December 31,					
	2022			2021		
	Average Balance \$	Interest \$	Yield/ Rate %	Average Balance \$	Interest \$	Yield/ Rate %
ASSETS						
Interest earning assets:						
Federal funds sold and deposits at other banks	35,710	172	0.48	59,199	91	0.15
Securities available for sale:						
Taxable	419,323	9,275	2.21	363,883	5,001	1.37
Tax-exempt	202,868	5,226	2.58	185,972	4,973	2.67
Total securities (d)	622,191	14,501	2.33	549,855	9,974	1.81
Loans (a)	1,043,065	42,142	4.04	868,460	34,388	3.96
Regulatory stock	5,894	354	6.01	5,870	279	4.75
Total interest earning assets	1,706,860	57,169	3.35	1,483,384	44,732	3.02
Non-interest earning assets (d)	57,510			82,827		
Total assets	1,764,370			1,566,211		
LIABILITIES & STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Demand deposits	415,749	1,784	0.43	344,783	170	0.05
Savings accounts	365,460	92	0.03	315,161	63	0.02
Time deposits	116,615	874	0.75	117,320	910	0.78
Borrowed funds	87,768	2,626	2.99	70,473	1,877	2.66
Total interest bearing liabilities	985,592	5,376	0.55	847,737	3,020	0.36
Non-interest bearing liabilities:						
Demand deposits	664,116			579,996		
Other	7,305			4,867		
Total liabilities	1,657,013			1,432,600		
Stockholders' equity	107,357			133,611		
Total liabilities & stockholders' equity	1,764,370			1,566,211		
Net interest income (FTE)		51,793			41,712	
Net interest spread (b)			2.80			2.66
Effect of non-interest bearing funds			0.23			0.15
Net yield on interest earning assets (c)			3.03			2.81

(a) Includes balances of non-accrual loans and the recognition of any related interest income. Average balances also include net deferred loan costs of \$2,239,000 in 2022 and \$1,755,000 in 2021. Such fees recognized through income and included in the interest amounts totaled (\$175,000) in 2022 and \$1,201,000 in 2021.

(b) Net interest spread is the arithmetic difference between the yield on interest earning assets and the rate paid on interest bearing liabilities.

(c) Net yield, also referred to as net interest margin, is computed by dividing net interest income (FTE) by total interest earning assets.

(d) Securities recorded at amortized cost. Unrealized holding gains and losses are included in non-interest earning assets.

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The Corporation's average balance on securities increased by \$72.3 million, or 13.2%, in 2022 compared to 2021 and the tax equivalent yield on investments increased by 52 basis points. Interest income on securities increased due to the volume growth and increasing yield due to higher market rates. The growth in the investment portfolio during a period of rising rates contributed to the increase in average security yield.

Average balances on loans increased by \$174.6 million, or 20.1%, for the year ended December 31, 2022, compared to the prior year. Loan yields increased by 8 basis points for the year and loan interest income increased \$7,754,000, or 22.5% as a result of the significantly higher balances and slightly higher yields.

The average balance of interest-bearing deposit accounts increased by \$120.6 million, or 15.5%, in 2022 compared to 2021. While the average balance of time deposits did decrease minimally 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 increased as well. This resulted in an increase in interest expense on deposits of \$1,607,000, or 140.6%, for the year ended December 31, 2022, compared to 2021 mostly due to the participation in the fully-reciprocal demand deposit marketplace program.

The Corporation's average balance on borrowed funds increased by \$17.3 million in 2022. The Corporation's borrowed funds consist of overnight borrowings, short and long-term FHLB advances, as well as subordinated debt issued in December of 2020 and July of 2022, which was used to support capital growth for the Corporation. The subordinated debt issuances and additional FHLB advances used to fund loan growth caused average borrowings to increase year-over-year. The rate paid on borrowed funds increased by 33 basis points for 2022, compared to 2021 as a result of the second issuance of subordinated debt in July of 2022 which carries a 5.75% rate, and additional FHLB advances which carried higher rates due to the Fed Funds rate increases throughout 2022.

For the year ended December 31, 2022, the net interest spread increased by 14 basis points to 2.80%, compared to 2.66% for 2021. The effect of non-interest bearing funds increased to 23 basis points from 15 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 higher, the benefit of non-interest bearing deposits increases because there is more difference between non-interest bearing funds and interest bearing liabilities. The Corporation's NIM for 2022 was 3.03%, compared to 2.81% for 2021.

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 \$1,300,000 in 2022, compared to \$475,000 in 2021. The provision expense was higher in 2022 due primarily to increased loan growth. As of December 31, 2022, the allowance as a percentage of total loans was 1.19%, compared to 1.40% at December 31, 2021.

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

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Other Income

Other income for 2022 was \$13,564,000, a decrease of \$4,317,000, or 24.1%, compared to the \$17,881,000 earned in 2021. The following table details the categories that comprise other income.

OTHER INCOME

(DOLLARS IN THOUSANDS)

	2022 vs. 2021			
	2022	2021	Increase (Decrease)	
	\$	\$	\$	%
Trust and investment services	2,643	2,362	281	11.9
Service charges on deposit accounts	1,348	1,069	279	26.1
Other fees	1,590	1,443	147	10.2
Commissions	3,663	3,702	(39)	(1.1)
Net gains on debt and equity securities	10	1,054	(1,044)	(99.1)
Gains on sale of mortgages	1,302	5,526	(4,224)	(76.4)
Earnings on bank-owned life insurance	1,583	880	703	79.9
Other miscellaneous income	1,425	1,845	(420)	(22.8)
Total other income	13,564	17,881	(4,317)	(24.1)

Trust and investment services income increased by 11.9% from 2021 to 2022 primarily as a result of higher income on the trust services side which increased by \$336,000, or 24.8%. Service charges on deposit accounts increased by \$279,000, or 26.1% compared to the prior year and other fees have increased by \$147,000, or 10.2% as a result of higher fees on a third party sweep product in 2022 slightly offset by lower loan administration fees. Commissions remained stable for the year ended December 31, 2022, compared to 2021. Gains on debt and equity securities were lower in 2022 driven by higher market interest rates which resulted in fewer sales. Mortgage gains were lower in 2022 due to rapid increase in interest rates which negatively impacted the margins on mortgages sold. Additionally, more mortgage originations in 2022 were in the form of adjustable-rate mortgages held on the Corporation's balance sheet as opposed to 2021 when most mortgage originations were fixed-rate and sold on the secondary market. Holding mortgages on balance sheet results in interest income as opposed to an immediate gain on sale when mortgages are sold in the secondary market. Earnings on bank-owned life insurance increased year-over-year primarily attributed to two Bank Owned Life Insurance (BOLI) payouts. The Corporation purchased and is the beneficiary of all BOLI life insurance policies taken out on a group of its former directors and current and former officers. Due to the death of two participants during 2022, the Corporation recorded BOLI income of \$678,000. Other miscellaneous income decreased \$420,000, or 22.8% in 2022 compared to 2021 due to non-recurring income items in 2021.

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Operating Expenses

Operating expenses for 2022 were \$45,929,000, an increase of \$5,488,000, or 13.6%, compared to \$40,441,000 in 2021. 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)

	2022 vs. 2021			
	2022	2021	Increase (Decrease)	
	\$	\$	\$	%
Salaries and employee benefits	27,324	24,465	2,859	11.7
Occupancy expenses	2,846	2,621	225	8.6
Equipment expenses	1,240	1,053	187	17.8
Advertising & marketing expenses	1,083	992	91	9.2
Computer software & data processing expenses	5,591	4,420	1,171	26.5
Shares tax	1,380	1,282	98	7.6
Professional services	2,743	2,099	644	30.7
Other operating expenses	3,722	3,509	213	6.1
Total operating expenses	45,929	40,441	5,488	13.6

Salaries and employee benefits are the largest category of operating expenses. For the year 2022, salaries and benefits increased \$2,859,000, or 11.7%, compared to 2021. The increase in salary costs was primarily due to additions to staff as well as increasing costs to fill empty positions due to the competitive job market. Additionally, a bank-wide incentive plan was implemented during 2022, resulting in an accrual for the year-to-date period based on achievements of annual performance metrics. Occupancy and equipment expenses increased 8.6% from the prior year mostly due to two additional leases that were entered into in 2022. Advertising and marketing expenses increased by 9.2%, 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, 26.5% year-over-year, as a result of higher technology costs and new bank-wide initiatives that rely heavily on software platforms and additional costs related to the core conversion the Corporation will be undergoing in the 3rd quarter of 2023. Shares tax expense is based on the Corporation's level of shareholders' equity and has grown slightly year-over-year commensurate with the change in shareholders' equity. Professional services expenses increased by 30.7% in 2022, compared to the prior year driven higher by an increase in outside services costs primarily related to the core conversion. Other operating expenses increased by 6.1% year-over-year primarily as a result of higher general insurance and 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, 2022, the Corporation recorded a tax provision of \$2,287,000, compared to \$2,620,000 for 2021. This decrease in tax expense can be attributed to lower pretax earnings and a higher level of tax-free income. The effective tax rate for the Corporation was 13.5% for 2022 and 14.9% for 2021. 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, 2022, cash and equivalents amounted to \$37.6 million, a decrease of \$120.8 million, or 76.3%, from balances at December 31, 2021. 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 asset-backed, and increases in deposit accounts. As of December 31, 2022, we had borrowings outstanding from the FHLB of \$74.0 million and subordinated debt of \$39.4 million.

At December 31, 2022, we had \$596.4 million in loan commitments outstanding, which included \$117.5 million in firm loan commitments, \$467.8 million in unused lines of credit, and open letters of credit of \$11.1 million. Certificates of deposit due within one year totaled \$55.6 million, or 41.6% 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 \$21.6 million and \$13.3 million for the years ended December 31, 2022 and 2021, respectively. Net cash used for investing activities was \$315.8 million and \$195.2 million in fiscal years 2022 and 2021, respectively, reflecting our loan and investment security activities in the respective periods. Cash provided by financing activities amounted to \$173.3 million and \$245.5 million for years ended December 31, 2022 and 2021, 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, 2022, the Corporation had \$538.3 million of debt and equity securities, compared to \$567.1 million at December 31, 2021, a decrease of \$28.8 million, or 5.1%.

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's U.S. Treasury sector increased by \$17.8 million, or 120.5%, since December 31, 2021. 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 \$4.2 million, or 14.6%, since December 31, 2021. Agency MBS and CMO investments in total have declined by \$10.3 million, or 12.4%. These bonds pay monthly principal and interest and the Corporation has not reinvested into this sector, so the fair value has been declining. The Corporation began investing in non-agency MBS and CMO instruments in 2022 as a way to achieve a higher yield with bonds that are well protected from a credit standpoint. As of December 31, 2022, this sector stood at \$50.3 million.

The Corporation's asset-backed securities (ABS) decreased significantly since December 31, 2021, by \$28.0 million, or 27.6%. ABS securities are floating rate student loan pools which are instruments that perform well in a rates-up

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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. 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. They carry the longest duration on average of any instrument in the securities portfolio but have a higher yield because of the longer interest rate risk. These instruments also experience significant fair market value gains and losses when interest rates decrease and increase. The Corporation sold some municipal bonds during 2022 and the rapid increase in market interest rates caused the unrealized losses on these bonds to increase dramatically. As a result, the fair value of this sector declined by \$41.7 million, or 16.8% from December 31, 2021, to December 31, 2022. Municipal bonds represented 38.9% of the debt securities portfolio as of December 31, 2022, compared to 44.3% as of December 31, 2021.

As of December 31, 2022, the fair value of the Corporation's corporate bonds decreased by \$12.9 million, or 15.6%, from balances at December 31, 2021. Corporate bonds add diversity to the portfolio and provide strong yields for short maturities; however, by their very nature, corporate bonds carry a higher level of credit risk should the entity experience financial difficulties. The fair value of corporate bonds decreased primarily as a result of maturing bonds as well as a significant increase in the level of unrealized losses within this portfolio.

The following table shows the weighted-average life and yield on the Corporation's debt securities by maturity intervals as of December 31, 2022, 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	-	-	20,890	1.62	14,847	1.40	-	-	35,737	1.53
U.S. government agencies	8,205	1.28	19,400	0.78	-	0.00	-	-	27,605	0.93
U.S. agency mortgage-backed securities	177	1.64	34,832	2.53	14,520	1.78	410	2.96	49,939	2.31
U.S. agency collateralized mortgage obligations	2,099	1.37	14,226	2.93	13,868	1.61	-	0.00	30,193	2.22
Non Agency MBS/CMO	2,823	2.96	29,346	4.89	17,872	3.60	3,859	5.19	53,900	4.38
Corporate bonds	12,007	4.93	40,287	2.11	24,391	3.13	-	-	76,685	2.88
Obligations of states and political subdivisions	-	-	1,202	1.30	27,579	2.26	211,321	2.02	240,102	2.04
Asset-backed securities	-	-	20,370	4.98	55,740	5.05	-	-	76,110	5.03
Total securities available for sale	25,311	3.21	180,553	2.83	168,817	3.28	215,590	2.08	590,271	2.70

Loans

Net loans outstanding increased \$269.0 million, or 29.6%, from \$908.0 million at December 31, 2021, to \$1.2 billion at December 31, 2022. 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. The Corporation's strategic plan specifically focused on loan growth while maintaining quality of credit standards. This focus resulted in significant loan growth across most loan segments in 2022.

Commercial real estate loans increased to \$518.8 million at December 31, 2022, from \$400.8 million at December 31, 2021, a 29.4% increase. Commercial mortgages increased by \$33.4 million, or 18.8%, agriculture mortgages increased

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by \$17.4 million, or 8.6%, and commercial construction loans increased by \$67.2 million, or 341.9% from December 31, 2021, to December 31, 2022. The increase in the commercial construction loans was a direct result of reclassification of 1-4 family residential loans, representing loans now properly coded as construction that were previously included in the consumer real estate sector.

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 \$403.9 million on December 31, 2021, to \$520.6 million on December 31, 2022, a 28.9% 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 \$93.3 million, or 29.4%, from December 31, 2021, to December 31, 2022. 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 2022, mortgage production decreased 11% from the prior year. The decrease in overall production was caused largely by an increasing interest rate environment, which resulted in a reduction in refinance activity, and a shift in consumer demand from secondary market fixed-rate products to portfolio adjustable-rate products. The percentage of mortgage originations that went into the Corporation's held-for-investment mortgage portfolio increased to 85% compared to 63% in 2021. The change in the interest rate environment created a dramatic shift in overall mix: 39% of volume in 2022 was purchase, 44% was residential construction lending, and only 17% was refinance activity. The volume of mortgage production in 2022 led to a 43% increase in growth of the held-for-investment residential loan portfolio but only a 3% increase in the servicing on behalf of others portfolio, with mortgage servicing rights growing to over \$2.0 million.

As of December 31, 2022, the remainder of the residential real estate loans consisted of \$11.9 million of fixed rate junior lien home equity loans, and \$98.3 million of variable rate home equity lines of credit (HELOCs). This compares to \$11.2 million of fixed rate junior lien home equity loans, and \$75.7 million of HELOCs as of December 31, 2021. Therefore, combined, these two types of home equity loans increased from \$86.9 million to \$110.3 million, an increase of 26.9%.

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 increased from \$109.3 million at December 31, 2021, to \$143.3 million at December 31, 2022, a 31.1% increase. 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.

Consumer loans not secured by real estate represent a very small portion of the Corporation's loan portfolio, at \$5.8 million as of December 31, 2022 and \$5.1 million as of December 31, 2021. These loans consist of personal loans, automobile loans, and other consumer-related loans.

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The following tables show the maturities for the loan portfolio as of December 31, 2022, by time frame for the major categories, and also the loans, which are floating or fixed, maturing after one year.

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	8,866	16,154	84,154	101,649	210,823
Agriculture mortgages	11,734	3,446	59,535	146,452	221,167
Construction	15,510	7,753	8,761	54,769	86,793
Total commercial real estate	36,110	27,353	152,450	302,870	518,783
Consumer real estate					
1-4 family residential mortgages	5,551	12,276	67,577	324,897	410,301
Home equity loans	5,754	2,087	3,069	1,027	11,937
Home equity lines of credit	156	4,314	23,851	70,028	98,349
Total consumer real estate	11,461	18,677	94,497	395,952	520,587
Commercial and industrial					
Commercial and industrial	24,948	34,681	27,399	500	87,528
Tax-free loans	9	6,187	6,335	16,133	28,664
Agriculture loans	18,094	5,271	3,757	-	27,122
Total commercial and industrial	43,051	46,139	37,491	16,633	143,314
Consumer	2,369	3,305	95	-	5,769
Total amount due	92,991	95,474	284,533	715,455	1,188,453

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

	Fixed Rates \$	Floating or Adjustable Rates \$	Total \$
Commercial real estate			
Commercial mortgages	61,606	140,351	201,957
Agriculture mortgages	15,580	193,853	209,433
Construction	22,299	48,984	71,283
Total commercial real estate	99,485	383,188	482,673
Consumer real estate			
1-4 family residential mortgages	167,132	237,618	404,750
Home equity loans	3,595	2,588	6,183
Home equity lines of credit	26,128	72,065	98,193
Total consumer real estate	196,855	312,271	509,126
Commercial and industrial			
Commercial and industrial	53,268	9,312	62,580
Tax-free loans	7,728	20,927	28,655
Agriculture loans	8,612	416	9,028
Total commercial and industrial	69,608	30,655	100,263
Consumer	3,400	-	3,400
Total amount due	369,348	726,114	1,095,462

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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, \$369.3 million, or 33.7%, are fixed-rate loans as of December 31, 2022. These loans will not reprice to a higher or lower interest rate unless they mature or are refinanced by the borrower. The remaining \$726.1 million, or 66.3% 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.

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,	
	2022	2021
	\$	\$
Non-accrual loans	4,178	2,556
Loans past due 90 days or more and still accruing	169	325
Troubled debt restructurings, non-performing	-	-
Total non-performing loans	4,347	2,881
Other real estate owned	-	-
Total non-performing assets	4,347	2,881
Non-accrual loans to total loans	0.35%	0.28%
Non-performing loans to total loans	0.36%	0.31%
Allowance for credit losses to total loans	1.19%	1.40%
Allowance for credit losses to non-accrual loans	338.70%	505.91%
Allowance for credit losses to non-performing loans	325.53%	448.84%

Non-performing assets increased by \$1,466,000, or 50.9%, from December 31, 2021, to December 31, 2022, 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 2022 resulting in an increase of \$1,622,000 in the total balance of non-accrual loans. As of December 31, 2022, there were twelve loans to ten unrelated borrowers totaling \$4,178,000 on non-accrual compared to fifteen loans to seven unrelated borrowers totaling \$2,556,000 as of December 31, 2021. The largest non-accrual relationship at December 31, 2022, was a commercial mortgage to a single borrower with a balance of \$931,000.

Loans past due 90 days or more and still accruing declined by \$156,000 during 2022 partially offsetting the increases in non-accrual loans. There were no loans considered non-performing troubled debt restructurings (TDR) as of December 31, 2022 or 2021. A TDR is a loan where management has granted a concession to the borrower from the original terms. A concession is generally granted in order to improve the financial position of the borrower and improve the likelihood of full collection by the lender.

Management continues to monitor delinquency trends and the level of non-performing loans as a leading indicator of future credit risk. At this time, management believes that the potential for material losses related to non-performing loans remains low but is likely to trend higher in recessionary periods. It is far more likely the level of non-performing

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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, 2022 and 2021, 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, 2022 and 2021.

	2022	2021
	\$	\$
Loans charged-off:		
Commercial real estate	84	-
Consumer real estate	-	20
Commercial and industrial	44	-
Consumer	19	35
Total loans charged-off	147	55
Recoveries of loans previously charged-off		
Commercial real estate	10	109
Consumer real estate	10	2
Commercial and industrial	42	56
Consumer	5	17
Total recoveries	67	184
Net charge-offs (recoveries)		
Commercial real estate	74	(109)
Consumer real estate	(10)	18
Commercial and industrial	2	(56)
Consumer	14	18
Total net charge-offs (recoveries)	80	(129)
Average loans outstanding		
Commercial real estate	435,738	357,727
Consumer real estate	416,824	328,969
Commercial and industrial	184,483	176,212
Consumer	6,020	5,552
Total average loans outstanding	1,043,065	868,460
Net charge-offs (recoveries) as a % of average loans outstanding		
Commercial real estate	0.02%	(0.03%)
Consumer real estate	0.00%	0.01%
Commercial and industrial	0.00%	(0.03%)
Consumer	0.23%	0.32%
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 2022, charge-offs exceeded recoveries by \$80,000, representing a net charge-off position of 0.01% of average loans outstanding as reflected above.

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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,			
	2022		2021	
	\$	% of Loans	\$	% of Loans
Real estate	11,516	87.5	10,097	87.5
Commercial and industrial	2,151	12.0	2,112	11.9
Consumer	67	0.5	87	0.6
Unallocated	417	-	635	-
Total allowance for loan losses	14,151	100.0	12,931	100.0

Real estate loans represent 87.5% of total loans with 81.4% 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 2022, the dollar amount of allocation for commercial and industrial loans increased by \$39,000, or 1.8%, with this allocation accounting for 15.2% of the total allowance as of December 31, 2022. As of December 31, 2022, commercial and industrial loans make up 12.0% 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 \$417,000 unallocated portion of the allowance as of December 31, 2022, decreased from the balance at the end of 2021, and the unallocated portion as a percentage of the total allowance decreased from 4.9% at December 31, 2021, to 2.9% at December 31, 2022.

Premises and Equipment

Premises and equipment, net of accumulated depreciation, increased by \$857,000, or 3.5%, from December 31, 2021, to December 31, 2022. During 2022, capital investments were made by the Corporation in various projects including the improvements at the leased Quarryville office as well as normal ongoing capital needs. The Corporation had \$1,298,000 in construction in process at the end of 2022 compared to \$369,000 at the end of 2021. These balances consisted of amounts for projects or equipment not yet placed in service as of each year-end. For further information on fixed assets refer to Note D to the Consolidated Financial Statements.

Regulatory Stock

The Corporation owns multiple forms of regulatory stock that is required to be a member of the Federal Reserve Bank (FRB) and members of banks such as the Federal Home Loan Bank (FHLB) of Pittsburgh and Atlantic Community Bankers Bank (ACBB). The Corporation's \$6,670,000 of regulatory stock holdings as of December 31, 2022, consisted of \$5,552,000 of FHLB of Pittsburgh stock, \$1,081,000 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 \$34,805,000 on December 31, 2022, compared to \$35,414,000 on December 31, 2021. The Corporation holds two distinct BOLI programs. The first, with a CSV of \$4,771,000, was the result of insurance policies taken out on directors of the Corporation electing to participate in a directors' deferred compensation plan. This CSV declined by \$499,000 in 2022 due to the death of a participant which resulted in a death benefit payout and a decrease in the total policy value. The program was designed

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to use the insurance policies to fund future annuity payments as part of a directors' deferred compensation plan that permitted deferral of Board pay from 1979 through 1999. The 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 CSV of this plan was \$30,034,000, a decrease of \$110,000 from the prior year-end. There was also a participant death in this plan during 2022 which resulted in the decline in balance.

Deposits

The Corporation's total ending deposits at December 31, 2022, increased by \$126.7 million, or 8.4%, from December 31, 2021. Customer deposits are the Corporation's primary source of funding for loans and securities. Deposit balances grew rapidly in 2021 and prior years due to the very low interest rate environment and the few options available for customers to earn a return on their investment. During 2022, the Corporation grew deposits at a slower pace due to the rapidly rising rate environment and the options available to customers.

The Deposits by Major Classification table, shown below, provides the average balances of each category for December 31, 2022 and December 31, 2021.

DEPOSITS BY MAJOR CLASSIFICATION (DOLLARS IN THOUSANDS)

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

	December 31,			
	2022		2021	
	\$	%	\$	%
Non-interest bearing demand	664,116	-	579,996	-
Interest-bearing demand	117,123	1.24	55,819	0.10
NOW accounts	131,613	0.05	130,328	0.03
Money market deposit accounts	167,013	0.16	158,635	0.05
Savings accounts	365,460	0.03	315,161	0.02
Time deposits	116,615	0.75	117,320	0.78
Total deposits	1,561,940		1,357,259	

The average balance of the Corporation's core deposits increased by \$204.7 million, or 15.1%, from December 31, 2021, to December 31, 2022. Non-interest bearing demand accounts grew by \$84.1 million, or 14.5%, and are the Corporation's cheapest source of funding for balance sheet growth. Interest-bearing demand accounts grew by \$61.3 million, or 109.8%, as a result of participating in the reciprocal program for an off-balance sheet sweep product. Money market account average balances increased by \$8.4 million, or 5.3%, and savings accounts increased by \$50.3 million, or 16.0%, from December 31, 2021, to December 31, 2022. 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 2022, time deposits declined very slightly, by \$705,000, or 0.6%, compared to average balances at December 31, 2021.

As of December 31, 2022, time deposits over \$250,000 made up 7.2% of the total time deposits. This compares to 7.3% on December 31, 2021. The total dollar amount of time deposits over \$250,000 increased \$1,364,000, or 16.4%, from December 31, 2021 to December 31, 2022. 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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MATURITY OF TIME DEPOSITS OF \$250,000 OR MORE

(DOLLARS IN THOUSANDS)

	December 31,	
	2022	2021
	\$	\$
Three months or less	1,940	1,592
Over three months through six months	517	575
Over six months through twelve months	877	1,655
Over twelve months	6,351	4,499
Total	9,685	8,321

As of December 31, 2022 and 2021, the total uninsured deposits of the Corporation were approximately \$380,064,000 and \$313,122,000, 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 \$113.4 million as of December 31, 2022, and \$63.9 million as of December 31, 2021. The Corporation had \$16.0 million in short-term borrowings at December 31, 2022, and no short-term borrowings the prior year-end. Long-term borrowings with the Federal Home Loan Bank (FHLB) increased to \$58.0 million as of December 31, 2022, from \$44.2 million as of December 31, 2021. These borrowings are used as a secondary source of funding and to mitigate interest rate risk. The increase in long-term FHLB borrowing balances during the year related to strong loan growth and a desire to hedge against potential deposit runoff as a result of the challenging economic environment. As of December 31, 2022, all the borrowings of FHLB were fixed-rate loans. The Corporation continues to be well under the FHLB maximum borrowing capacity which is \$575.7 million as of December 31, 2022.

In addition to the long-term advances funded through the FHLB, the Corporation completed two sales of a subordinated debt note offering. The Corporation sold \$20.0 million of subordinated debt notes in December 2020 with a maturity date of December 30, 2030 and another \$20.0 million in July 2022 with a maturity date of September 30, 2032. These notes are non-callable for 5 years and carry a fixed interest rate of 4.00% and 5.75%, respectively, 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, 2022, \$33.0 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, 2022	Capital Ratios	Regulatory Requirements	
		Adequately Capitalized	Well Capitalized
Total Capital to Risk-Weighted Assets			
Consolidated	15.0%	N/A	N/A
Bank	14.5%	8.0%	10.0%
Tier 1 Capital to Risk-Weighted Assets			
Consolidated	10.9%	N/A	N/A
Bank	13.4%	6.0%	8.0%
Common Equity Tier 1 Capital to Risk-Weighted Assets			
Consolidated	10.9%	N/A	N/A
Bank	13.4%	4.5%	6.5%
Tier 1 Capital to Average Assets			
Consolidated	7.6%	N/A	N/A
Bank	9.3%	4.0%	5.0%
As of December 31, 2021			
Total Capital to Risk-Weighted Assets			
Consolidated	15.6%	N/A	N/A
Bank	14.9%	8.0%	10.0%
Tier I Capital to Risk-Weighted Assets			
Consolidated	12.5%	N/A	N/A
Bank	13.6%	6.0%	8.0%
Common Equity Tier I Capital to Risk-Weighted Assets			
Consolidated	12.5%	N/A	N/A
Bank	13.6%	4.5%	6.5%
Tier I Capital to Average Assets			
Consolidated	8.2%	N/A	N/A
Bank	9.1%	4.0%	5.0%

As of December 31, 2022 the Bank's Tier 1 Leverage Ratio stood at 9.3% while the Corporation's Tier 1 Leverage Ratio was 7.6%. 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 \$40 million subordinated debt issue. Most of the marked improvement in capital ratios occurred at the Bank level.

Since the Corporation elected to opt-out of the requirement to include most components of accumulated other comprehensive income in calculating regulatory capital, the significant devaluation of the investment portfolio that resulted in a higher level of unrealized losses, has not affected the regulatory capital. But the changes in investment unrealized gains and losses impact tangible capital on the balance sheet on an ongoing basis and were adversely impacted by the dramatic increase in market interest rates during 2022.

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, 2022, 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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CONTRACTUAL OBLIGATIONS
(DOLLARS IN THOUSANDS)

	Less than 1 year \$	1-3 years \$	4-5 years \$	More than 5 years \$	Total \$
Time deposits (Note F)	55,614	57,304	20,911	-	133,829
Borrowings (Notes G and H)	29,816	50,150	33,469	-	113,435
Operating Leases (Note Q)	450	800	467	1,428	3,145
Total contractual obligations	85,880	108,254	54,847	1,428	250,409

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, 2022. 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, 2022 \$
Commitments to extend credit:	
Revolving home equity loans	195,327
Construction loans	71,093
Real estate loans	112,335
Business loans	199,367
Consumer loans	1,386
Other	5,823
Standby letters of credit	11,084
Total	596,415

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

ENB FINANCIAL CORP
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 no associated interest expense, which acts to lower the overall interest rate paid on total deposits.

Gap ratios have been decreasing for the Corporation throughout 2022. The Corporation's assets are getting longer, with very low levels of cash and cash equivalents. 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, 2022, the Corporation had low cash levels due to loan growth. This has caused a decline in the short-term gap ratios resulting in the six-month ratio of 41.7% and the one-year ratio of 107.5%. 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, 2022, for the Bank, along with the cumulative maturity gap guidelines monitored by management. For the purposes of this analysis, core deposits without a specific maturity date are spread across all time periods based on historical behavior.

MATURITY GAP ANALYSIS
(DOLLARS IN THOUSANDS)

Maturity Gap	Less than 6 months \$	More than 6 months to 1 year \$	More than 1 year to 3 years \$	More than 3 years to 5 years \$	More than 5 years \$
Assets maturing	135,546	110,752	377,791	306,298	897,418
Liabilities maturing	325,021	103,028	168,340	174,781	955,558
Maturity gap	(189,475)	7,724	209,451	131,517	(58,140)
Cumulative maturity gap	(189,475)	(181,751)	27,700	159,217	101,077
Maturity gap %	41.7%	107.5%	224.4%	175.2%	93.9%
Cumulative maturity gap %	41.7%	57.5%	104.6%	120.6%	105.9%

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As of December 31, 2022, cumulative maturity gap ratios were on the low side for up to a year and less indicating that there are more liabilities maturing in the short time frames than assets. For the six-month time frame, the gap ratio was 41.7% and for the 1-year cumulative gap, the ratio was 57.5%. For the 1 year to 3 years, the cumulative gap was 104.6%, representing a higher level of asset maturities versus liabilities. For the 3 to 5 year time frame, the cumulative gap was 120.6%, and for the over 5 year time frame, the cumulative gap was 105.9%. In a rising rate environment, higher gap ratios are beneficial as assets can reprice to the higher rates; however, lower gap ratios are harmful in a rising rate environment as liabilities would potentially be repricing to higher rates. Management anticipates higher deposit and borrowings costs with limited savings on the liability side in 2023. Management will continue to monitor all gap ratios to ensure proper positioning for future interest rate cycles.

It is likely that with some competition pricing and talk of a recession in 2023, 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 in the beginning of 2023, driven by concerns of inflation.

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. These measurements are evaluated quarterly through the ALCO process. There are a number of key ratios measured that involve liquidity, non-core funding sources, and contingency funding with each ratio assigned a risk level of low, moderate, or high.

As of December 31, 2022, the Corporation was within guidelines for all of the above measurements except for two that fell in the moderate range: long term assets to total assets and tangible equity to total assets. The long term assets to total assets is slightly elevated due to holding more mortgages on the balance sheet as well as a large amount of longer municipal securities in the investment portfolio. The tangible equity to total assets is lower due to the unrealized losses experienced on the investment portfolio due to the rapid increase in interest rates in 2022.

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:

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- 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, 2022, and December 31, 2021. 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. The static balance sheet approach is used to reduce the number of variables in calculating the model's accuracy in predicting future net interest income. It is appropriate to pull out various balance sheet growth scenarios, which could be utilized to compensate for a declining margin. By testing the model using a base model assuming no growth, this variable is eliminated and management can focus on predicted net interest income based on the current existing balance sheet.

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

Changes in Net Interest Income

The changes in net interest income reflect how much the Corporation's net interest income would be expected to increase or decrease given a change in market interest rates. The changes in net interest income shown are measured over a one-year time horizon and assume an immediate rate change on the rate sensitive assets and liabilities. This is considered the more important measure of interest rate sensitivity due to the immediate effect that rate changes may have on the overall performance of the Corporation. The following table takes into consideration when financial instruments would most likely reprice and the duration of the pricing change. It is important to emphasize that the information shown in the table is an estimate based on hypothetical changes in market interest rates.

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CHANGES IN NET INTEREST INCOME

	2022 Percentage Change	2021 Percentage Change	Policy Guidelines %
400 basis point rise	(9.6)	-	(24.00)
300 basis point rise	(6.8)	1.6	(20.00)
200 basis point rise	(4.1)	0.3	(16.00)
100 basis point rise	(1.6)	0.5	(12.00)
Base rate scenario	-	-	-
25 basis point decline	-	(0.7)	(3.00)
50 basis point decline	-	(1.8)	(6.00)
75 basis point decline	-	(3.1)	(9.00)
100 basis point decline	0.4	-	(12.00)
200 basis point decline	(2.6)	-	(16.00)

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.

As of December 31, 2022, the above analysis shows a negative impact to the Corporation's net interest income in all the scenarios, except the down 100 basis points. In the past year, the Federal funds rate has increased rapidly. The Corporation is now experiencing a rising cost of funds on the liability side in pricing its deposits. Once deposit pricing has stabilized, net interest income would increase with the repricing of variable rate loans and securities moving immediately as Prime moves. The pressure on the cost of funds side is currently resulting in the Corporation being liability sensitive in the short-term, but asset sensitive in the long-term. 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 decreases with less benefit compared to the results as of December 31, 2021. 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. In the current environment, deposit rate changes have been more significant and happening faster than in 2021 when market rates were not moving. This has resulted in the pressure on net interest income shown above. In past years, financial institutions have benefited from a larger level of deposit balances as a result of the historically long and very low interest rate cycle. The analysis above assumes no growth of the Corporation's balance sheet and no change in the mix of earning assets.

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.

Changes 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, 2022 and December 31, 2021. As part of the Asset Liability Policy, the Board of Directors has established risk measurement guidelines to protect the Corporation against decreases in the NPV and net interest income in the event of the interest rate changes described below.

As of December 31, 2022, the Corporation was within guidelines for all up-rate scenarios but was outside of guidelines for the down-200 basis point rate scenario. The positive impact of higher rates on both loans and securities was down from December 31, 2021. 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.

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However, with higher rates on interest bearing checking, NOW, and money market accounts, the benefit of these deposits in a rising rate environment has declined. 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 2021 when rates were extremely low and the Corporation's deposits grew at a very fast pace. In 2022, deposit growth was slower and deposit pricing increased resulting in a decline in the benefit in the rising rate scenarios. 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, 2022 and 2021.

CHANGES IN NET PORTFOLIO VALUE

	2022 Percentage Change	2021 Percentage Change	Policy Guidelines %
400 basis point rise	11.0	-	(35.00)
300 basis point rise	11.0	28.5	(30.00)
200 basis point rise	10.0	21.7	(25.00)
100 basis point rise	7.0	14.7	(20.00)
Base rate scenario	-	-	-
25 basis point decline	-	(6.3)	(5.00)
50 basis point decline	-	(14.1)	(10.00)
75 basis point decline	-	(22.5)	(15.00)
100 basis point decline	(11.0)	-	(20.00)
200 basis point decline	(29.0)	-	(25.00)

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, 2022, indicate that the Corporation's net portfolio value would experience valuation gains in all up-rate scenarios with a gain of 11.0% in the rates-up 400 and 300 basis point scenario, and gains of 10.0% and 7.0%, in the rates-up 200 and 100 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 with the 200 rate scenario that is outside of policy guidelines. A valuation loss indicates 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. 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)_____	53
Consolidated Balance Sheets _____	56
Consolidated Statements of Income _____	57
Consolidated Statements of Comprehensive Income _____	58
Consolidated Statements of Changes in Stockholders' Equity _____	59
Consolidated Statements of Cash Flows _____	60
Notes to Consolidated Financial Statements _____	61



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 subsidiaries (the "Company") as of December 31, 2022 and 2021; the related consolidated statements of income, comprehensive (loss) 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, 2022 and 2021, 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.

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S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia



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) involve 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 \$1.2 billion as of December 31, 2022, and the associated ALL was \$14.2 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.

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

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.



Allowance for Loan Losses (ALL) (Continued)

How We Addressed the Matter in Our Audit

Regarding the measurement of the qualitative adjustments, we evaluated the completeness, accuracy, and relevance of the data and inputs utilized in management's estimate. For example, we compared the inputs and data to the Company's historical loan performance data 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.

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

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



S.R. Snodgrass, P.C.
King of Prussia, Pennsylvania
March 20, 2023

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2022 \$	December 31, 2021 \$
ASSETS		
Cash and due from banks	28,935	19,930
Interest-bearing deposits in other banks	8,637	138,519
Total cash and cash equivalents	37,572	158,449
Securities available for sale (at fair value)	529,142	558,093
Equity securities (at fair value)	9,118	8,982
Loans held for sale	5,927	3,194
Loans (net of unearned income)	1,191,117	920,904
Less: Allowance for credit losses	14,151	12,931
Net loans	1,176,966	907,973
Premises and equipment	25,333	24,476
Regulatory stock	6,670	5,380
Bank owned life insurance	34,805	35,414
Other assets	33,183	15,269
Total assets	1,858,716	1,717,230
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	672,342	686,278
Interest-bearing	966,616	825,935
Total deposits	1,638,958	1,512,213
Short-term debt	16,000	-
Long-term debt	58,039	44,206
Subordinated debt	39,396	19,680
Other liabilities	8,988	3,843
Total liabilities	1,761,381	1,579,942
Stockholders' equity:		
Common stock, par value \$0.10		
Shares: Authorized 24,000,000		
Issued 5,739,114 and Outstanding 5,635,533 as of 12/31/22		
and 5,583,957 as of 12/31/21	574	574
Capital surplus	4,437	4,520
Retained earnings	142,677	131,856
Accumulated other comprehensive (loss) income net of tax	(48,292)	3,441
Less: Treasury stock cost on 103,581 shares as of 12/31/22		
155,158 shares as of 12/31/21	(2,061)	(3,103)
Total stockholders' equity	97,335	137,288
Total liabilities and stockholders' equity	1,858,716	1,717,230

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

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

	Year Ended December 31,	
	2022	2021
	\$	\$
Interest and dividend income:		
Interest and fees on loans	41,944	34,246
Interest on securities available for sale		
Taxable	9,048	4,881
Tax-exempt	4,214	3,975
Interest on deposits at other banks	172	91
Dividend income	581	398
Total interest and dividend income	55,959	43,591
Interest expense:		
Interest on deposits	2,750	1,143
Interest on borrowings	2,626	1,877
Total interest expense	5,376	3,020
Net interest income	50,583	40,571
Provision for loan losses	1,300	475
Net interest income after provision for loan losses	49,283	40,096
Other income:		
Trust and investment services income	2,643	2,362
Service fees	2,938	2,512
Commissions	3,663	3,702
Gains on sale of debt securities, net	42	730
(Losses) gains on equity securities, net	(32)	324
Gains on sale of mortgages	1,302	5,526
Earnings on bank-owned life insurance	1,583	880
Other income	1,425	1,845
Total other income	13,564	17,881
Operating expenses:		
Salaries and employee benefits	27,324	24,465
Occupancy	2,846	2,621
Equipment	1,240	1,053
Advertising & marketing	1,083	992
Computer software & data processing	5,591	4,420
Shares tax	1,380	1,282
Professional services	2,743	2,099
Other expense	3,722	3,509
Total operating expenses	45,929	40,441
Income before income taxes	16,918	17,536
Provision for federal income taxes	2,287	2,620
Net income	14,631	14,916
Earnings per share of common stock	2.62	2.68
Cash dividends paid per share	0.68	0.67
Weighted average shares outstanding	5,588,656	5,567,950

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2022	2021
	\$	\$
Net income	14,631	14,916
Other comprehensive (loss) income , net of tax:		
Net change in unrealized (losses) gains:		
Securities available for sale not other-than-temporarily impaired:		
Unrealized losses arising during the period	(65,443)	(4,986)
Income tax effect	13,743	1,046
	(51,700)	(3,940)
Gains recognized in earnings	(42)	(730)
Income tax effect	9	153
	(33)	(577)
Other comprehensive loss, net of tax	(51,733)	(4,517)
Comprehensive (Loss) Income	(37,102)	10,399

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, 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
Net income	-	-	14,631	-	-	14,631
Other comprehensive loss, net of tax	-	-	-	(51,733)	-	(51,733)
Stock-based compensation expense	-	11	-	-	-	11
Treasury stock purchased -6,456 shares	-	-	-	-	(116)	(116)
Treasury stock issued - 58,032 shares	-	(94)	-	-	1,158	1,064
Cash dividends paid, \$0.68 per share	-	-	(3,810)	-	-	(3,810)
Balances, December 31, 2022	574	4,437	142,677	(48,292)	(2,061)	97,335

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2022	2021
	\$	\$
Cash flows from operating activities:		
Net income	14,631	14,916
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of securities premiums and discounts and loan fees	5,233	3,945
Increase in interest receivable	(1,403)	(608)
Increase (decrease) in interest payable	346	(71)
Provision for loan losses	1,300	475
Gain on sale of debt securities, net	(42)	(730)
Loss (gain) on equity securities, net	32	(324)
Gains on sale of mortgages	(1,302)	(5,526)
Loans originated for sale	(30,160)	(97,578)
Proceeds from sales of loans	28,729	102,939
Earnings on bank-owned life insurance	(1,583)	(880)
Depreciation of premises and equipment and amortization of software	1,629	1,560
Deferred income tax	(65)	(15)
Amortization of deferred fees on subordinated debt	116	79
Stock-based compensation expense	11	-
Other assets and other liabilities, net	4,144	(4,926)
Net cash provided by operating activities	21,616	13,256
Cash flows from investing activities:		
Securities available for sale:		
Proceeds from maturities, calls, and repayments	53,714	74,972
Proceeds from sales	28,590	79,019
Purchases	(123,854)	(245,788)
Equity securities:		
Proceeds from sales	151	460
Purchases	(319)	(2,013)
Purchase of regulatory bank stock	(1,982)	(556)
Redemptions of regulatory bank stock	692	1,283
Purchase of bank-owned life insurance	-	(4,888)
Net increase in loans	(270,468)	(96,204)
Purchases of premises and equipment, net	(2,192)	(1,036)
Purchase of computer software	(141)	(486)
Net cash used for investing activities	(315,809)	(195,237)
Cash flows from financing activities:		
Net increase in demand, NOW, and savings accounts	106,852	264,554
Net increase (decrease) in time deposits	19,893	(5,152)
Net increase in short-term borrowings	16,000	-
Proceeds from long-term debt	13,833	-
Repayments of long-term debt	-	(10,584)
Proceeds from issuance of subordinated debt	19,600	-
Dividends paid	(3,810)	(3,730)
Proceeds from sale of treasury stock	1,064	885
Treasury stock purchased	(116)	(482)
Net cash provided by financing activities	173,316	245,491
(Decrease) Increase in cash and cash equivalents	(120,877)	63,510
Cash and cash equivalents at beginning of period	158,449	94,939
Cash and cash equivalents at end of period	37,572	158,449
Supplemental disclosures of cash flow information:		
Interest paid	5,030	3,089
Income taxes paid	1,900	2,875
Supplemental disclosure of non-cash investing and financing activities:		
Fair value adjustments for securities available for sale	65,485	5,716
Recognition of lease operating right-of-use assets	2,811	80
Recognition of operating lease liabilities	2,811	80
Death benefits receivable on BOLI	2,075	-

See Notes to the Consolidated Financial Statements

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

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, ABS 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 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 \$1,017,000 as of December 31, 2022, and \$910,000 as of December 31, 2021. 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, 2022, or December 31, 2021.

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 \$2,030,000 of MSRs as of December 31, 2022, compared to \$1,768,000 as of December 31, 2021. The value of MSRs increased during 2022 as valuation of new assets outpaced amortization on existing assets. 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 amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

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, 2022 and 2021.

MORTGAGE SERVICING RIGHTS

(DOLLARS IN THOUSANDS)

	December 31,	
	2022	2021
	\$	\$
Beginning Balance	1,768	1076
Additions	344	877
Amortization	(22)	(48)
Disposals	(60)	(137)
Ending Balance	2,030	1,768

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 \$34,805,000 and \$35,414,000 as of December 31, 2022, and 2021, respectively. The decrease in BOLI cash surrender value was primarily due to the death of two participants during 2022 which resulted in death benefits received and a decrease in the value of the policies.

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 the Company's 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 the leases do not provide an implicit rate, the Company uses 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.

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

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period less any unvested restricted shares. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method. Treasury shares are not deemed outstanding for earnings per share calculations.

Comprehensive Income (Loss)

The Corporation is required to present comprehensive income (loss) in a full set of general-purpose consolidated financial statements for all periods presented. Other comprehensive income (loss) 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 Wealth Solutions 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. 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 Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments, which changes the impairment model for most financial assets. This standard, along with several other subsequent codification updates, replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses that are expected to occur over the remaining life of a financial asset and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this update require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The new current expected credit losses model ("CECL") will apply to the allowance for loan losses, available-for-sale and held-to-maturity debt securities, purchased financial assets with credit deterioration and certain off-balance sheet credit exposures.

The Corporation has finalized the methodology determination, software models, quantitative framework, and policies and procedures for how to determine expected credit losses under the new guidance. Management is finalizing the qualitative component of the CECL calculation, reviewing internal procedures, policies, assumptions, and is working with an independent third-party consultant to validate system models.

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. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which extends the sunset (or expiration) date of Accounting Standards Codification (ASC) Topic 848 to December 31, 2024. This gives reporting entities two additional years to apply the accounting relief provided under ASC Topic 848 for matters related to reference rate reform. ASU 2022-06 is effective for all reporting entities immediately upon issuance and must be applied on a prospective basis. This Update is not expected to have a significant impact on the Company'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 reference 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

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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 Company's financial statements.

In March 2022, the FASB issued ASU 2022-01, *Derivatives and Hedging (ASC 815): Fair Value Hedging - Portfolio Layer Method*. ASC 815 currently permits only prepayable financial assets and one or more beneficial interests secured by a portfolio of prepayable financial instruments to be included in a last-of-layer closed portfolio. The amendments in this Update allow non-prepayable financial assets to also be included in a closed portfolio hedged using the portfolio layer method. That expanded scope permits an entity to apply the same portfolio hedging method to both prepayable and non-prepayable financial assets, thereby allowing consistent accounting for similar hedges. The guidance is effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. This Update is not expected to have a significant impact on the Company's financial statements.

NOTE B - SECURITIES

(DOLLARS IN THOUSANDS)

DEBT SECURITIES

The amortized cost and fair value of debt securities held at December 31, 2022, and 2021, are as follows:

	Amortized Cost \$	Gross Unrealized Gains \$	Gross Unrealized Losses \$	Fair Value \$
December 31, 2022				
U. S. Treasuries	35,737	-	(3,080)	32,657
U.S. government agencies	27,605	-	(2,818)	24,787
U.S. agency mortgage-backed securities	49,939	-	(4,632)	45,307
U.S. agency collateralized mortgage obligations	30,193	-	(2,703)	27,490
Non-agency MBS/CMO	53,900	-	(3,650)	50,250
Asset-backed securities	76,110	16	(2,892)	73,234
Corporate bonds	76,685	10	(7,064)	69,631
Obligations of states and political subdivisions	240,102	10	(34,326)	205,786
Total securities available for sale	590,271	36	(61,165)	529,142
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	553,737	7,680	(3,324)	558,093

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The amortized cost and fair value of debt securities available for sale at December 31, 2022, 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	20,212	19,938
Due after one year through five years	96,643	88,443
Due after five years through ten years	99,529	86,492
Due after ten years	373,887	334,269
Total debt securities	590,271	529,142

Securities available for sale with a par value of \$116,179,000 and \$94,283,000 at December 31, 2022 and 2021, 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 \$107,071,000 at December 31, 2022, and \$96,521,000 at December 31, 2021.

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	
	2022	2021
	\$	\$
Proceeds from sales	28,590	79,019
Gross realized gains	191	809
Gross realized losses	149	79

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Notes to Consolidated Financial Statements

Information pertaining to securities with gross unrealized losses at December 31, 2022, and December 31, 2021, 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	
	Fair	Gross	Fair	Gross	Fair	Gross
	Value	Unrealized	Value	Unrealized	Value	Unrealized
	\$	Losses	\$	Losses	\$	Losses
As of December 31, 2022						
U.S. Treasuries	19,721	(1,169)	12,936	(1,911)	32,657	(3,080)
U.S. government agencies	1,953	(52)	21,634	(2,766)	23,587	(2,818)
U.S. agency mortgage-backed securities	24,667	(1,653)	20,640	(2,979)	45,307	(4,632)
U.S. agency collateralized mortgage obligations	9,984	(500)	17,453	(2,203)	27,437	(2,703)
Non-Agency MBS/CMO	50,250	(3,650)	-	-	50,250	(3,650)
Asset-backed securities	29,283	(1,028)	42,032	(1,864)	71,315	(2,892)
Corporate bonds	15,197	(1,230)	43,417	(5,834)	58,614	(7,064)
Obligations of states & political subdivisions	103,200	(10,949)	100,575	(23,377)	203,775	(34,326)
Total temporarily impaired securities	254,255	(20,231)	258,687	(40,934)	512,942	(61,165)
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)

In the debt security portfolio, there are 359 positions carrying unrealized losses as of December 31, 2022. There were no instruments considered to be other-than-temporarily impaired at December 31, 2022.

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 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).

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EQUITY SECURITIES

The following tables summarize the amortized cost, gross unrealized gains and losses, and fair value of equity securities held at December 31, 2022 and December 31, 2021.

(DOLLARS IN THOUSANDS)	Amortized Cost \$	Gross Unrealized Gains \$	Gross Unrealized Losses \$	Fair Value \$
December 31, 2022				
CRA-qualified mutual funds	7,345	-	-	7,345
Bank stocks	1,685	162	(74)	1,773
Total equity securities	<u>9,030</u>	<u>162</u>	<u>(74)</u>	<u>9,118</u>

(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	<u>8,810</u>	<u>184</u>	<u>(12)</u>	<u>8,982</u>

The following table presents the net gains and losses on the Corporation's equity investments recognized in earnings during the year ended December 31, 2022 and 2021, and the portion of unrealized gains and losses for the periods that relates to equity investments held as of December 31, 2022 and 2021.

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

	Year Ended December 31, 2022 \$	Year Ended December 31, 2021 \$
Net gains (losses) recognized in equity securities during the period	(32)	324
Less: Net gains realized on the sale of equity securities during the period	(52)	(99)
Unrealized gains (losses) recognized in equity securities held at reporting date	<u>(84)</u>	<u>225</u>

Proceeds from the sale of equity securities totaled \$151,000 during 2022 and \$460,000 during 2021.

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES

The following table presents the Corporation's loan portfolio by category of loans for 2022 and 2021.

LOAN PORTFOLIO (DOLLARS IN THOUSANDS)

	December 31,	
	2022	2021
	\$	\$
Commercial real estate		
Commercial mortgages	210,823	177,396
Agriculture mortgages	221,167	203,725
Construction	86,793	19,639
Total commercial real estate	518,783	400,760
Consumer real estate (a)		
1-4 family residential mortgages	410,301	317,037
Home equity loans	11,937	11,181
Home equity lines of credit	98,349	75,698
Total consumer real estate	520,587	403,916
Commercial and industrial		
Commercial and industrial	87,528	65,615
Tax-free loans	28,664	23,009
Agriculture loans	27,122	20,717
Total commercial and industrial	143,314	109,341
Consumer	5,769	5,132
Gross loans prior to deferred costs and allowance for loan losses	1,188,453	919,149
Deferred loan costs, net	2,664	1,755
Allowance for credit losses	(14,151)	(12,931)
Total net loans	1,176,966	907,973

(a) Real estate loans serviced for others, which are not included in the Consolidated Balance Sheets, totaled \$298,375,000 and \$289,263,000 as of December 31, 2022, and 2021, 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, 2022 and 2021. The grading analysis estimates the capability of the borrower to repay the contractual obligations under the loan agreements as scheduled or at all. The Corporation's internal commercial credit risk grading system is based on experiences with similarly graded loans.

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

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

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

COMMERCIAL CREDIT EXPOSURE

CREDIT RISK PROFILE BY INTERNALLY ASSIGNED GRADE

(DOLLARS IN THOUSANDS)

December 31, 2022	Commercial Mortgages	Agriculture Mortgages	Construction	Commercial and Industrial	Tax-free Loans	Agriculture Loans	Total
	\$	\$	\$	\$	\$	\$	\$
Grade:							
Pass	209,534	214,905	83,240	85,977	28,664	26,749	649,069
Special Mention	-	1,966	3,553	893	-	132	6,544
Substandard	1,289	4,296	-	658	-	241	6,484
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	210,823	221,167	86,793	87,528	28,664	27,122	662,097

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

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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, 2022 and 2021:

CONSUMER CREDIT EXPOSURE

CREDIT RISK PROFILE BY PAYMENT PERFORMANCE

(DOLLARS IN THOUSANDS)

	1-4 Family Residential Mortgages	Home Equity Loans	Home Equity Lines of Credit	Consumer	Total
December 31, 2022					
Payment performance:	\$	\$	\$	\$	\$
Performing	409,854	11,598	98,349	5,738	525,539
Non-performing	447	339	-	30	816
Total	410,301	11,937	98,349	5,768	526,355

CONSUMER CREDIT EXPOSURE

CREDIT RISK PROFILE BY PAYMENT PERFORMANCE

(DOLLARS IN THOUSANDS)

	1-4 Family Residential Mortgages	Home Equity Loans	Home Equity Lines of Credit	Consumer	Total
December 31, 2021					
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

The following tables present an age analysis of the Corporation's past due loans, segregated by loan portfolio class, as of December 31, 2022 and 2021:

AGING OF LOANS RECEIVABLE

(DOLLARS IN THOUSANDS)

	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
December 31, 2022	\$	\$	\$	\$	\$	\$	\$
Commercial real estate							
Commercial mortgages	-	-	554	554	210,269	210,823	-
Agriculture mortgages	-	-	2,787	2,787	218,380	221,167	-
Construction	-	-	-	-	86,793	86,793	-
Consumer real estate							
1-4 family residential mortgages	905	-	447	1,352	408,949	410,301	139
Home equity loans	17	-	339	356	11,581	11,937	-
Home equity lines of credit	165	16	-	181	98,168	98,349	-
Commercial and industrial							
Commercial and industrial	-	-	190	190	87,338	87,528	-
Tax-free loans	-	-	-	-	28,664	28,664	-
Agriculture loans	-	-	-	-	27,122	27,122	-
Consumer	9	5	30	44	5,725	5,769	30
Total	1,096	21	4,347	5,464	1,182,989	1,188,453	169

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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

As of December 31, 2022, and 2021, 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)

	2022 \$	2021 \$
Commercial real estate		
Commercial mortgages	554	184
Agriculture mortgages	2,787	1,838
Construction	-	-
Consumer real estate		
1-4 family residential mortgages	308	39
Home equity loans	339	-
Home equity lines of credit	-	-
Commercial and industrial		
Commercial and industrial	190	385
Tax-free loans	-	-
Agriculture loans	-	110
Consumer	-	-
Total	4,178	2,556

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No loan modifications were made during 2022 or 2021 that would be considered a troubled debt restructuring (TDR). A modification of the payment terms to a loan customer are considered a TDR if a concession was made to a borrower that is experiencing financial difficulty. A concession is generally defined as more favorable payment or credit terms granted to a borrower in an effort to improve the likelihood of the lender collecting principal in its entirety. Concessions usually are in the form of interest only for a period of time, or a lower interest rate offered in an effort to enable the borrower to continue to make normally scheduled payments. 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 loan was \$442,000 as of December 31, 2022. This TDR is not non-accrual.

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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, 2022:

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	1,201	1,271	-	779	-
Agriculture mortgages	3,229	3,348	-	3,350	24
Construction	-	-	-	-	-
Total commercial real estate	4,430	4,619	-	4,129	24
Commercial and industrial					
Commercial and industrial	190	199	-	160	-
Tax-free loans	-	-	-	-	-
Agriculture loans	-	-	-	-	-
Total commercial and industrial	190	199	-	160	-
Total with no related allowance	4,620	4,818	-	4,289	24
With an allowance recorded:					
Commercial real estate					
Commercial mortgages	-	-	-	-	-
Agriculture mortgages	-	-	-	-	-
Construction	-	-	-	-	-
Total commercial real estate	-	-	-	-	-
Commercial and industrial					
Commercial and industrial	-	-	-	-	-
Tax-free loans	-	-	-	-	-
Agriculture loans	-	-	-	-	-
Total commercial and industrial	-	-	-	-	-
Total with a related allowance	-	-	-	-	-
Total by loan class:					
Commercial real estate					
Commercial mortgages	1,201	1,271	-	779	-
Agriculture mortgages	3,229	3,348	-	3,350	24
Construction	-	-	-	-	-
Total commercial real estate	4,430	4,619	-	4,129	24
Commercial and industrial					
Commercial and industrial	190	199	-	160	-
Tax-free loans	-	-	-	-	-
Agriculture loans	-	-	-	-	-
Total commercial and industrial	190	199	-	160	-
Total	4,620	4,818	-	4,289	24

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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, 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

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2022:

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

	Commercial Real Estate	Consumer Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	\$	\$	\$	\$	\$	\$
Allowance for credit losses:						
Beginning balance	6,263	3,834	2,112	87	635	12,931
Charge-offs	(84)	-	(44)	(19)	-	(147)
Recoveries	10	10	42	5	-	67
Provision	(115)	1,598	41	(6)	(218)	1,300
Ending balance	6,074	5,442	2,151	67	417	14,151
Ending balance: individually evaluated for impairment	-	-	-	-	-	-
Ending balance: collectively evaluated for impairment	6,074	5,442	2,151	67	417	14,151
Loans receivable:						
Ending balance	518,783	520,587	143,314	5,769		1,188,453
Ending balance: individually evaluated for impairment	4,430	-	190	-		4,620
Ending balance: collectively evaluated for impairment	514,353	520,587	143,124	5,769		1,183,833

The dollar amount of the allowance only changed significantly for the consumer real estate sector, showing an increase of \$1.6 million from December 31, 2021 to December 31, 2022. The changes in allowance for the other loan sectors were minimal. The higher provision in the consumer real estate sector was primarily caused by growth within this segment of the loan portfolio during 2022. In the two years prior to 2022, most residential mortgage loans were being generated and sold on the secondary market. With the rapid increase in mortgage rates during 2022, most residential mortgage originations were in the form of adjustable rate mortgages which were held on the Corporation's balance sheet. Net charge-offs were minimal during the year ended December 31, 2022, so the provision expense was primarily related to loan portfolio growth.

The December 31, 2022 ending balance of the allowance was up \$1,220,000, or 9.4%, from December 31, 2021, and the allowance as a percentage of total loans was 1.19% as of December 31, 2022, and 1.40% as of December 31, 2021.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

The following table details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2021:

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	6,329	3,449	1,972	52	525	12,327
Charge-offs	-	(20)	-	(35)	-	(55)
Recoveries	109	2	56	17	-	184
Provision (credit)	(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 between December 31, 2020, and December 31, 2021. 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.

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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,	
	2022	2021
	\$	\$
Land	5,043	5,043
Buildings and improvements	30,780	30,265
Furniture and equipment	10,330	10,864
Construction in process	1,298	369
Total	47,451	46,541
Less accumulated depreciation	(22,118)	(22,065)
Premises and equipment	25,333	24,476

Depreciation expense, which is included in operating expenses, amounted to \$1,335,000 for 2022, and \$1,320,000 for 2021. 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, 2022 and 2021, the construction in process consists primarily of costs associated with the construction of a drive-thru facility as well as renovations to leased office space.

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, 2022, the Bank held \$5,552,000 in stock of the FHLB compared to \$4,742,000 as of December 31, 2021.

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 7.25% annualized on activity stock and 3.25% annualized on membership stock as of December 31, 2022. 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 \$1,081,000 of Federal Reserve Bank stock and \$37,000 of Atlantic Community Bancshares, Inc. stock, the Bank Holding Company of ACBB, as of December 31, 2022, compared to \$601,000 and \$37,000, respectively, as of December 31, 2021.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

NOTE F – DEPOSITS
(DOLLARS IN THOUSANDS)

Deposits by major classifications are summarized as follows:

	December 31,	
	2022	2021
	\$	\$
Non-interest bearing demand	672,342	686,278
Interest-bearing demand	164,208	63,015
NOW accounts	139,846	139,366
Money market deposit accounts	163,836	168,327
Savings accounts	364,897	341,291
Time deposits under \$250,000	124,144	105,615
Time deposits of \$250,000 or more	9,685	8,321
Total deposits	1,638,958	1,512,213

At December 31, 2022, the scheduled maturities of time deposits are as follows:

2023	55,614
2024	33,223
2025	24,081
2026	17,500
2027	3,411
Total	133,829

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, 2022 and 2021:

	2022	2021
	\$	\$
Total short-term borrowings outstanding at year end	16,000	-
Average interest rate at year end	3.00%	-
Maximum outstanding at any month end	24,000	-
Average amount outstanding for the year	13,336	22
Weighted-average interest rate for the year	2.29%	0.25%

As of December 31, 2022, 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 \$52.6 million as of December 31, 2022 and \$28.3 million as of December 31, 2021. For further information on borrowings from the FHLB see Note H.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

NOTE H – OTHER BORROWED FUNDS
(DOLLARS IN THOUSANDS)

Federal Home Loan Bank (FHLB) Borrowings

Maturities of FHLB borrowings at December 31, 2022, and 2021, are summarized as follows:

	December 31,			
	2022		2021	
	Weighted-Average		Weighted-Average	
	Amount	Rate	Amount	Rate
	\$	%	\$	%
FHLB fixed rate loans				
2023	13,816	2.77	13,816	2.77
2024	17,406	2.02	17,407	2.02
2025	12,984	1.47	12,983	1.47
2026	-	-	-	-
2027	13,833	4.01	-	-
Total other borrowings	58,039	2.55	44,206	2.09

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 \$575.7 million as of December 31, 2022 with remaining borrowing capacity of \$505.7 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, 2022 and 2021 was as follows:

		December 31,		Rate	Issued Amount	Date Issued	Maturity
		2022	2021				
		Carrying Amount	Carrying Amount				
Issued by	Ranking	\$	\$	%	\$		
ENB Financial Corp	Subordinated (1)(2)	19,760	19,680	4.00%	20,000	12/30/20	12/30/30
ENB Financial Corp	Subordinated (1)(3)	19,636	-	5.75%	20,000	07/22/22	09/30/32
Total		39,396	19,680				

- (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.
- (3) 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 July 22, 2027.

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 plan replaced the 2019 plan. As of December 31, 2022, a total of 39,356 shares were repurchased at a total cost of \$785,000, for an average cost per share of \$19.95. 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 39,617 shares issued through the ESPP in 2022 with 303,853 shares issued since existence. The DRP was started in 2005 with 14,170 shares issued in 2022 and 243,623 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. A total of 4,245 shares were issued in connection with this plan in 2022 and 44,194 since existence. In 2021, there were 25,982 shares issued through the ESPP, 12,227 shares issued through the DRP, and 2,417 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 2022 and 2021 was 58,033 and 40,626, respectively.

In the fourth quarter of 2022, the Corporation entered into employment agreements with a number of its key personnel. The initial term of each employment agreement is three (3) years beginning on October 28, 2022. Each employment agreement shall automatically renew for additional three (3) year terms at the end of the initial three (3) year term and at the end of each three (3) year renewal of the employment agreement unless notice to terminate is given by either party at least one hundred eighty (180) days prior to the expiration of the initial term or any renewal term of the employment agreement. If proper notice to terminate is not given, each employment agreement shall renew for an additional three (3) years. Further, in consideration of entering into the employment agreements, the employees each received restricted stock units. Each restricted stock unit represents a contingent right to receive one share of Corporation common stock. The restricted stock units vest at a rate of 33 1/3% on each anniversary of the date of grant. The product of the number of shares granted and the grant date market price of the Corporation's common stock determines the fair value of the restricted shares which is expensed over the vesting period. During the year ended December 31, 2022, the Corporation recorded \$11,000 of stock-based compensation expense. Expected future compensation expense relating to the restricted stock units is \$167,000 over the remaining vesting period.

The following is a summary of the status of the Company's nonvested restricted stock as of December 31, 2022, and changes therein during the year then ended:

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2021	-	-
Granted	11,960	\$ 16.80
Vested	-	-
Forfeited	-	-
Nonvested at December 31, 2022	<u>11,960</u>	<u>\$ 16.80</u>

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 \$20,500 for 2022 and \$19,500 for 2021, for persons under age 50, and for persons over age 50 was \$27,000 in 2022 and \$26,000 in 2021. 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 \$447,000 and \$423,000 for 2022 and 2021, 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 \$305,000 in 2022 and \$290,000 in 2021. Total expenses of the plan were \$941,000 and \$936,000, for 2022 and 2021, respectively. The Corporation's 401(k) Savings Plan is fully funded as all obligations are funded monthly.

NOTE K - DEFERRED COMPENSATION

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

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

The life insurance policies had an aggregate face amount of \$3,409,000 for December 31, 2022, and December 31, 2021. The death benefits totaled \$6,787,000 at December 31, 2022, and \$6,843,000 at December 31, 2021. The cash surrender value of the above policies totaled \$5,275,000 and \$5,270,000 as of December 31, 2022, and 2021, 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,			
	2022		2021	
	\$	%	\$	%
Income tax at statutory rate	3,553	21.0	3,683	21.0
Tax-exempt interest income	(1,052)	(6.2)	(954)	(5.4)
Non-deductible interest expense	89	0.5	47	0.3
Bank-owned life insurance	(307)	(1.8)	(160)	(0.9)
Other	4	0.0	4	0.0
Income tax expense	2,287	13.5	2,620	15.0

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 2019.

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

	Year Ended December 31,	
	2022	2021
	\$	\$
Current tax expense	2,352	2,605
Deferred tax expense (benefit)	(65)	15
Income tax expense	2,287	2,620

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

	December 31,	
	2022	2021
	\$	\$
Deferred tax assets		
Allowance for credit losses	2,972	2,715
Allowance for off-balance sheet extensions of credit	214	191
Net unrealized holding losses on securities available for sale	12,837	-
Interest on non-accrual loans	10	6
Other	664	110
Total deferred tax assets	16,697	3,022
Deferred tax liabilities		
Premises and equipment	(936)	(926)
Net unrealized holding gains on securities available for sale	-	(915)
Mortgage servicing rights	(334)	(193)
Discount on investment securities	(210)	(114)
Other	(655)	(129)
Total deferred tax liabilities	(2,135)	(2,277)
Net deferred tax assets	14,562	745

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, 2022 and 2021, 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, 2022 and December 31, 2021, 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, 2022						
Total Capital to Risk-Weighted Assets						
Consolidated.....	200,191	15.0	N/A	N/A	N/A	N/A
Bank.....	193,076	14.5	106,407	8.0	133,008	10.0
Tier I Capital to Risk-Weighted Assets						
Consolidated.....	145,627	10.9	N/A	N/A	N/A	N/A
Bank.....	177,907	13.4	79,805	6.0	106,407	8.0
Common Equity Tier I Capital to Risk-Weighted Assets						
Consolidated.....	145,627	10.9	N/A	N/A	N/A	N/A
Bank.....	177,907	13.4	59,854	4.5	86,455	6.5
Tier I Capital to Average Assets						
Consolidated.....	145,627	7.6	N/A	N/A	N/A	N/A
Bank.....	177,907	9.3	76,190	4.0	95,238	5.0
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

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 2022, without the approval of the OCC, of approximately \$23.9 million, plus an additional amount equal to the Corporation's net profits for 2023, up to the date of any such dividend declaration.

NOTE N – TRANSACTIONS WITH DIRECTORS AND OFFICERS

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

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LOANS TO INSIDERS
(DOLLARS IN THOUSANDS)

	Year Ended December 31, 2022 \$	Year Ended December 31, 2021 \$
Balance, beginning of year	194	31
Advances	1,398	40
Repayments	(1,614)	(71)
Other changes	2,646	194
Balance, end of year	<u>2,624</u>	<u>194</u>

In the Corporation's case, other changes in the table above for the year ended December 31, 2022, represented the addition of a director, and for the year ended December 31, 2021, represented the addition of an executive officer.

Deposits from the insiders totaled \$1,417,000 as of December 31, 2022, and \$2,855,000 as of December 31, 2021.

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, 2022, firm loan commitments totaled approximately \$117.5 million; unused lines of credit totaled \$467.8 million; and open letters of credit totaled \$11.1 million. The sum of these commitments, \$596.4 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, 2021, totaled \$490.1 million, representing firm loan commitments of \$99.0 million, unused lines of credit of \$378.3 million, and open letters of credit totaling \$12.8 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, 2022, the Corporation's legal lending limit was \$28,961,000, and the Corporation's lending policy internal limit was \$21,721,000. This compared to a legal lending limit of \$24,356,000, and lending policy limit of \$18,267,000 as of

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December 31, 2021. As of December 31, 2022 and 2021, no lending relationships exceeded the Corporation's internal lending policy limit.

Geographically, the primary lending area for the Corporation is defined as its market area, 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 \$520.6 million, or 43.8%, of the \$1,188.5 million gross loans outstanding as of December 31, 2022. This compares to \$403.9 million, or 43.9%, of the \$919.1 million of gross loans outstanding as of December 31, 2021. Residential real estate consists of first mortgages and home equity loans. A concentration in commercial real estate of 46.4%, or \$518.8 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 18.6% of gross loans as of December 31, 2022, compared to 22.2% as of December 31, 2021; 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, 2022, the largest specific industry type categories were dairy cattle and milk production loans of \$93.9 million, or 7.9% of gross loans, non-residential real estate investment loans of \$89.1 million, or 7.5% of gross loans, and residential real estate investment loans with a balance of \$66.9 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 \$143.3 million of loans designated as commercial and industrial for the Uniform Bank Performance Reports, the largest concentration within that area is \$28.7 million of loans to political subdivisions, which account for 2.4% 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, 2022, were obligations of states and political subdivisions located in the states of Pennsylvania, California, and Texas. Based on fair market value, the Corporation had 18% of its portfolio invested in Pennsylvania municipals, 18% in California, and 9% in Texas. As of December 31, 2022, no municipal bonds were below an A credit rating.

The Corporation held \$76.7 million of corporate bonds based on amortized cost as of December 31, 2022. Out of the \$76.7 million of total corporate securities, \$63.4 million is domestic and \$13.3 million is foreign-issued debt. Most of the Corporation's foreign-issued debt is from the United Kingdom, Australia, and Switzerland. In addition, \$48.5 million, or 63.2%, of the corporate bonds held are invested in national or foreign banks, bank holding companies, brokerage firms, or finance companies.

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, 2022, 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, except for one. One bond carried a rating of BBB+ by Moody's. All were considered investment grade.

NOTE Q – LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. For the Corporation, Topic 842 primarily affects the accounting treatment for operating lease agreements in which the Corporation is the lessee.

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Notes to Consolidated Financial Statements

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 2042. 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, 2022	December 31, 2021
Lease Right-of-Use Assets			
Operating lease right-of use assets	Other Assets	\$ 3,117	\$ 617
Lease Liabilities			
Operating lease liabilities	Other Liabilities	\$ 3,145	\$ 629

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, 2022	December 31, 2021
Weighted-average remaining lease term		
Operating leases	12.5 years	3.7 years
Weighted-average discount rate		
Operating leases	2.88%	2.82%

The total rent expense for all operating leases was \$326,000 and \$213,000 for the years ended December 31, 2022 and 2021, respectively. 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, 2022 were as follows:

Lease Payment Schedule

(Dollars in Thousands)	Operating Leases
Twelve Months Ended:	
December 31, 2023	\$ 450
December 31, 2024	455
December 31, 2025	345
December 31, 2026	239
December 31, 2027	228
Thereafter	2,052
Total Future Minimum Lease Payments	3,769
Amounts Representing Interests	(624)
Present Value of Net Future Minimum Lease Payments	\$ 3,145

NOTE R - FAIR VALUE MEASUREMENTS

U.S. generally accepted accounting principles establish a hierarchical 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, 2022 and December 31, 2021, 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, 2022			
	Level I	Level II	Level III	Total
	\$	\$	\$	\$
U.S. Treasuries	32,657	-	-	32,657
U.S. government agencies	-	24,787	-	24,787
U.S. agency mortgage-backed securities	-	45,307	-	45,307
U. S. agency collateralized mortgage obligations	-	27,490	-	27,490
Non-agency MBS/CMO	-	50,250	-	50,250
Asset-backed securities	-	73,234	-	73,234
Corporate bonds	-	69,631	-	69,631
Obligations of states and political subdivisions	-	205,786	-	205,786
Marketable equity securities	9,118	-	-	9,118
Total securities	41,775	496,485	-	538,260

On December 31, 2022, the Corporation held no securities valued using level III inputs. All of the Corporation's debt instruments were valued using levels I and II inputs. Level I means each investment has their own quoted prices in an active market and Level II means 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.

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.

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Notes to Consolidated Financial Statements

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	23,795	543,280	-	567,075

On December 31, 2021, the Corporation held no securities valued using level III inputs. All of the Corporation's debt instruments were valued using levels I and II inputs. Level I means each investment has their own quoted prices in an active market and Level II means 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.

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, 2022 and December 31, 2021, by level within the fair value hierarchy:

ASSETS MEASURED ON A NONRECURRING BASIS

(DOLLARS IN THOUSANDS)

	December 31, 2022			
	Level I	Level II	Level III	Total
	\$	\$	\$	\$
Assets:				
Impaired Loans	-	-	4,620	4,620
	-	-	4,620	4,620
	December 31, 2021			
	Level I	Level II	Level III	Total
	\$	\$	\$	\$
Assets:				
Impaired Loans	-	-	3,177	3,177
Total	-	-	3,177	3,177

The Corporation had a total of \$4,620,000 of impaired loans as of December 31, 2022, with no specific allocation against these loans. As of December 31, 2021, the Corporation had a total of \$3,324,000 of impaired loans with \$147,000 of specific allocation against these loans. The value of impaired loans is generally determined through independent appraisals of the underlying collateral.

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Notes to Consolidated Financial Statements

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, 2022				
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Avg)
Impaired loans	4,620	Appraisal of collateral (1)	Appraisal adjustments (2) Liquidation expenses (2)	0% to -20% (-20%) 0% to -10% (-10%)
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%)

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

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

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

NOTE 5 - 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, 2022 and December 31, 2021:

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

(DOLLARS IN THOUSANDS)

	December 31, 2022				
	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	37,572	37,572	37,572	-	-
Regulatory stock	6,670	6,670	6,670	-	-
Loans held for sale	5,927	5,927	5,927	-	-
Loans, net of allowance	1,176,966	1,112,400	-	-	1,112,400
Mortgage servicing assets	2,030	2,894	-	-	2,894
Accrued interest receivable	6,555	6,555	6,555	-	-
Bank owned life insurance	34,805	34,805	34,805	-	-
Financial Liabilities:					
Demand deposits	672,342	672,342	672,342	-	-
Interest-bearing demand deposits	164,208	164,208	164,208	-	-
NOW accounts	139,846	139,846	139,846	-	-
Money market deposit accounts	163,836	163,836	163,836	-	-
Savings accounts	364,897	364,897	364,897	-	-
Time deposits	133,829	129,422	-	-	129,422
Total deposits	1,638,958	1,634,551	1,505,129	-	129,422
 Short-term debt	 16,000	 15,721	 -	 -	 15,721
Long-term debt	58,039	56,431	-	-	56,431
Subordinated debt	39,396	35,975	-	-	35,975
Accrued interest payable	597	597	597	-	-

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Notes to Consolidated Financial Statements

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

	December 31, 2021				
			Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
	Carrying Amount \$	Fair Value \$	\$	\$	\$
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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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, 2022 and 2021 is as follows:

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (1) (2)

(DOLLARS IN THOUSANDS)

	Unrealized Gains/(Losses) on Securities Available-for-Sale \$
Balance at January 1, 2022	<u>3,441</u>
Other comprehensive loss before reclassifications	(51,700)
Amount reclassified from accumulated other comprehensive loss	<u>(33)</u>
Period change	(51,733)
Balance at December 31, 2022	<u>(48,292)</u>
Balance at January 1, 2021	<u>7,958</u>
Other comprehensive loss before reclassifications	(3,940)
Amount reclassified from accumulated other comprehensive loss	<u>(577)</u>
Period change	(4,517)
Balance at December 31, 2021	<u>3,441</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
	2022	2021	
	\$	\$	
Securities available for sale:			
Net securities gains reclassified into earnings	42	730	Gains on sale of debt securities, net
Related income tax expense	(9)	(153)	Provision for federal income taxes
Net effect on accumulated other comprehensive income (loss) for the period	33	577	
Total reclassifications for the period	<u>33</u>	<u>577</u>	

(1) Amounts in parentheses indicate debits.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

NOTE U – CONDENSED PARENT ONLY DATA

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

	December 31,	
	2022	2021
	\$	\$
Assets		
Cash	4,601	2,638
Equity securities	1,773	1,743
Equity in bank subsidiary	129,615	152,176
Other assets	768	452
Total assets	136,757	157,009
Liabilities		
Subordinated debt	39,396	19,680
Other Liabilities	26	41
Total Liabilities	39,422	19,721
Stockholders' Equity		
Common stock	574	574
Capital surplus	4,437	4,520
Retained earnings	142,677	131,856
Accumulated other comprehensive (loss) income, net of tax	(48,292)	3,441
Treasury stock	(2,061)	(3,103)
Total stockholders' equity	97,335	137,288
Total liabilities and stockholders' equity	136,757	157,009

Condensed Statements of Comprehensive (Loss) Income
(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2022	2021
	\$	\$
Income		
Dividend income - investment securities	67	52
Gains (losses) on equity securities, net	(32)	324
Dividend income	3,810	3,730
Undistributed earnings of bank subsidiary	12,161	11,730
Total income	16,006	15,836
Expense		
Subordinated debt interest expense	1,311	800
Shareholder expenses	150	132
Other expenses	279	130
Total expense	1,740	1,062
Provision (benefit) for income taxes	(365)	(142)
Net Income	14,631	14,916
Comprehensive (Loss) Income	(37,102)	10,399

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

Condensed Statements of Cash Flows

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2022	2021
	\$	\$
Cash Flows from Operating Activities:		
Net Income	14,631	14,916
Equity in undistributed earnings of subsidiaries	(12,161)	(11,730)
Losses (gains) on equity securities, net	32	(324)
Net amortization of subordinated debt fees	116	79
Net increase in other assets	(316)	(287)
Net decrease in other liabilities	(15)	(404)
Net cash provided by operating activities	2,287	2,250
Cash Flows from Investing Activities:		
Proceeds from sales of equity securities	151	460
Purchases of equity securities	(213)	(950)
Net cash used for investing activities	(62)	(490)
Cash Flows from Financing Activities:		
Proceeds from sale of treasury stock	1,064	885
Proceeds from issuance of subordinated debt	19,600	-
Dividend to bank subsidiary	(17,000)	(3,500)
Treasury stock purchased	(116)	(482)
Dividends paid	(3,810)	(3,730)
Net cash used for financing activities	(262)	(6,827)
Cash and Cash Equivalents:		
Net change in cash and cash equivalents	1,963	(5,067)
Cash and cash equivalents at beginning of period	2,638	7,705
Cash and cash equivalents at end of period	4,601	2,638

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, 2022, 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, 2022, 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, 2022, 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, 2022, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control - Integrated Framework."

This annual report does not include an attestation report of the Corporation's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Corporation's registered public accounting firm pursuant to the Dodd-Frank Act exemption rules of the SEC that permit the Corporation to provide only Management's report in this annual report.

ENB FINANCIAL CORP

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

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

Ephrata, PA
March 20, 2023

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 “Delinquent Section 16(a) Reports,” of the Corporation’s definitive Proxy Statement to be used in connection with the Annual Meeting of Shareholders, to be held on May 9, 2023, 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 2022.

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 9, 2023, 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 9, 2023, 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 9, 2023, 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. 2: 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 9, 2023, 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 2022 Employee Stock Purchase Plan (incorporated herein by reference to Appendix A to the Corporation's Definitive Proxy Statement, filed with the SEC on April 4, 2022.)
- 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.)
- 10.4 Employment Agreement by and among ENB Financial Corp, The Ephrata National Bank and Chad E. Neiss dated as of October 28, 2022. (Incorporated herein by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on November 1, 2022.)
- 10.5 Employment Agreement by and among ENB Financial Corp, The Ephrata National Bank and Jeffrey S. Stauffer dated as of October 28, 2022. (Incorporated herein by reference to Exhibit 10.2 of the Corporation's Form 8-K filed with the SEC on November 1, 2022.)
- 10.6 Employment Agreement by and among ENB Financial Corp, The Ephrata National Bank and Rachel G. Bitner dated as of October 28, 2022. (Incorporated herein by reference to Exhibit 10.4 of the Corporation's Form 8-K filed with the SEC on November 1, 2022.)
- 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

ENB FINANCIAL CORP

- 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 20, 2023
<u>/s/ Rachel G. Bitner</u> (Rachel G. Bitner)	Treasurer (Principal Financial Officer)	March 20, 2023
<u>/s/ Joshua E. Hoffman</u> (Joshua E. Hoffman)	Director	March 20, 2023
<u>/s/ Willis R. Lefever</u> (Willis R. Lefever)	Director	March 20, 2023
<u>/s/ Jay S. Martin</u> (Jay S. Martin)	Director	March 20, 2023
<u>/s/ Susan Young Nicholas, Esq.</u> (Susan Young Nicholas)	Director	March 20, 2023
<u>/s/ Dr. Brian K. Reed</u> (Dr. Brian K. Reed)	Director	March 20, 2023
<u>/s/ J. Daniel Stoltzfus</u> (J. Daniel Stoltzfus)	Director	March 20, 2023

ENB FINANCIAL CORP

<u>/s/ Mark C. Wagner</u> (Mark C. Wagner)	Director	March 20, 2023
<u>/s/ Judith A. Weaver</u> (Judith A. Weaver)	Director	March 20, 2023
<u>/s/ Roger L. Zimmerman</u> (Roger L. Zimmerman)	Director	March 20, 2023

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. 333-182412, 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 20, 2023, 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, 2022.

S.R. Snodgrass P.C.

S.R. Snodgrass, P. C.
King of Prussia, Pennsylvania
March 20, 2023

PITTSBURGH, PA

2009 Mackenzie Way • Suite 340
Cranberry Township, PA 16066
(724) 934-0344

PHILADELPHIA, PA

2100 Renaissance Blvd. • Suite 110
King of Prussia, PA 19406
(610) 278-9800

WHEELING, WV

980 National Road
Wheeling, WV 26003
(304) 233-5030

STEUBENVILLE, OH

511 N. Fourth Street
Steubenville, OH 43952
(304) 233-5030

S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia

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 20, 2023

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 20, 2023

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, 2022, 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 20, 2023

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, 2022, 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 20, 2023

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 \$16.00 to \$22.40 in 2022 and from \$18.60 to \$23.75 in 2021. In 2022, the Corporation paid cash dividends of \$0.68 per share, compared to \$0.67 paid in 2021. The following table presents the quarterly high and low prices of the Corporation's common stock for the years 2022 and 2021, respectively, along with the quarterly dividend amount.

	High \$	2022 Low \$	Dividend \$	High \$	2021 Low \$	Dividend \$
First Quarter	22.40	21.15	0.17	22.00	18.60	0.16
Second Quarter	22.40	17.67	0.17	22.00	20.70	0.17
Third Quarter	18.55	16.10	0.17	23.75	21.13	0.17
Fourth Quarter	18.03	16.00	0.17	22.23	21.15	0.17

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:

Morgan Stanley
Lancaster, PA
(800) 237-1700
(717) 730-1800

Hazlett, Burt & Watson, Inc.
Lancaster, PA
(800) 657-9944
(717) 397-5988

Janney Montgomery Scott
Philadelphia, PA
(800) 548-2104
(215) 665-6681

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 9, 2023 at 1 p.m., eastern time, at the **Brossman Business Complex, 5th Floor, 124 East Main Street, Ephrata, Pennsylvania. Shareholders who attend are asked to bring the Admission Ticket, which is provided on each shareholder proxy card.** 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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(877) 773-6605
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