



ENB Financial Corp



Annual Report

"As I think back on 2023, words like vigilance, prudence, agility, commitment, safety and soundness come to mind."

Jeffrey S. Stauffer
Chairman of the Board
President and CEO



Dear Shareholders, Customers and Friends

It is with pleasure that I present this report on the 2023 performance of ENB Financial Corp and our wholly owned subsidiary, Ephrata National Bank. As I reflect on the events and challenges of the past year, I find myself thinking about the dynamic economic landscape navigated by our company. While early indicators suggested robust growth, challenges emerged that tested our resilience and required strategic agility.

The Federal Reserve continued its proactive measures to combat inflation with continued rate increases. Although these actions were essential to stabilize prices, they contributed to a continued tightening of net interest margins throughout the banking industry. Increased competition for deposits, combined with slowing loan demand, further contributed to margin pressure as deposit rates climbed while loan pricing approached its ceiling. Higher rates also limited banks' ability to sell securities at a gain, preventing the redeployment of these assets into higher yielding loans. This dynamic began to strain the liquidity of banks, and in March, liquidity took center stage as it contributed to the failures of Silicon Valley Bank and Signature Bank, sending shockwaves through the financial sector. Their failures, combined with the eventual failure of First Republic Bank, placed renewed focus on the importance of sound business practices, prudent risk management and appropriate capital preservation. They also created a ripple effect as regulators returned their attention to enhancing financial stability and consumer protection by implementing measures to address emerging risks and vulnerabilities.

In spite of the Fed's efforts to slow economic growth, the economy remained resilient and the labor market remained tight. Strong competition for skilled talent and the resultant higher rate of employee turnover necessitated additional costs associated with employee salaries, benefits, recruiting and onboarding. Recognizing the importance of a motivated and skilled workforce, ENB implemented strategic initiatives to retain talent through enhanced employee engagement.

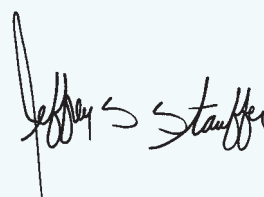
While these new challenges emerged in 2023, the banking industry continued to undergo a profound transformation driven by technological advancements. The rise of digital banking, fintech partnerships, and increasing adoption of artificial intelligence and other technologies have reshaped customer expectations and competitive dynamics. ENB remains committed to leveraging innovation to enhance our services and maintain a competitive edge, which required the implementation of several system upgrades to provide customers with safer and more convenient banking.

In spite of these challenges, ENB Financial Corp recorded solid earnings of \$12,375,000 for the year ended December 31, 2023. This was a \$2,256,000 or 15.4% decrease from earnings of \$14,631,000 for the year ended December 31, 2022. Basic and diluted earnings per share for 2023 were \$2.19 compared to \$2.62 in 2022, representing a 16.4% decrease. The Corporation also experienced strong balance sheet growth as it ended 2023 with \$2.00 billion in assets, which was a 7.5% increase from \$1.86 billion at the end of 2022. This performance allowed us to continue our consistency in dividend payments, resulting in an annual payment totaling \$0.68 per share.

As I think back on 2023, words like vigilance, prudence, agility, commitment, safety and soundness come to mind. ENB remained vigilant in monitoring the health of our balance sheet while adapting our strategies to navigate the challenging economic environment. Our commitment to prudent risk management and capital allocation allowed us to mitigate many of the challenges associated with compressed net interest margins. At the center of everything we do is a commitment to safety and soundness. This keeps us centered and focused in our decision making, which enables us to maintain earnings that result in a consistent dividend for our shareholders while we support the communities that are so important to us.

The banking industry faced unprecedented challenges in 2023, but ENB demonstrated resilience and agility in navigating these complexities. A commitment to executing our 2022 – 2024 strategic plan, as shared in the pages that follow, was also instrumental to our success. As I look to 2024 and beyond, I do so with optimism – as I always do – because of the hard work and dedication of our team. While the economic outlook is encouraging, there will undoubtedly be unforeseen challenges. There will also be opportunities. The leadership team at ENB has already begun to plan for both and develop appropriate strategies that will allow us to foster sustainable growth, increase operational efficiency, build community and deliver value to our shareholders. This will be done through further investment in digital capabilities, sound management of both financial and human resources, expansion of our product and service offerings, and a continued commitment to providing an outstanding customer experience both digitally and in person.

Sincerely,



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

Financial Highlights

Income Statement

(dollars in thousands)	2023	2022	2021	% Change 2023/2022	% Change 2022/2021
Interest income	\$ 77,877	\$ 55,959	\$ 43,591	39.17%	28.37%
Interest expense	\$ 23,838	\$ 5,376	\$ 3,020	343.42%	78.01%
Net interest income	\$ 54,039	\$ 50,583	\$ 40,571	6.83%	24.68%
Provision for credit losses	\$ 520	\$ 1,300	\$ 475	(60.00)%	173.68%
Other income	\$ 12,699	\$ 13,564	\$ 17,881	(6.38)%	(24.14)%
Other expenses	\$ 51,407	\$ 45,929	\$ 40,441	11.93%	13.57%
Income before income taxes	\$ 14,811	\$ 16,918	\$ 17,536	(12.45)%	(3.52)%
Provision for federal income taxes	\$ 2,436	\$ 2,287	\$ 2,620	6.52%	(12.71)%
Net income	\$ 12,375	\$ 14,631	\$ 14,916	(15.42)%	(1.91)%

Per Share Data

	2023	2022	2021	% Change 2023/2022	% Change 2022/2021
Net income (basic and diluted)	\$ 2.19	\$ 2.62	\$ 2.68	(16.41)%	(2.24)%
Cash dividends paid	\$ 0.68	\$ 0.68	\$ 0.67	0.00%	1.49%
Book value at year-end	\$ 21.10	\$ 17.27	\$ 24.59	22.18%	(29.77)%

Balance Sheet Data

(dollars in thousands)	2023	2022	2021	% Change 2023/2022	% Change 2022/2021
Total assets	\$ 2,000,824	\$ 1,858,716	\$ 1,717,230	7.65%	8.24%
Total loans	\$ 1,360,078	\$ 1,191,117	\$ 920,904	14.19%	29.34%
Securities	\$ 469,020	\$ 538,260	\$ 567,075	(12.86)%	(5.08)%
Deposits	\$ 1,726,798	\$ 1,638,958	\$ 1,512,213	5.36%	8.38%
Total debt	\$ 140,784	\$ 113,435	\$ 63,886	24.11%	77.56%
Stockholders' equity	\$ 119,654	\$ 97,335	\$ 137,288	22.93%	(29.10)%

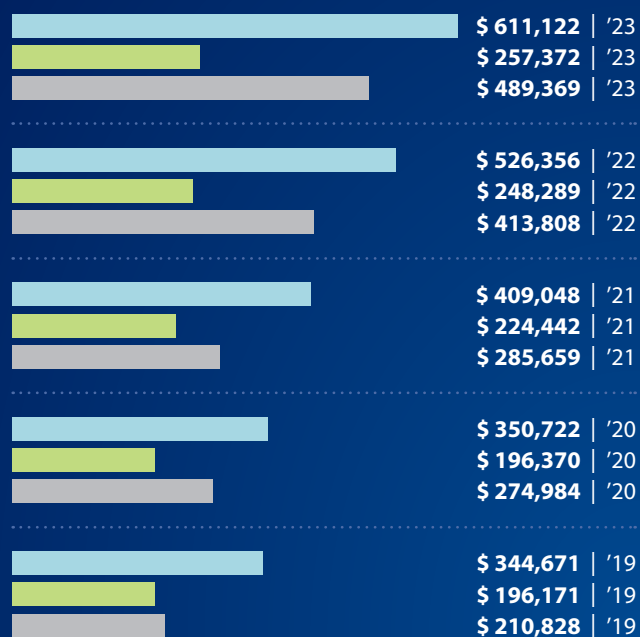
Selected Ratios

	2023	2022	2021	% Change 2023/2022	% Change 2022/2021
Return on average assets	0.65%	0.83%	0.95%	(21.69)%	(12.63)%
Return on average stockholders' equity	12.03%	13.63%	11.16%	(11.74)%	22.13%
Average equity to average assets ratio	5.41%	6.08%	8.53%	(11.02)%	(28.72)%
Dividend payout ratio	31.05%	25.95%	25.00%	19.65%	3.80%
Efficiency ratio	74.64%	70.28%	69.08%	6.20%	1.74%
Net interest margin	2.94%	3.03%	2.81%	(2.97)%	7.83%

Five-Year Performance

Outstanding Loans

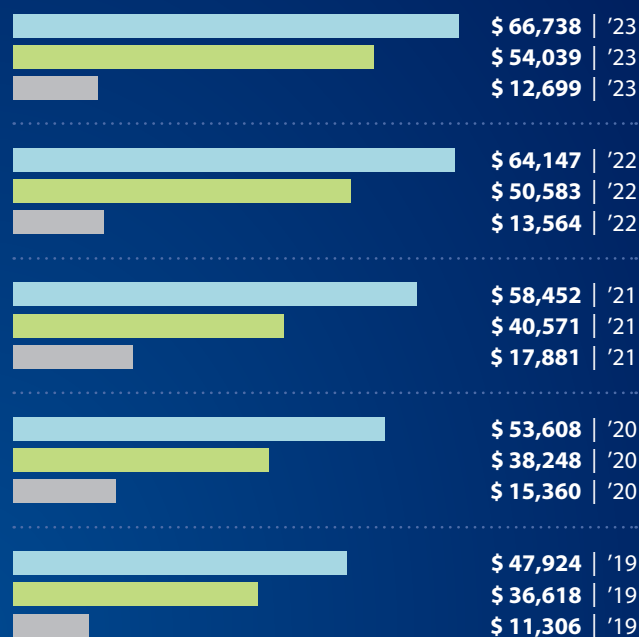
Thousands



● Consumer Loans | ● Agricultural Loans | ● Commercial Loans

Total Revenue

Thousands



● Total Revenue | ● Net Interest Income | ● Non-Interest Income

Assets

Millions



Deposits

Millions



Net Income

Millions



Stockholders' Equity

Millions



Year in Review

Executing a Plan for Future Success

Ephrata National Bank'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. These strategic objectives serve as guideposts to keep us focused on a forward-looking plan while allowing flexibility to adapt as the current economic climate and banking environment requires us to do so. In 2023, Ephrata National Bank continued the work of refining and executing the objectives in our 2022–2024 plan. The following highlights areas where ENB made significant progress during the past year.



Primary Objectives of ENB University's College of Leadership Excellence

- **Enable** leaders at all levels to act intentionally and courageously to overcome real-world business challenges
- **Equip** leaders to embrace change, enhance effectiveness and motivate teams
- **Help** leaders embody wisdom, conviction, responsibility, commitment, openness and belief in others and their capabilities

Evolve Purposeful Leadership Capabilities

ENB continued providing leaders with the skills needed to achieve our objective of becoming a high-performing financial institution. As high-performing individual contributors are promoted into leadership roles, it is essential we provide them with the skills necessary to be successful in this capacity. ENB University's College of Leadership Excellence was created specifically to address this need. The College is designed to help both new and experienced leaders reach their full potential by accomplishing three primary objectives: **1)** enabling leaders at all levels to act intentionally and courageously to overcome real-world business challenges; **2)** equipping leaders to embrace change, enhance effectiveness and motivate teams; and **3)** helping leaders embody wisdom, conviction, responsibility, commitment, openness and belief in others and their capabilities.

This past year, ENB's Senior Leadership Team continued working through the Strategic Purposeful Leadership curriculum in order to grow skills, allowing them to effectively maximize leadership excellence, lead change, foster innovation and drive accountability. In April, we launched the Purposeful Leadership Essentials curriculum with 41 additional managers participating in the program. This foundational leadership program focuses on building expertise in core leadership mindsets, problem solving, goal setting, managing conflict, maximizing impact and emotional intelligence.

Mission Statement



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.

Develop a Robust Sales Culture

In 2023, ENB continued our sales enablement efforts. These efforts began in 2022 with focus on a sales enablement activity known 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 digital 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 2023, ENB's Revenue Organization expanded sales enablement into a plan consisting of six pillars. In addition to SMarketing, pillars included customer experience, product marketing & management, branding, networking optimization and data analytics. Objectives and tactics were established for each pillar, with the integration between marketing and sales remaining of primary importance.

As ENB sought to build sales enablement proficiency throughout 2023, we focused our efforts in four primary areas; small business lending, deposit growth, credit card sales and merchant services sales. Results in all areas exceeded expectations. ENB's small business lending team booked \$19.7 million in new loans; an outstanding total for a new team in its first full year of existence. In a year where many banks saw deposit balances decline, ENB experienced an increase of \$87.8 million. Driving this performance was our teams' sales efforts around two certificate of deposit promotions; a 9-month CD at 4.83% APY and a 7-month CD at 5.25% APY. Deposits from these two promotions totaled \$150.4 million. Revenue derived from our credit card portfolio reached \$307,900 in 2023, which was a 21.8% increase over 2022. Commissions from merchant services sales grew to \$279,200, which was a 13.5% increase over 2022.

\$19.7_m

ENB's small business lending team booked \$19.7 million in new loans

Year in Review

A key ENB sales strategy is to align organizational structure with client segments to better provide comprehensive solutions based on the psychodemographic profile and life stage of each client.

In 2024, our sales efforts will extend into additional lines of business with the potential to grow noninterest income. Particular focus will be on ENB Wealth Solutions. The groundwork for this extension was laid in 2023 through an organizational restructuring. The previous structure of ENB Wealth Solutions was built around products; however, a key ENB sales strategy is to align organizational structure with client segments to better provide comprehensive solutions based on the psychodemographic profile and life stage of each client. For ENB Wealth Solutions, we organized around two broad segments: clients in the wealth accumulation stage of life, who are looking to have enough assets to support a comfortable retirement, and clients in the wealth preservation stage, who are concerned with issues of legacy and wealth transfer. To serve the wealth accumulation segment, ENB Wealth Advisory was formed. This group, led by Joe Howe, VP Wealth Advisory Officer, provides clients with strategies and solutions designed to accumulate wealth. Because most of these clients work closely with our retail & business banking team, ENB Wealth Advisory was moved to Retail & Business Banking reporting to Todd Keagy, SVP, Chief Retail & Business Banking Officer. This structure will allow a more cohesive method of delivering comprehensive solutions to this segment. The other group formed out of this restructure is ENB Trust Services, which is led by Danielle Beck, GVP, Managing Director of Trust Services. This team offers a variety of solutions designed to provide clients with peace of mind knowing that their funds and legacy will be safely passed on in alignment with their final wishes. Both ENB Trust Services and Wealth Advisory will remain under the ENB Wealth Solutions brand umbrella.

Sales leadership and execution are also required for sales success. To provide the required skills, ENB University's College of Sales Excellence was launched, and in January, began delivering its Performance Driven Selling curriculum. Performance Driven Selling/Strategic Bootcamp 1.0 provides participants with fundamental sales skills, including strategic and tactical sales methods, selling psychology, solutions presentation and book of business management. Performance Driven Selling/Sales Management 4.0 focuses on sales force leadership and support, aligning business objectives with sales strategy, coaching, accountability, pipeline management, performance execution, and analytics tracking.

Achieve Operational Excellence

In 2023, ENB continued our pursuit of operational excellence through multiple initiatives designed to provide customers with more convenient access to banking services delivered with increased efficiency.

Fast, efficient and secure methods of making payments continue to be of primary importance for both consumers and businesses. Understanding our need to keep aligned with customer expectations, ENB upgraded our wire transfer system in April. This upgrade eliminated the need to manually enter information and signatures required to facilitate wire transfers into multiple systems. Now customers electronically enter information and signatures directly into one system. This has reduced the amount of time spent processing wire transfers from 20 minutes to 5 minutes, freeing up our team to focus on other efforts such as fraud prevention. It has also eliminated the human error associated with manual entry of information. The upgrade also created the ability to integrate with other systems. As a result, wire transfers can be established through ENB Online Banking without any manual intervention by ENB staff required to complete the transfer. Integration with Verafin, ENB's fraud detection system, also provides an extra layer of security as all wire transfers are reviewed by the system prior to funds being sent. The result has been a significant reduction in instances of wire fraud.

Ongoing market research conducted regularly by ENB explores, among many topics, how a community bank could acquire customers from national and regional banks. The most common consumer response given over several research periods was to allow customers to use any ATM without fees. To take advantage of this competitive opportunity, Ephrata National Bank joined the Allpoint ATM Network. By joining the Allpoint Network, ENB has provided customers with fee-free access at 41,000+ U.S. ATM locations and 55,000+ worldwide locations. Many of these locations are located in premium retail and convenience stores, including Target, Costco Wholesale, Walgreens, CVS Pharmacy™ and Wawa. To generate awareness for this new service, a multimedia marketing campaign ran from June through August. Early results on customer use show this service has been well received. Since its introduction in June, transactions at Allpoint ATMs have averaged 673 per month.

673

Average number of Allpoint ATM transactions per month since its introduction in June

Although ENB seeks to keep pace with customer demands for new technology, certain mature technologies are still used by a significant portion of customers. One of those technologies is telephone banking. In August, ENB upgraded our telephone banking system known as the Wisdom Line. Benefits of the upgrade included greater system reliability and stability, improved service and support of technological issues, and better integration with our core processing system. Customer improvements include a user preference option for English or Spanish, account access for secondary account owners and a more detailed, expanded account history.

ENB also strives to continually enhance the digital delivery of products and services in order to create an outstanding customer experience. At the beginning of 2023, it was determined ENB needed to perform a companywide assessment to determine the effectiveness of our digital delivery in meeting customer and employee expectations. The objectives of this assessment included: 1) creating a roadmap for expansion of ENB's digital channel that puts our customers at the center of service delivery, 2) developing a process to seamlessly pass customers between in-person and digital channels, 3) determining how to fully leverage existing technology and 4) identifying new technology that could improve digital delivery. The evaluation consisted of extensive internal and external research based on interviews with internal stakeholders as well as customers who utilize ENB's digital services. Results were compiled and presented to ENB's senior leadership, which used them to develop a strategic digital improvement plan that will be executed in 2024.



Manage Risk to Achieve Greater Profitability

This strategic objective took on even greater significance in 2023 with the failures of Silicon Valley Bank, Signature Bank and First Republic Bank, which caused banks to re-examine their business and risk management practices. At ENB, it required a further refinement of how we evaluate risk within the context of balancing safety and soundness with real costs, opportunity costs and profitability. While our stated strategic objective is to manage risk to achieve greater profitability, the need to demonstrate prudence and reassure customers, as well as investors, of our safety and soundness became a priority. Doing so demanded proactive communication through multiple channels, re-examining risk on our balance sheet, and taking action to address areas of potential weakness.

Our evaluation identified a need to shore up additional liquidity, which resulted in the implementation of several actions designed to provide access to significant funding if needed. These actions included:

- **Increasing** our borrowing line at the Federal Reserve Discount Window
- **Expanding** our ability to issue brokered CDs
- **Stabilizing** deposits held by large depositors
- **Taking** advantage of additional discounted funding through the Federal Home Loan Bank's Community Lending Program
- **Creating** forward financial plans to optimize earnings while preserving capital

These actions did not negatively impact earnings. By achieving high levels of loan growth in 2022 and 2023, we enhanced our interest-earning assets, setting us up with a good foundation to weather anticipated economic and operational storms that lie ahead.

Year in Review

Building Community

What does it mean to be a community bank? This is a question frequently pondered by the leadership of Ephrata National Bank.

Is it determined by our size? Does it mean we're more nimble and agile than our competitors? Is it a reference to being locally owned? Perhaps it's an association with a customer service ethos where we know our customers by their names and not their account number. While all of these questions can be answered in the affirmative, one definition that came out of our discussions resonated above all others.

For Ephrata National Bank, being a community bank means we build community. Doing so requires more than giving the \$815,500 we contributed to local nonprofit organizations doing good work in our communities. It means we leverage our time and talents to keep local businesses safe by presenting fraud prevention practices to members of the Northern Lancaster County Chamber of Commerce. It means we introduce kids in our community to the importance of saving through our Pigs in the Park program. It means we build community pride by participating in local parades and civic events. It means we educate students on banking's role in the community through tours of our facilities. It means we attend local business events and agricultural expos to meet owners and learn about how we can help their businesses grow. It means we help graduating high school seniors pursue higher education through the J. Harry Hibshman Charitable Trust. It even means simply visiting a longtime customer on her 90th birthday to offer our congratulations and thank her for her business.

Building community is our obligation and our privilege, and with the continued support of our investors, customers and employees, it's something we look forward to doing for another 143 years.

\$815,500

Contributed to local nonprofit organizations



J. Harry Hibshman Scholarship By the Numbers

66

Number of scholarships awarded in 2023

\$1.3m

Value of scholarships awarded in 2023

4,600

Number of scholarships awarded
since inception

\$32.7m

Value of scholarships awarded
since inception



Corporate Leadership

Corporate Leadership Team



Jeffrey S. Stauffer
Chairman, President
and CEO



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



Rachel G. Bitner
Principal Financial Officer
and Treasurer



Board of Directors

Front row (l to r): Mark C. Wagner, Joshua E. Hoffman, MBA, CPA, CMA, CPCU, Judith A. Weaver, Susan Young Nicholas, Esq.

Back row (l to r): Roger L. Zimmerman, Willis R. Lefever, Jeffrey S. Stauffer, Dr. Brian K. Reed, DVM, MBA, Jay S. Martin, CISSP

Not pictured: J. Daniel Stoltzfus

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, 2023

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 51-0661129
State or other jurisdiction of incorporation or organization (IRS Employer Identification No.)

31 E. Main St. Ephrata, PA 17522
(Address of principal executive offices) (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, 2023, was approximately \$43,227,028.

The number of shares of the registrant's Common Stock outstanding as of March 11, 2024, was 5,654,355.

DOCUMENTS INCORPORATED BY REFERENCE

The Registrant's Definitive Proxy Statement for its 2024 Annual Meeting of Shareholders to be held on May 7, 2024, 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 effects of any 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 up 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 southwestern 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 NYCE® 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, 2023, the Corporation employed 296 persons, consisting of 281 full-time, 12 part-time, and 3 seasonal employees. The number of full-time employees decreased by 2 employees, and the number of part-time employees remained the same from the previous year-end while 3 seasonal roles were added to provide support during time periods, throughout the year, of higher volume. The decrease in the number of full-time employees is temporary and is reflective of open positions that are expected to be filled. The Corporation expects to add additional personnel to support the initiatives within technology, operations, and customer experience in 2024. 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 Bank 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 has one full service office in southeastern Lebanon County (Myerstown) and a full service office in southwestern Berks County (Morgantown). 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 45.9% of deposits as of June 30, 2023, based on data compiled annually by the Federal Deposit Insurance Corporation (FDIC). The Corporation's deposit market share in the Ephrata area was 43.9% as of June 30, 2022. 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' financial condition and results of operations. 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 credit 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.

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, 2023, and December 31, 2022. 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 2023 were \$892,000, compared to \$528,000 in 2022.

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 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.

Consistent with the Dodd-Frank Act, the 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 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 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 enacted 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.

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 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, or do not keep pace with, the interest rates paid on deposits and other borrowings or increases thereon.

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, 2023, 26.1% of the Corporation's loan portfolio consisted of Business Loans. 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 credit 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 is subject to commercial real estate volatility that may result in increases in non-performing loans that could have an adverse impact on our financial condition and results of operations.

The commercial real estate market nationally, regionally, and locally has recently been subject to increased levels of volatility. Many believe that commercial real estate in the commercial office sector is undergoing a fundamental transformation and change that started during the recent pandemic but also continues due to evolving workplace environments. These changes in the marketplace affect the demand for commercial office space which in turn may affect the credit status, profitability, and collectability, of existing and future commercial real estate office sector loans. As explained above in greater detail in the risk factor for Lending Risk, volatility and increases in non-performing loans could have an adverse impact on our financial condition and results of operations.

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

The Corporation maintains an allowance for possible credit losses, which is a reserve established through a provision for credit losses, charged to expense. The allowance for possible credit losses represents the Corporation's best estimate of expected losses in our financial assets, which includes loans, leases, and debt securities. The allowance for possible credit losses includes two primary components: (1) an allowance established on financial assets which share similar risk characteristics collectively evaluated for credit losses, and (2) an allowance established on financial assets which do not share similar risk characteristics with any loan segment and is individually evaluated for credit losses. The level of the allowance for possible credit losses includes quantitative and qualitative factors that comprise the Corporation's estimate of expected credit losses, including portfolio mix and segmentation, modeling methodology, historical loss experience, relevant available information from internal and external sources relating to qualitative adjustment factors, and reasonable and supportable forecasts about future economic conditions. Determining the appropriate level of the allowance for possible credit 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 credit losses. In addition, regulatory agencies periodically review the Corporation's allowance for credit losses and may require an increase in the provision for possible 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 credit losses, the Corporation will need additional provisions to increase the allowance for possible credit losses. Any increases in the allowance for possible credit 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.

If The Corporation Concludes That The Decline In Value Of Any Of Its Debt Securities Is Credit Related, The Corporation is Required To Write Down The Value Of That Security Through A Charge To Earnings

The Corporation reviews the debt 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 debt securities has declined below its carrying value, the Corporation is required to assess whether the decline is related to credit deterioration. If it concludes that the decline is credit related, it is required to write down the value of that security through a charge to earnings. In determining whether a credit loss exists, management shall consider the factors in paragraphs 326-30-55-1 through 55-4 of ASU 2016-13 and use its best estimate of the present value of cash flows expected to be collected from the debt security. Management must use its best estimate to determine if a credit loss exists. It may develop its best estimate using either a singular best estimate approach or a probability-weighted approach, but must apply the chosen approach consistently. Management has elected to use the single best estimate method. If the present value of the best estimate is equal to amortized cost, no credit loss calculation needs to be made. If the present value is below amortized cost, the entity must measure the credit loss using the best estimate of cash flows. Due to the complexity of the calculations and assumptions used in determining whether a credit loss exists, the credit loss, if any, may not accurately reflect the actual credit loss in the future.

The Basel III Capital Requirements Or Other Regulatory Standards 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.

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 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 Communications, Information and Technology Systems May Experience An Interruption Or Breach In Security

The Corporation relies heavily on communications, information and technology 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 communications, information and technology 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 or ameliorate certain financial 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 communications, information and technology 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 and technology systems. While the Corporation maintains insurance coverage that may, subject to policy terms and conditions including significant self-insured deductibles, cover or ameliorate certain financial aspects of cyber risks, such insurance coverage may be insufficient to cover all or a material amount of 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 Corporation Uses Artificial Intelligence (AI) In Its Business, And Challenges With Properly Managing Its Use Could Result In Disruption Of The Corporation's Internal Operations, Reputational Harm, Competitive Harm, Legal Liability And Adversely Affect Our Results Of Operations And Stock Price.

The Corporation incorporates AI solutions into platforms that deliver products and services to our customers, including solutions developed by third parties whose AI is integrated into our products and services. Our business could be harmed and we may be exposed to legal liability and reputational risk if the AI we use is or is alleged to be deficient, inaccurate, or biased because the AI algorithms are flawed, insufficient, of poor quality, or reflect unwanted forms of bias, particularly if third party AI integrated with our platforms produces false or "hallucinatory" inferences.

Data practices by us or others that result in controversy could impair the acceptance of AI, which could undermine the decisions, predictions, or analysis that AI applications produce. Our customers and potential customers may express adverse opinions concerning our use of AI and machine learning that could result in brand or reputational harm, competitive harm, or legal liability. If the Corporation adopts the use of Generative AI, its content creation may require additional investment as testing for bias, accuracy and unintended, harmful impact is often complex and may be costly. As a result, the Corporation may need to increase the cost of our products and services which may make us less competitive, particularly if our competitors incorporate AI more quickly or successfully.

Governmental bodies have implemented laws and are considering further regulation of AI (including machine learning), which could negatively impact our ability to use and develop AI. The Corporation is unable to predict how application of existing laws, including federal and state privacy and data protection laws, and adoption of new laws and regulations applicable to AI will affect us but it is likely that compliance with such laws and regulations will increase our compliance costs and such increase may be substantial and adversely affect our results of operations. Furthermore, our use of Generative AI and other forms of AI may expose us to risks relating to intellectual property ownership and licensing rights, including copyright of Generative AI and other AI output as these issues have not been fully interpreted by federal courts or been fully addressed by federal or state legislation or regulations.

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.

Negative Developments Affecting The Banking Industry, Including Recent Bank Failures Or Concerns Regarding Liquidity, Have Eroded Customer Confidence In The Banking System And May Have A Material Adverse Effect On The Corporation.

Events impacting the banking industry, including the high-profile failure or instability of certain banking institutions, have resulted and may continue to result in general uncertainty and eroded confidence in the safety, soundness, and financial strength of the financial services sector. In particular, the bank failures highlighted the potential serious impact of a financial institution unable to meet withdrawal requests by depositors. This has resulted in a growing concern about liquidity in the banking industry, access to and volatile capital markets and reduced stock valuations for certain financial institutions. Similar future events, including additional bank failures or bank instability, could directly or indirectly adversely impact our own liquidity, access to capital markets, stock price, financial condition and results of operations. Further, these recent events may also result in: greater regulatory scrutiny and enforcement; additional and more stringent laws and regulations for the financial services industry; increased FDIC deposit insurance premiums or special FDIC assessments; and higher capital ratio requirements, which as a result could have a material negative impact and adverse effect on our 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 1C. Cybersecurity

Cybersecurity, data privacy, and data protection are critical to our business. In the ordinary course of our business, we collect and store certain confidential information such as the personal information of depositors and borrowers and information about our employees, contractors, vendors, and suppliers. We rely heavily on the secure processing, storage, and transmission of sensitive and confidential financial, personal, and other information in our computer systems and networks.

The Corporation has developed and implemented an Information Security Program based on the Cybersecurity Framework (CSF) best practices and recommendations from the National Institute of Standards and Technology (NIST), applicable regulatory guidance, and other industry standards. Components of the program include a risk assessment program to identify, assess, and mitigate cybersecurity risk; a vendor management program to address third-party cybersecurity risk; a business continuity program (BCP) to ensure continuity of operations; and an incident response program documenting cybersecurity incident response and notification procedures. The Corporation's Information Security Officer (ISO) oversees the programs and reports on their statuses to management committees including the Senior Leadership Committee, ERM Governance Committee, and Operational Risk Committees. The ISO is part of the risk management function, reporting directly to the Chief Risk Officer, who in turn, reports directly to the Board of Directors. The ISO has over twenty years of professional experience in cybersecurity, vendor management, business continuity, and incident response, and holds multiple relevant professional certifications. The ISO provides periodic updates to the Board of Directors, including a comprehensive annual report. The Information Security, Vendor Management, BCP, and Incident Response Programs are approved by the Board annually.

The ISO maintains risk assessments for critical IT systems, vendors, and processes. A third party cybersecurity risk assessment tool, as well as the FFIEC's Cybersecurity Assessment Tool (CAT) are used annually to assess these

risks. Third parties are assessed to address their risks according to service type, compliance risk, financial risk, operational risk, and security risk. The level of due diligence and ongoing monitoring that is performed is based on that assessment.

The ISO conducts training on cybersecurity risks for all new employees, and at least annually for existing employees and the Board of Directors. In addition to this training program, simulated phishing attempts are sent to employees on a regular basis to evaluate their understanding of these risks and to provide supplemental training as needed. The Corporation uses data loss prevention and web filtering software to ensure malicious data does not enter the Corporation's network, and sensitive information does not leave the network unless properly secured. Penetration tests and vulnerability scanning are performed on a regular basis. We employ an in-depth, layered, defensive strategy with respect to our products, services, and technology. We leverage people, processes, and technology to manage and maintain cybersecurity controls. We employ various preventative and detective tools designed to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats.

Access to data on the Corporation's networks is granted only if needed for job functions. The Information Security Department approves all changes to access and critical systems are subject to annual review.

An Incident Response Team that includes representatives from key areas of the Corporation meets in the event of cybersecurity incidents. This Team receives special training, including an annual tabletop exercise. The Team ensures the proper notifications are made to comply with all relevant laws, rules, regulations, and policies.

During the year ended December 31, 2023, there were no cybersecurity incidents that materially affected or are reasonably likely to materially affect the Corporation.

Item 2. Properties

As of December 31, 2023, 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, 2023, 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, 2023, there were 24,000,000 shares of common stock authorized with 5,739,114 shares issued, and 5,670,054 shares outstanding to approximately 822 shareholders.

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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.

	2023			2022		
	High	Low	Dividend	High	Low	Dividend
First quarter	\$ 16.99	\$ 13.45	\$ 0.17	\$ 22.40	\$ 21.15	\$ 0.17
Second quarter	15.00	12.45	0.17	22.40	17.67	0.17
Third quarter	14.90	12.65	0.17	18.55	16.10	0.17
Fourth quarter	15.00	12.64	0.17	18.03	16.00	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 26.0% and 31.0% for 2022 and 2023, 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, 2023.

Issuer Purchase of Equity Securities				
Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans *	Maximum Number of Shares that May Yet be Purchased Under the Plan *
October 2023	10,000	13.12	10,000	120,510
November 2023	-	-	-	120,510
December 2023	-	-	-	120,510
Total	10,000			

* 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, 2023, a total of 79,490 shares were repurchased at a total cost of \$1,357,412, for an average cost per share of \$17.07.

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 142 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, 2023, was positively impacted by a number of items resulting in solid financial results. The Corporation grew interest income rapidly during 2023 as a result of interest-earning asset growth in 2022 and 2023. The growth in 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. In conjunction with the rising rate environment, the Corporation also experienced a rapid increase in interest expense during 2023 as the cost of funds on deposits and borrowings increased dramatically. Even with the increased interest expense, net interest income still increased as interest income rose faster than interest expense. The year was also marked by lower operating income and higher operating expenses with increases primarily in salaries and benefits as well as software and technology costs.

The Corporation recorded net income of \$12,375,000 for the year ended December 31, 2023, a \$2,256,000, or 15.4% decrease from the year ended December 31, 2022. The earnings per share, basic and diluted, were \$2.19 in 2023, compared to \$2.62 in 2022, a 16.4% decrease. The decrease in the Corporation's 2023 earnings was caused primarily by a decline in non-interest income in addition to an increase in operating expenses that was partially offset by the increase in net interest income and a decrease in the provision for credit losses.

The Corporation's net interest income (NII) increased by \$3,456,000, or 6.8%, in 2023, compared to 2022. The increase in NII primarily resulted from an increase in interest and fees on loans of \$19,291,000, or 46.0%, and interest on securities available for sale of \$1,387,000, or 10.5%. Interest expense on deposits and borrowings increased by \$18,462,000, or 343.4%, in 2023 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 interest expense.

The Corporation recorded a \$520,000 provision for credit losses in 2023, compared to \$1,300,000 in 2022. The lower provision in 2023 was primarily caused by the adoption of *ASU 2016-13 Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* as of January 1, 2023. This required standard implements a methodology that reflects credit losses that are expected to occur over the remaining life of the financial asset. This new current expected credit loss model (CECL) is based on possible economic scenarios as well as qualitative factors specific to the Corporation. During 2023, the Corporation grew its loan portfolio by \$169 million. However, during the third and fourth quarters, improved economic factors resulted in a decrease in the allowance requirement resulting in a lower provision expense compared to 2022.

Non-interest income excluding security and mortgage gains increased by \$1,176,000, or 9.6%, for the year ended December 31, 2023, compared to the prior year, due primarily to higher fees earned on an off-balance sheet sweep account which had increased participation and higher balances in 2023 compared to the prior year. Mortgage gains decreased in 2023 to \$767,000, compared to \$1,302,000 in 2022. The majority of mortgage production during 2023 were adjustable rate mortgages that were generated and retained on the Corporation's balance sheet resulting in lower levels of mortgages originated for sale and lower levels of gains on mortgages sold.

ENB FINANCIAL CORP
Management's Discussion and Analysis

Additionally, the Corporation recorded pre-tax losses on debt and equity securities of \$1,496,000 during 2023, compared to gains of \$10,000 recorded in 2022. During 2023, the Corporation made the strategic decision to update a partial portfolio restructuring and sell some low-yielding securities to reinvest in higher yielding loans. During the first quarter of 2023, the Corporation sold approximately \$28.1 million of municipal bonds that had a duration of 2.85 years with a book yield of 2.96%. The loss on these sales was \$435,000 with an earn-back period of approximately six months. During the second quarter of 2023, the Corporation sold \$33.0 million of bonds: \$9.0 million of Corporate bonds, \$15.3 million of U.S. Treasury bonds, and \$8.7 million of U.S. Agency bonds. The Corporate bonds had a book yield of 5.66% with a duration of 3 months. The loss on sale from this transaction was \$24,000. The U.S. Treasury and Agency bonds resulted in a loss of \$929,000. These bonds had a book yield of 1.52% with a duration of 1.5 years. This strategic sale had an earn-back period of approximately 11 months. Proceeds from all sales were used to fund higher yielding loan growth. New loans originated in the first half of 2023, had an average rate of 6.11% with an average life of 6 years.

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,	
	2023	2022
Return on Average Assets	0.65%	0.83%
Return on Average Equity	12.03%	13.63%

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 credit losses
- Other income
- Operating expenses
- Income taxes

The following discussion analyzes each of these five components.

Net Interest Income (NII)

NII represents the largest portion of the Corporation's operating income. In 2023, NII generated 81.0% of the Corporation's revenue stream, which consists of NII and non-interest income, compared to 78.9% in 2022. This increase is a result of higher levels of interest-earning assets in 2023 compared to 2022 and lower non-interest income as a result of losses on securities, lower levels of mortgage gains, and lower levels of bank owned life insurance income. 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.

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Management's Discussion and Analysis

Net Interest Income

(DOLLARS IN THOUSANDS)

	Year ended December 31,	
	2023	2022
	\$	\$
Total interest income	77,877	55,959
Total interest expense	23,838	5,376
Net interest income	54,039	50,583
Tax equivalent adjustment	633	1,210
Net interest income (fully taxable equivalent)	54,672	51,793

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

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

NII is impacted by yields earned on assets and rates paid on liabilities. With the rapid increase in the short-term Federal Reserve rates in 2022 and 2023, 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 resulting in an inverted yield curve.

As a result of a larger balance sheet in 2023, with higher asset yields, the Corporation's NII on a tax equivalent basis increased significantly but the Corporation's margin decreased to 2.94% for year ended December 31, 2023, compared to 3.03% in 2022. Loan and investment yields were higher in 2023 due to the Fed rate increases during the year positively impacting yields on variable rate instruments and increasing the yields on new volume. However, the rate on interest-bearing liabilities increased at a faster pace resulting in the margin compression. The Corporation's NII on a tax equivalent basis in 2023 increased over 2022, by \$2,879,000, or 5.6%.

The Corporation's overall cost of funds increased dramatically during 2023 with higher core deposit interest rates as well as time deposit rates. Customer behavior changed during 2023 as well with balances moving out of non-interest bearing accounts into higher costs accounts like time deposits. The average balance and interest rates of borrowings was higher in 2023 compared to 2022, resulting in higher interest expense. 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 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.

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Management's Discussion and Analysis

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

	2023 vs. 2022		
	Increase (Decrease)		
	Due To Change In		
	Average	Interest	Net
	Balances	Rates	Increase
	\$	\$	(Decrease)
			\$
INTEREST INCOME			
Interest on deposits at other banks	(77)	795	718
Securities available for sale:			
Taxable	(1,108)	3,982	2,874
Tax-exempt	(998)	(881)	(1,879)
Total securities	(2,106)	3,101	995
Loans	11,161	8,219	19,380
Regulatory stock	141	107	248
Total interest income	9,119	12,222	21,341
INTEREST EXPENSE			
Deposits:			
Demand deposits	362	9,804	10,166
Savings deposits	(7)	239	232
Time deposits	1,120	4,498	5,618
Total deposits	1,475	14,541	16,016
Borrowings:			
Total borrowings	1,687	759	2,446
Total interest expense	3,162	15,300	18,462
NET INTEREST INCOME	5,957	(3,078)	2,879

In 2023, the Corporation's NII on an FTE basis increased by \$2,879,000, a 5.6% increase over 2022. Total interest income increased \$21,341,000, or 37.3%, while interest expense increased \$18,462,000, or 343.3%, from 2022 to 2023. The FTE interest income from the securities portfolio increased by \$995,000, or 6.9%, while loan interest income increased \$19,380,000, or 46.0%. During 2023, additional loan volume added \$11,161,000 to net interest income, and higher yields primarily due to the higher interest rate environment in 2023, caused an \$8,219,000 increase. Lower balances in the securities portfolio caused a decrease of \$2,106,000 in net interest income, while higher yields on securities caused a \$3,101,000 increase, resulting in a net increase of \$995,000.

The average balance of interest bearing liabilities increased by 18.7% during 2023, driven by the growth in deposit and borrowings balances. Deposit rates increased in 2023 causing a significant increase in interest expense. Higher interest rates contributed to \$14,541,000 of increased interest expense while higher deposit balances caused \$1,475,000 of increased expense, resulting in a total increase in interest expense of \$16,016,000.

Interest-bearing demand deposits repriced causing a large increase in interest expense due to the large quantity of accounts that were adjusted as customers chose higher yielding products. Demand deposit interest expense increased a total of \$10,166,000 in 2023, with \$9,804,000 due to higher rates, while higher balances caused an increase of \$362,000. Lower balances in savings accounts caused a decrease of \$7,000, while higher rates caused an increase of \$239,000, resulting in the net increase in interest expense of \$232,000 on savings deposits. Time deposit balances increased rapidly throughout 2023, resulting in higher interest expense of \$1,120,000, while higher rates caused an increase of \$4,498,000, resulting in a net increase of \$5,618,000.

The average balance of total borrowings increased by \$48,475,000, or 55.2%, from December 31, 2022, to December 31, 2023. The increase in total borrowings increased interest expense by \$1,687,000. Higher rates on borrowings, affected by the Fed rate increases, resulted in higher interest expense of \$759,000. The aggregate of these amounts was an increase in interest expense of \$2,446,000 related to total borrowings.

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Management's Discussion and Analysis

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.

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

	December 31,					
	2023			2022		
	Average Balance \$	Interest \$	Yield/ Rate %	Average Balance \$	Interest \$	Yield/ Rate %
ASSETS						
Interest earning assets:						
Federal funds sold and deposits at other banks	23,620	890	3.77	35,710	172	0.48
Securities available for sale:						
Taxable	373,311	12,149	3.25	419,323	9,275	2.21
Tax-exempt	159,842	3,347	2.09	202,868	5,226	2.58
Total securities (d)	533,153	15,496	2.91	622,191	14,501	2.33
Loans (a)	1,293,734	61,522	4.76	1,043,065	42,142	4.04
Regulatory stock	7,950	602	7.57	5,894	354	6.01
Total interest earning assets	1,858,457	78,510	4.23	1,706,860	57,169	3.35
Non-interest earning assets (d)	41,184			57,510		
Total assets	1,899,641			1,764,370		
LIABILITIES & STOCKHOLDERS' EQUITY						
Interest bearing liabilities:						
Demand deposits	488,008	11,950	2.45	415,749	1,784	0.43
Savings accounts	337,659	324	0.10	365,460	92	0.03
Time deposits	208,320	6,492	3.12	116,615	874	0.75
Borrowed funds	136,243	5,072	3.72	87,768	2,626	2.99
Total interest bearing liabilities	1,170,230	23,838	2.04	985,592	5,376	0.55
Non-interest bearing liabilities:						
Demand deposits	615,169			664,116		
Other	11,413			7,305		
Total liabilities	1,796,812			1,657,013		
Stockholders' equity	102,829			107,357		
Total liabilities & stockholders' equity	1,899,641			1,764,370		
Net interest income (FTE)	54,672			51,793		
Net interest spread (b)			2.19			2.80
Effect of non-interest bearing funds			0.75			0.23
Net yield on interest earning assets (c)			2.94			3.03

(a) Includes balances of non-accrual loans and the recognition of any related interest income. Average balances also include net deferred loan costs of \$2,478,000 in 2023 and \$2,239,000 in 2022. Such fees recognized through income and included in the interest amounts totaled (\$366,000) in 2023 and (\$175,000) in 2022.

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

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

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

ENB FINANCIAL CORP
Management's Discussion and Analysis

The Corporation's average balance of securities decreased by \$89.0 million, or 14.3%, in 2023 compared to 2022 and the tax equivalent yield on investments increased by 58 basis points. Despite lower balances, interest income on securities increased due to the increasing yield due to higher market rates.

Average balances on loans increased by \$250.7 million, or 24.0%, for the year ended December 31, 2023, compared to the prior year. Loan yields increased by 72 basis points for the year and loan interest income increased \$19,380,000, or 46.0% as a result of the significantly higher balances and higher yields.

The average balance of interest-bearing deposit accounts increased by \$136.2 million, or 15.2%, in 2023 compared to 2022. Interest-bearing demand deposits and time deposits increased rapidly during 2023 while the average balance of savings accounts declined as customers moved funds into higher yielding accounts. Coupled with higher average balances, the interest rate paid on deposits increased as well resulting in an increase in interest expense on deposits of \$16,016,000, or 582.4%, for the year ended December 31, 2023.

The Corporation's average balance on borrowed funds increased by \$48.5 million, or 55.2%, in 2023. 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 Bank. The additional FHLB advances were used to fund loan growth and caused average borrowings to increase year-over-year. The rate paid on borrowed funds increased by 73 basis points for 2023, compared to 2022 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 2023.

For the year ended December 31, 2023, the net interest spread decreased by 61 basis points to 2.19%, compared to 2.80% for 2022. The effect of non-interest bearing funds increased to 75 basis points from 23 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 2023 was 2.94%, compared to 3.03% for 2022.

Provision for Credit Losses

The provision for credit losses includes a provision for losses on loans, available-for-sale debt securities, and unfunded loan commitments. The provision provides for losses inherent in the financial assets as determined by a quarterly analysis and calculation of various factors related to the financial assets. The amount of the provision reflects the adjustment management determines necessary to ensure the Allowance for Credit Losses (ACL) is adequate to cover any losses inherent in the financial assets. The Corporation recorded a provision expense of \$315,000 for credit losses related to loans, \$205,000 for unfunded commitments, and \$0 related to available-for-sale debt securities for the year ended December 31, 2023, compared to \$1,300,000 related to loans for the year ended December 31, 2022. The provision expense was lower in 2023 due to the Corporation's adoption of ASU 2016-13 which requires a reliance on forward economic indicators to project expected credit losses. Improved economic conditions in the third and fourth quarters of 2023 resulted in a reduction in provision expense. As of December 31, 2023, the allowance as a percentage of total loans was 1.12%, compared to 1.19% at December 31, 2022.

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

Other Income

Other income for 2023 was \$12,699,000, a decrease of \$865,000, or 6.4%, compared to the \$13,564,000 earned in 2022. The following table details the categories that comprise other income.

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OTHER INCOME

(DOLLARS IN THOUSANDS)

	2023 vs. 2022			
	2023	2022	Increase (Decrease)	
	\$	\$	\$	%
Trust and investment services	2,883	2,643	240	9.1
Service charges on deposit accounts	1,378	1,348	30	2.2
Other fees	3,368	1,590	1,778	111.8
Commissions	3,618	3,663	(45)	(1.2)
Net (losses) gains on debt and equity securities	(1,496)	10	(1,506)	(15,060.0)
Gains on sale of mortgages	767	1,302	(535)	(41.1)
Earnings on bank-owned life insurance	958	1,583	(625)	(39.5)
Other miscellaneous income	1,223	1,425	(202)	(14.2)
Total other income	12,699	13,564	(865)	(6.4)

Trust and investment services income increased by 9.1% from 2022 to 2023 primarily as a result of higher income on the trust services side which increased by \$366,000, or 21.7%. Service charges on deposit accounts increased by \$30,000, or 2.2% compared to the prior year and other fees increased by \$1,778,000, or 111.8% as a result of higher fees on a third party sweep product in 2023. The Corporation sets rates on this sweep product and retains a certain percentage of this rate which is recorded as other income. Commissions remained stable for the year ended December 31, 2023, compared to 2022. Gains on debt and equity securities were lower in 2023 driven by the strategic sale of some investments in order to fund much higher yielding loan growth. The losses on these securities will be recovered in fewer than twelve months due to the disparity in rate between the investments and newly issued loans at much higher rates. Mortgage gains were lower in 2023, by \$535,000, or 41.1%, due to rapid increases in interest rates which negatively impacted the margins on mortgages sold. Additionally, more mortgage originations in 2023 were in the form of adjustable-rate mortgages held on the Corporation's balance sheet as opposed to 2022 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 (BOLI) decreased by \$625,000, or 39.5%, year-over-year primarily attributed to two BOLI payouts in the fourth quarter of 2022 that were not replicated in 2023. The Corporation purchased and is the beneficiary of all BOLI 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 \$202,000, or 14.2% in 2023 compared to 2022 due to non-recurring income items in 2022.

Operating Expenses

Operating expenses for 2023 were \$51,407,000, an increase of \$5,478,000, or 11.9%, compared to \$45,929,000 in 2022. 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)

	2023 vs. 2022			
	2023	2022	Increase (Decrease)	
	\$	\$	\$	%
Salaries and employee benefits	30,152	27,324	2,828	10.3
Occupancy expenses	3,259	2,846	413	14.5
Equipment expenses	1,302	1,240	62	5.0
Advertising & marketing expenses	1,404	1,083	321	29.6
Computer software & data processing expenses	6,891	5,591	1,300	23.3
Shares tax	1,167	1,380	(213)	(15.4)
Professional services	3,198	2,743	455	16.6
Other operating expenses	4,034	3,722	312	8.4
Total operating expenses	51,407	45,929	5,478	11.9

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Salaries and employee benefits are the largest category of operating expenses. For the year 2023, salaries and benefits increased \$2,828,000, or 10.3%, compared to 2022. 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. Occupancy and equipment expenses combined increased 11.6%, from the prior year mostly due to higher depreciation costs related to new facilities and equipment and increased lease expenses. Advertising and marketing expenses increased by \$321,000, or 29.6%, as a result of higher levels of advertising costs as the Corporation markets to new prospects in newer markets as well as promotes various products and services. Computer software and data processing expenses are growing at a rapid pace, 23.3% 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 system conversions the Corporation implemented in 2023. Shares tax expense is based on the Corporation's level of shareholders' equity from the prior year and has decreased by 15.4%, year-over-year commensurate with the decline in shareholders' equity from 2021 to 2022. Professional services expenses increased by 16.6% in 2023, compared to the prior year driven higher by an increase in outside services costs primarily related to project management costs related to system conversions. Other operating expenses increased by 8.4% year-over-year primarily as a result of higher FDIC insurance costs and higher expenses due to fraud-related charge-offs.

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, 2023, the Corporation recorded a tax provision of \$2,436,000, compared to \$2,287,000 for 2022. This increase in tax expense can be attributed to lower levels of tax-free income. The effective tax rate for the Corporation was 16.4% for 2023 and 13.5% for 2022. 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

The Corporation maintains 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, 2023, cash and equivalents amounted to \$89.0 million, an increase of \$51.4 million, or 136.9%, from balances at December 31, 2022. 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 securities, and increases in deposit accounts. As of December 31, 2023, we had borrowings outstanding from the FHLB of \$101.2 million and subordinated debt of \$39.6 million.

At December 31, 2023, the Corporation had \$614.5 million in loan commitments outstanding, which included \$91.5 million in firm loan commitments, \$504.7 million in unused lines of credit, and open letters of credit of \$18.3 million. Certificates of deposit due within one year totaled \$247.2 million, or 82.3% 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 \$30.1 million and \$21.6 million for the years ended December 31, 2023 and 2022, respectively. Net cash used for investing activities was \$90.3 million and \$315.8 million in fiscal years 2023 and 2022, respectively, reflecting our loan and investment security activities in the respective periods. Cash provided by financing activities amounted to \$111.6 million and \$173.3 million for years ended December 31, 2023 and 2022, 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, 2023, the Corporation had \$469.0 million of debt and equity securities, compared to \$538.3 million at December 31, 2022, a decrease of \$69.2 million, or 12.9%.

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 decreased by \$14.5 million, or 44.4%, since December 31, 2022. 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 \$7.2 million, or 29.2%, since December 31, 2022. The decreases have been due to bond sales throughout the year as part of the portfolio restructuring. Agency MBS and CMO investments in total have declined by \$12.8 million, or 17.6%. 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, 2023, this sector stood at \$56.2 million, an increase of \$5.9 million year over year. There were not concentrations of issuers greater than 10% of the securities portfolio.

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The Corporation's asset-backed securities (ABS) decreased since December 31, 2022, by \$7.9 million, or 10.8%. ABS securities are floating rate student loan pools which are instruments that perform well in a rates-up environment and offset the interest rate risk of the longer fixed-rate municipal bonds. These securities provide a variable rate return 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 2023 and the decrease in market interest rates in the fourth quarter of 2023 caused the unrealized losses on these bonds to decrease. As a result, the fair value of this sector declined by \$18.4 million, or 8.9% from December 31, 2022, to December 31, 2023. Municipal bonds represented 40.8% of the debt securities portfolio as of December 31, 2023, compared to 38.9% as of December 31, 2022. The largest geographical concentrations as of December 31, 2023, were obligations of states and political subdivisions located in the states of Pennsylvania and California.

As of December 31, 2023, the fair value of the Corporation's corporate bonds decreased by \$14.6 million, or 21.0%, from balances at December 31, 2022. 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 during 2023.

The following table presents investment securities at December 31, 2023 by maturity, and the weighted average yield for each maturity presented. Actual maturities may differ from contractual maturities because of prepayment or call options embedded in the securities. The yields presented are calculated using tax-equivalent interest and the amortized cost.

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	-	-	19,869	1.35	-	-	-	-	19,869	1.35
U.S. government agencies	-	-	19,400	0.78	-	0.00	-	-	19,400	0.78
U.S. agency mortgage-backed securities	192	1.32	24,703	2.00	18,457	3.41	401	2.96	43,753	2.60
U.S. agency collateralized mortgage obligations	1,797	2.44	19,299	1.84	745	2.03	-	-	21,841	1.90
Non Agency MBS/CMO	13,640	5.67	18,037	6.27	26,064	3.61	1,540	4.90	59,281	4.93
Asset-backed securities	4,007	5.97	25,678	6.43	36,706	6.09	-	-	66,391	6.21
Corporate bonds	3,162	2.47	42,311	1.77	15,649	3.89	-	-	61,122	2.35
Obligations of states and political subdivisions	1,161	1.27	31,607	2.38	134,608	1.97	44,024	2.24	211,400	2.08
Total securities available for sale	23,959	4.81	200,904	2.76	232,229	3.05	45,965	2.34	503,057	2.95

Loans

Net loans outstanding increased \$167.9 million, or 14.3%, from \$1.18 billion at December 31, 2022, to \$1.34 billion at December 31, 2023. All loan categories showed an increase in balances over the prior period. The Corporation's strategic plan specifically focused on loan growth while maintaining quality of credit standards. This focus resulted in significant loan growth across all loan segments in 2023.

Agriculture loans increased to \$257.3 million at December 31, 2023, from \$238.7 million at January 1, 2023, a 7.8% increase. Business loans increased by \$17.9 million at December 31, 2023 from \$336.3 million at January 1, 2023, or 5.3%.

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Consumer loans not secured by real estate represent a very small portion of the Corporation's loan portfolio, at \$6.4 million as of December 31, 2023 and \$5.9 million as of January 1, 2023. These loans consist of personal loans, automobile loans, and other consumer-related loans. Home Equity loans increased by \$8.3 million at December 31, 2023 from \$98.9 million at January 1, 2023, or 8.4%. Non-Owner Occupied CRE loans increased by \$23.8 million at December 31, 2023 from \$111.3 million at January 1, 2023, or 21.4%.

The Residential Real Estate category represents the largest group of loans for the Corporation. The Residential Real Estate category of total loans increased from \$397.3 million on January 1, 2023, to \$497.6 million on December 31, 2023, a 25.2% 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. The majority of mortgage production during 2023 were adjustable rate mortgages that were generated and retained on the Corporation's balance sheet resulting in lower levels of mortgages originated for sale and lower levels of gains on mortgages sold.

The following tables show the maturities for the loan portfolio as of December 31, 2023, 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 \$
Agriculture	1,573	34,823	77,711	143,266	257,372
Business Loans	7,804	98,148	107,785	140,515	354,252
Consumer	1,545	4,695	152	-	6,392
Home Equity	355	5,434	27,624	73,763	107,176
Non-Owner Occupied CRE	5,112	10,903	47,778	71,324	135,117
Residential Real Estate	13,971	7,856	51,018	424,708	497,553
Total amount due	30,360	161,859	312,068	853,576	1,357,862

FIXED AND FLOATING RATE LOANS DUE AFTER ONE YEAR

(DOLLARS IN THOUSANDS)

	Fixed Rates \$	Floating or Adjustable Rates \$	Total \$
Agriculture	19,058	236,741	255,799
Business Loans	98,150	248,298	346,448
Consumer Loans	3,363	1,484	4,847
Home Equity	30,808	76,013	106,821
Non-Owner Occupied CRE	20,442	109,563	130,005
Residential Real Estate	149,977	333,605	483,582
Total amount due	321,798	1,005,704	1,327,502

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, \$321.8 million, or 24.2%, are fixed-rate loans as of December 31, 2023. These loans will not reprice to a higher or lower interest rate unless they mature or are refinanced by the borrower. The remaining \$1,005.7 million, or 75.8% 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.

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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
- Other real estate owned

NON-PERFORMING ASSETS

(DOLLARS IN THOUSANDS)

	December 31,	
	2023	2022
	\$	\$
Non-accrual loans	2,758	4,178
Loans past due 90 days or more and still accruing	519	169
Total non-performing loans	3,277	4,347
Other real estate owned	-	-
Total non-performing assets	3,277	4,347
Non-accrual loans to total loans	0.20%	0.35%
Non-performing loans to total loans	0.24%	0.36%
Allowance for credit losses to total loans	1.12%	1.19%
Allowance for credit losses to non-accrual loans	550.25%	338.70%
Allowance for credit losses to non-performing loans	463.11%	325.53%

Non-performing assets decreased by \$1,070,000, or 24.6%, from December 31, 2022, to December 31, 2023, primarily due to three unrelated non-accrual loans that paid off during the year. As of December 31, 2023, there were twelve loans to ten unrelated borrowers totaling \$2,758,000 on non-accrual compared to twelve loans to ten unrelated borrowers totaling \$4,178,000 as of December 31, 2022. The largest non-accrual relationship at December 31, 2023, was a commercial mortgage to a single borrower with a balance of \$801,000.

Loans past due 90 days or more and still accruing increased by \$350,000, or 207.1%, during 2023 partially offsetting the decrease in non-accrual loans. This increase was primarily the result of a residential mortgage loan for \$356,000 that was past due by more than 90 days as of the end of 2023. There were only a total of four loans that reached the 90 days past due level which is a very small number of loans.

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 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, 2023 and 2022, 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.

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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 credit 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 for credit 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.

The Net Charge-Off table below shows the net charge-offs for each segment of the Corporation's loan portfolio as of December 31, 2023.

Net Charge-Offs
(DOLLARS IN THOUSANDS)

	<u>2023</u> <u>\$</u>
Loans charged-off:	
Agriculture	-
Business Loans	-
Consumer Loans	64
Home Equity	-
Non-Owner Occupied CRE	-
Residential Real Estate	-
Total loans charged-off	<u>64</u>
Recoveries of loans previously charged-off	
Agriculture	71
Business Loans	11
Consumer Loans	4
Home Equity	-
Non-Owner Occupied CRE	-
Residential Real Estate	8
Total recoveries	<u>94</u>
Net charge-offs (recoveries)	-
Agriculture	(71)
Business Loans	(11)
Consumer Loans	60
Home Equity	-
Non-Owner Occupied CRE	-
Residential Real Estate	(8)
Total net charge-offs (recoveries)	<u>(30)</u>
Average loans outstanding	
Agriculture	246,124
Business Loans	347,473
Consumer Loans	5,011
Home Equity	102,895
Non-Owner Occupied CRE	125,042
Residential Real Estate	455,199
Total average loans outstanding	<u>1,281,744</u>
Net charge-offs (recoveries) as a % of average loans outstanding	
Agriculture	(0.03%)
Business Loans	0.00%
Consumer Loans	1.20%
Home Equity	0.00%
Non-Owner Occupied CRE	0.00%
Residential Real Estate	0.00%
Total net charge-offs (recoveries) as a % of average loans outstanding	<u>0.00%</u>

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The Net Charge-Off table below shows the net charge-offs for each segment of the Corporation's loan portfolio as of December 31, 2022.

Net Charge-Offs

(DOLLARS IN THOUSANDS)

	2022 \$
Loans charged-off:	
Commercial real estate	84
Consumer real estate	-
Commercial and industrial	44
Consumer	19
Total loans charged-off	<u>147</u>
Recoveries of loans previously charged-off	
Commercial real estate	10
Consumer real estate	10
Commercial and industrial	42
Consumer	5
Total recoveries	<u>67</u>
Net charge-offs (recoveries)	
Commercial real estate	74
Consumer real estate	(10)
Commercial and industrial	2
Consumer	14
Total net charge-offs (recoveries)	<u>80</u>
Average loans outstanding	
Commercial real estate	435,738
Consumer real estate	416,824
Commercial and industrial	184,483
Consumer	6,020
Total average loans outstanding	<u>1,043,065</u>
Net charge-offs (recoveries) as a % of average loans outstanding	
Commercial real estate	0.02%
Consumer real estate	0.00%
Commercial and industrial	0.00%
Consumer	0.23%
Total net charge-offs (recoveries) as a % of average loans outstanding	<u>0.01%</u>

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The following table provides the allocation of the Corporation's allowance for credit losses by major loan classifications. In connection with the adoption of ASU 2016-13, the Corporation made changes to the loan portfolio segments to align with the methodology applied in determining the allowance under CECL. Refer to Note C Loans and Allowance for Credit Losses for further discussion of these portfolio segments. The new segmentation consists of: Agriculture, Business Loans, Consumer Loans, Home Equity, Non-Owner Occupied Commercial Real Estate, and Residential Real Estate.

The percentage of loans indicates the percentage of the loan portfolio represented by the indicated loan type as of December 31, 2023.

ALLOCATION OF RESERVE
(DOLLARS IN THOUSANDS)

	December 31, 2023	
	\$	% of Loans
Agriculture	3,106	19.0
Business Loans	2,684	26.1
Consumer Loans	355	0.5
Home Equity	2,341	7.9
Non-Owner Occupied CRE	818	10.0
Residential Real Estate	5,872	36.5
Total allowance for credit losses	15,176	100.0

As of December 31, 2023, Residential Real Estate loans represent 36.5% of total loans with 38.7% of the allowance covering these loans. Business Loans represent 26.1% of total loans with 17.7% of the allowance covering these loans. Agriculture Loans represent 19.0% of total loans with 20.5% of the allowance covering these loans. Non-Owner Occupied CRE represents 10.0% of total loans with 5.4% of the allowance covering these loans. Home Equity Loans represent 7.9% of total loans with 15.4% of the allowance covering these 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 percentage of loans indicates the percentage of the loan portfolio represented by the indicated loan type as of December 31, 2022.

ALLOCATION OF RESERVE
(DOLLARS IN THOUSANDS)

	December 31, 2022	
	\$	% of Loans
Commercial real estate	6,074	43.7
Consumer real estate	5,442	43.8
Commercial and industrial	2,151	12.0
Consumer	67	0.5
Unallocated	417	-
Total allowance for loan losses	14,151	100.0

Deposits

The Corporation's total ending deposits at December 31, 2023, increased by \$87.8 million, or 5.4%, from December 31, 2022. Customer deposits are the Corporation's primary source of funding for loans and securities. Deposit balances grew rapidly in 2022 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 2023, the Corporation grew deposits at a slower pace due to the rapidly rising rate environment and the financial/product options available to customers.

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The Deposits by Major Classification table, shown below, provides the average balances of each category for December 31, 2023 and December 31, 2022.

DEPOSITS BY MAJOR CLASSIFICATION
(DOLLARS IN THOUSANDS)

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

	December 31,			
	2023		2022	
	\$	%	\$	%
Non-interest bearing demand	615,169	-	664,116	-
Interest-bearing demand	214,100	4.12	117,123	1.24
NOW accounts	110,652	0.34	131,613	0.05
Money market deposit accounts	163,256	1.69	167,013	0.16
Savings accounts	337,659	0.10	365,460	0.03
Time deposits	208,320	3.12	116,615	0.75
Total deposits	1,649,156		1,561,940	

The average balance of the Corporation's core deposits decreased by \$4.5 million, or 0.3%, from December 31, 2022, to December 31, 2023. Non-interest bearing demand accounts decreased by \$48.9 million, or 7.4%, and are the Corporation's cheapest source of funding for balance sheet growth. Interest-bearing demand accounts grew by \$97.0 million, or 82.8%, as a result of participating in the reciprocal program for an off-balance sheet sweep product. Money market account average balances decreased by \$3.8 million, or 2.2%, and savings accounts decreased by \$27.8 million, or 7.6%, from December 31, 2022, to December 31, 2023. 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 2023, time deposits grew significantly, by \$91.7 million, or 78.6%, compared to average balances at December 31, 2022.

As of December 31, 2023, time deposits of \$250,000 or more made up 17.7% of the total time deposits. This compares to 7.2% on December 31, 2022. The total dollar amount of time deposits of \$250,000 or more increased \$49,446,000, or 510.5%, from December 31, 2022 to December 31, 2023. Since time deposits of \$250,000 or more 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.

MATURITY OF TIME DEPOSITS OF \$250,000 OR MORE
(DOLLARS IN THOUSANDS)

	December 31,	
	2023	2022
	\$	\$
Three months or less	6,359	1,940
Over three months through six months	23,297	517
Over six months through twelve months	14,013	877
Over twelve months	15,462	6,351
Total	59,131	9,685

As of December 31, 2023 and 2022, the total uninsured deposits of the Corporation were approximately \$226,771,000 and \$380,064,000, or 13.1% and 23.2% of total deposits, 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 \$140.8 million as of December 31, 2023, and \$113.4 million as of December 31, 2022. The Corporation had no short-term borrowings at December 31, 2023, and had \$16.0 million in short-term borrowings at December 31, 2022. Long-term borrowings with the Federal Home Loan Bank (FHLB) increased to \$101.2 million as of December 31, 2023, from \$58.0 million as of December 31, 2022. 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, 2023, all the borrowings of FHLB were fixed-rate loans. The Corporation continues to be well under the FHLB maximum borrowing capacity which is \$687.7 million as of December 31, 2023.

In addition to the long-term advances funded through the FHLB, the Corporation previously 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, 2023, \$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.

ENB FINANCIAL CORP
Management's Discussion and Analysis

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

REGULATORY CAPITAL RATIOS:

		Regulatory Requirements	
		Adequately	Well
As of December 31, 2023	Capital Ratios	Capitalized	Capitalized
Total Capital to Risk-Weighted Assets			
Consolidated	14.8%	N/A	N/A
Bank	14.4%	8.0%	10.0%
Tier 1 Capital to Risk-Weighted Assets			
Consolidated	10.9%	N/A	N/A
Bank	13.3%	6.0%	8.0%
Common Equity Tier 1 Capital to Risk-Weighted Assets			
Consolidated	10.9%	N/A	N/A
Bank	13.3%	4.5%	6.5%
Tier 1 Capital to Average Assets			
Consolidated	7.7%	N/A	N/A
Bank	9.4%	4.0%	5.0%
As of December 31, 2022			
Total Capital to Risk-Weighted Assets			
Consolidated	15.0%	N/A	N/A
Bank	14.5%	8.0%	10.0%
Tier I Capital to Risk-Weighted Assets			
Consolidated	10.9%	N/A	N/A
Bank	13.4%	6.0%	8.0%
Common Equity Tier I Capital to Risk-Weighted Assets			
Consolidated	10.9%	N/A	N/A
Bank	13.4%	4.5%	6.5%
Tier I Capital to Average Assets			
Consolidated	7.6%	N/A	N/A
Bank	9.3%	4.0%	5.0%

As of December 31, 2023 the Bank's Tier 1 Leverage Ratio stood at 9.4% while the Corporation's Tier 1 Leverage Ratio was 7.7%. 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. However, the changes in investment unrealized gains and losses do impact tangible capital on the balance sheet on an ongoing basis and was adversely impacted by the dramatic increase in market interest rates during 2022 and 2023.

ENB FINANCIAL CORP
Management's Discussion and Analysis

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, 2023, and shows the future periods in which settlement of the obligations is expected. The contractual obligation numbers below do not include accrued interest. Refer to Note O to the Consolidated Financial Statements referenced in the table for additional details regarding these obligations.

CONTRACTUAL OBLIGATIONS

(DOLLARS IN THOUSANDS)

	Less than 1 year \$	1-3 years \$	4-5 years \$	More than 5 years \$	Total \$
Time deposits (Note F)	249,641	59,959	24,100	-	333,700
Borrowings (Notes G and H)	17,406	63,982	59,396	-	140,784
Operating Leases (Note Q)	457	585	461	1,278	2,781
Total contractual obligations	267,504	124,526	83,957	1,278	477,265

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, 2023. 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, 2023 \$
Commitments to extend credit:	
Revolving home equity loans	218,462
Construction loans	33,789
Real estate loans	107,563
Business loans	229,137
Consumer loans	1,451
Other	5,767
Standby letters of credit	18,339
Total	614,508

ENB FINANCIAL CORP
Management's Discussion and Analysis

Critical Accounting Policies

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

Allowance for Credit Losses

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

Sensitivity Analysis

The below table indicates the impact to the allowance for credit losses on loans if the factors described below were adjusted in the Corporation's CECL model as of December 31, 2023.

	Increase/(Decrease) (\$)	Adjustment Factor
Economic Forecast	(2,381)	If S1 forecasts were used instead of weighted upside/downside/baseline scenarios
Economic Forecast	(476)	If Baseline forecasts were used instead of weighted upside/downside/baseline scenarios
Economic Forecast	944	If 40/30/30 weighted scenarios were used for baseline/S1/S3
Economic Forecast	6,163	If S3 forecasts were used instead of weighted upside/downside/baseline scenarios

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 an advantageous 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 relatively stable for the Corporation throughout 2023. The Corporation's assets are fairly long, with relatively low levels of cash and cash equivalents. Meanwhile the Corporation's core deposit liabilities continue to model as long liabilities, with the complement of shorter term time deposits increasing significantly during 2023.

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, 2023, the Corporation had higher cash levels than at December 31, 2022. 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, 2023, 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	202,480	128,935	419,308	372,718	847,570
Liabilities maturing	432,901	111,375	141,676	213,848	843,793
Maturity gap	(230,421)	17,560	277,632	158,870	3,777
Cumulative maturity gap	(230,421)	(212,861)	64,771	223,641	227,418
Maturity gap %	46.8%	115.8%	296.0%	174.3%	100.4%
Cumulative maturity gap %	46.8%	60.9%	109.4%	124.9%	113.0%

As of December 31, 2023, cumulative maturity gap ratios were on the low side for up to a year indicating that there are more liabilities maturing in the short time frames than assets. For the six-month time frame, the gap ratio was 46.8% and for the one-year cumulative gap, the ratio was 60.9%. For one year to three years, the cumulative gap was 109.4%, representing a higher level of asset maturities versus liabilities. For the three to five-year time frame, the cumulative gap was 124.9%, and for the over five-year time frame, the cumulative gap was 113.0%. 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 faster than assets. Management anticipates higher deposit and borrowings costs with limited savings on the liability side later in 2024 should the Fed start to move rates down. Higher liability costs will result primarily from deposits continuing to reprice to higher rates and shifting from lower cost accounts to higher cost accounts. 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 2024, 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 decreases is high in the latter part of 2024, driven by economic factors.

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, 2023, 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 ratio is lower due to the unrealized losses experienced on the investment portfolio due to the rapid increase in interest rates in 2022 and 2023.

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

Interest Rate Risk and Fair Value Risk

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

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

The Corporation's asset liability model is able to perform dynamic forecasting based on a wide range of assumptions provided. The model is flexible and can be used for many types of financial projections. The Corporation uses financial modeling to forecast balance sheet growth and earnings. The results obtained through the use of forecasting models are based on a variety of factors. Both earnings and balance sheet forecasts make use of maturity and repricing schedules to determine the changes to the Corporation's balance sheet over the course of time. Additionally, there are many assumptions that factor into the results. These assumptions include, but are not limited to:

- Projected interest rates

ENB FINANCIAL CORP
Management's Discussion and Analysis

- 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, 2023, and December 31, 2022. 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.

CHANGES IN NET INTEREST INCOME

	2023 Percentage Change	2022 Percentage Change	Policy Guidelines %
300 basis point rise	(7.0)	(6.8)	(20.00)
200 basis point rise	(3.8)	(4.1)	(16.00)
100 basis point rise	(1.6)	(1.6)	(12.00)
Base rate scenario	-	-	-
100 basis point decline	(3.2)	0.4	(12.00)
200 basis point decline	(3.0)	(2.6)	(16.00)
300 basis point decline	(3.3)	-	(20.00)

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, 2023, the above analysis shows a negative impact to the Corporation's net interest income in all rate scenarios. In the past two years, 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.

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In all rates-up scenarios, modeled net interest income compared very similar to the results as of December 31, 2022. 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 years prior to 2022 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 (NPV)

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, 2023 and December 31, 2022. 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, 2023, the Corporation was within guidelines for all up-rate scenarios but was outside of guidelines for the down-300 basis point rate scenario. The positive impact of higher rates on both loans and securities was down from December 31, 2022. 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. 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 2022 when rates were extremely low and the Corporation's deposits grew at a very fast pace. In 2023, 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, 2023 and 2022.

CHANGES IN NET PORTFOLIO VALUE

	2023 Percentage Change	2022 Percentage Change	Policy Guidelines %
300 basis point rise	5.0	11.0	(30.00)
200 basis point rise	6.0	10.0	(25.00)
100 basis point rise	5.0	7.0	(20.00)
Base rate scenario	-	-	-
100 basis point decline	(9.0)	(11.0)	(20.00)
200 basis point decline	(24.0)	(29.0)	(25.00)
300 basis point decline	(46.0)		(30.00)

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.

ENB FINANCIAL CORP
Management's Discussion and Analysis

The results as of December 31, 2023, indicate that the Corporation's net portfolio value would experience valuation gains in all up-rate scenarios with a gain of 5.0% in the rates-up 300 basis point scenario, and gains of 6.0% and 5.0%, 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 300 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 74) _____	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, 2023 and 2022; the related consolidated statements of income, comprehensive income (loss), 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, 2023 and 2022, 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.

Change in Accounting Principle

As discussed in Note A to the financial statements, the Company changed its method of accounting for credit losses effective January 1, 2023, due to the adoption of Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses*.

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.

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



Basis for Opinion (Continued)

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the Audit Committee and that: (1) relate to accounts or disclosures that are material to the financial statements; and (2) 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 Credit Losses (ACL)

Description of the Matter

The Company's loan portfolio totaled \$1.4 billion as of December 31, 2023, and the associated ACL was \$15.2 million. As discussed in Note A and C to the consolidated financial statements, estimating an appropriate allowance for credit losses requires management to make certain assumptions about expected losses on loans in the loan portfolio over their remaining contractual life as of the balance sheet date. The allowance for credit losses is measured on a collective pool basis when similar risk characteristics exist. Loans that do not share similar risk characteristics are evaluated on an individual basis, at the balance sheet date. The measurement of expected credit losses on collectively evaluated loans is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the amortized cost basis. Management applies 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 procedures, terms and volume of the loan portfolio, experience, ability, and depth of management, volume and severity of problem credits, quality and oversight of the credit review system, changes in the underlying value of collateral, concentrations of credit, and external factors.

We identified these qualitative adjustments within the ACL as critical audit matters because they involve a high degree of subjectivity. While the determination of these qualitative adjustments includes analysis of observable data over the historical loss period, the judgments required to assess the directionality and magnitude of adjustments is highly subjective. Auditing these complex judgments and assumptions involved especially challenging auditor judgment due to the nature of audit evidence and the nature and extent of effort required to address these matters.

How We Addressed the Matter in Our Audit

The primary procedures we performed to address this critical audit matter included:

- Testing the design, implementation, and operating effectiveness of internal controls over the calculation of the allowance for credit losses, including the qualitative factor adjustments.



Allowance for Credit Losses (ACL) – Qualitative Factors (Continued)

How We Addressed the Matter in Our Audit (Continued)

- Testing the completeness and accuracy of the data inputs used by management as a basis for the qualitative factors by agreeing them to internal and external data sources.
- Testing management's process and evaluating the reasonableness of their inputs and assumptions by evaluating the reasonableness of the qualitative factor adjustments, including the magnitude and directional consistency of the adjustments.

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

S.R. Snodgrass P.C.

King of Prussia, Pennsylvania
March 22, 2024

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2023 \$	December 31, 2022 \$
ASSETS		
Cash and due from banks	29,519	28,935
Interest-bearing deposits in other banks	59,477	8,637
	88,996	37,572
Total cash and cash equivalents	88,996	37,572
Securities available for sale (at fair value, net of allowance for credit losses of \$0)	459,569	529,142
Equity securities (at fair value)	9,451	9,118
Loans held for sale	352	5,927
Loans (net of unearned income)	1,360,078	1,191,117
Less: Allowance for credit losses	15,176	14,151
Net loans	1,344,902	1,176,966
Premises and equipment	25,284	25,333
Regulatory stock	8,540	6,670
Bank owned life insurance	35,632	34,805
Other assets	28,098	33,183
Total assets	2,000,824	1,858,716
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing	611,968	672,342
Interest-bearing	1,114,830	966,616
Total deposits	1,726,798	1,638,958
Short-term debt	-	16,000
Long-term debt	101,228	58,039
Subordinated debt	39,556	39,396
Other liabilities	13,588	8,988
Total liabilities	1,881,170	1,761,381
Stockholders' equity:		
Common stock, par value \$0.10		
Shares: Authorized 24,000,000		
Issued 5,739,114 and Outstanding 5,670,054 as of 12/31/23		
and 5,635,533 as of 12/31/22	574	574
Capital surplus	4,072	4,437
Retained earnings	150,596	142,677
Accumulated other comprehensive loss, net of tax	(34,355)	(48,292)
Less: Treasury stock cost on 69,060 shares as of 12/31/23 and		
103,581 shares as of 12/31/22	(1,233)	(2,061)
Total stockholders' equity	119,654	97,335
Total liabilities and stockholders' equity	2,000,824	1,858,716

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

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

	Year Ended December 31,	
	2023	2022
	\$	\$
Interest and dividend income:		
Interest and fees on loans	61,235	41,944
Interest on securities available for sale		
Taxable	11,648	9,048
Tax-exempt	3,001	4,214
Interest on deposits at other banks	890	172
Dividend income	1,103	581
Total interest and dividend income	77,877	55,959
Interest expense:		
Interest on deposits	18,766	2,750
Interest on borrowings	5,072	2,626
Total interest expense	23,838	5,376
Net interest income	54,039	50,583
Provision for credit losses	520	1,300
Net interest income after provision for credit losses	53,519	49,283
Other income:		
Trust and investment services income	2,883	2,643
Service fees	4,746	2,938
Commissions	3,618	3,663
(Losses) gains on sale of debt securities, net	(1,371)	42
Losses on equity securities, net	(125)	(32)
Gains on sale of mortgages	767	1,302
Earnings on bank-owned life insurance	958	1,583
Other income	1,223	1,425
Total other income	12,699	13,564
Operating expenses:		
Salaries and employee benefits	30,152	27,324
Occupancy	3,259	2,846
Equipment	1,302	1,240
Advertising & marketing	1,404	1,083
Computer software & data processing	6,891	5,591
Shares tax	1,167	1,380
Professional services	3,198	2,743
Other expense	4,034	3,722
Total operating expenses	51,407	45,929
Income before income taxes	14,811	16,918
Provision for federal income taxes	2,436	2,287
Net income	12,375	14,631
Earnings per share of common stock (basic and diluted)	2.19	2.62
Cash dividends paid per share	0.68	0.68
Weighted average shares outstanding	5,644,486	5,588,656

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2023	2022
	\$	\$
Net income	12,375	14,631
Other comprehensive income (loss), net of tax:		
Net change in unrealized gains (losses):		
Securities available for sale not other-than-temporarily impaired:		
Unrealized gains (losses) arising during the period	16,271	(65,443)
Income tax effect	(3,417)	13,743
	12,854	(51,700)
Losses (gains) recognized in earnings	1,371	(42)
Income tax effect	(288)	9
	1,083	(33)
Other comprehensive income (loss), net of tax	13,937	(51,733)
Comprehensive Income (Loss)	26,312	(37,102)

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, 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
Cumulative effect of adoption of ASU 2016-13	-	-	(619)	-	-	(619)
Net income	-	-	12,375	-	-	12,375
Other comprehensive income, net of tax	-	-	-	13,937	-	13,937
Stock-based compensation expense	-	62	-	-	-	62
Treasury stock purchased - 40,134 shares	-	-	-	-	(572)	(572)
Treasury stock issued - 74,655 shares	-	(427)	-	-	1,400	973
Cash dividends paid, \$0.68 per share	-	-	(3,837)	-	-	(3,837)
Balances, December 31, 2023	574	4,072	150,596	(34,355)	(1,233)	119,654

See Notes to the Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2023	2022
	\$	\$
Cash flows from operating activities:		
Net income	12,375	14,631
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization of securities premiums and discounts and loan fees	4,689	5,233
Increase in interest receivable	(459)	(1,403)
Increase in interest payable	1,606	346
Provision for credit losses	520	1,300
Loss (gain) on sale of debt securities, net	1,371	(42)
Loss on equity securities, net	125	32
Gain on sale of mortgages	(767)	(1,302)
Loans originated for sale	(31,532)	(30,160)
Proceeds from sales of loans	37,874	28,729
Earnings on bank-owned life insurance	(958)	(1,583)
Depreciation of premises and equipment and amortization of software	2,004	1,629
Deferred income tax	168	(65)
Amortization of deferred fees on subordinated debt	160	116
Stock-based compensation expense	62	11
Other assets and other liabilities, net	2,909	4,144
Net cash provided by operating activities	30,147	21,616
Cash flows from investing activities:		
Securities available for sale:		
Proceeds from maturities, calls, and repayments	31,865	53,714
Proceeds from sales	61,089	28,590
Purchases	(11,433)	(123,854)
Equity securities:		
Proceeds from sales	-	151
Purchases	(458)	(319)
Purchase of regulatory bank stock	(3,001)	(1,982)
Redemptions of regulatory bank stock	1,131	692
Proceeds from bank-owned life insurance	2,078	-
Net increase in loans	(169,502)	(270,468)
Purchases of premises and equipment, net	(1,552)	(2,192)
Purchase of computer software	(533)	(141)
Net cash used for investing activities	(90,316)	(315,809)
Cash flows from financing activities:		
Net (decrease) increase in demand, NOW, and savings accounts	(112,033)	106,852
Net increase in time deposits	199,873	19,893
Proceeds from short-term debt	-	16,000
Repayments of short-term debt	(16,000)	-
Proceeds from long-term debt	57,005	13,833
Repayments of long-term debt	(13,816)	-
Proceeds from issuance of subordinated debt	-	19,600
Dividends paid	(3,837)	(3,810)
Proceeds from sale of treasury stock	973	1,064
Treasury stock purchased	(572)	(116)
Net cash provided by financing activities	111,593	173,316
Increase (decrease) in cash and cash equivalents	51,424	(120,877)
Cash and cash equivalents at beginning of period	37,572	158,449
Cash and cash equivalents at end of period	88,996	37,572
Supplemental disclosures of cash flow information:		
Interest paid	22,232	5,030
Income taxes paid	2,000	1,900
Supplemental disclosure of non-cash investing and financing activities:		
Fair value adjustments for securities available for sale	(17,642)	65,485
Recognition of lease operating right-of-use asset:	-	2,811
Recognition of operating lease liability:	-	2,811
Death benefits receivable on BOLI	2,083	2,075

See Notes to the Consolidated Financial Statements

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

ENB Financial Corp, (“the Corporation”) 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, are evaluated regularly by management. Actual results could differ from the reported estimates given different conditions or assumptions. Certain items previously reported have been reclassified to conform to the current period’s reporting format. Such reclassifications did not affect net income or stockholders’ equity.

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.

Accounting Pronouncements Adopted in 2023

In June 2016, the FASB issued ASU No. 2016-13, “*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*” and subsequent related updates. This ASU replaces the incurred loss methodology for recognizing credit losses and requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets measured at amortized cost, including loans and held-to-maturity securities, net investments in leases, off-balance sheet credit exposures such as unfunded commitments, and other financial instruments. In addition, ASC 326 requires credit losses on available-for-sale debt securities to be presented as an allowance rather than as a write-down when management does not intend to sell or believes that it is not more likely than not they will be required to sell. This guidance became effective on January 1, 2023 for the Corporation. The results reported for periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

The Corporation adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans, available-for-sale debt securities and unfunded commitments. On January 1, 2023, the Corporation recorded a cumulative effect decrease to retained earnings of \$619,000, net of tax, of which \$537,000 related to loans, \$82,000 related to unfunded commitments, and \$0 related to available-for-sale securities.

The Corporation has elected to exclude accrued interest receivable from the measurement of its allowance for credit losses (ACL). When a loan is placed on nonaccrual status, any outstanding accrued interest is reversed against interest income.

The Corporation adopted the provisions of ASC 326 related to presenting other-than-temporary impairment on available-for-sale debt securities prior to January 1, 2023, using the prospective transition approach, though no such charges had been recorded on the securities held by the Corporation as of the date of adoption.

In connection with the adoption of ASU 2016-13, the Corporation made changes to the loan portfolio segments to align with the methodology applied in determining the allowance under CECL. Refer to Note C Loans and Allowance for Credit Losses for further discussion of these portfolio segments.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

The new segmentation consists of: Agriculture, Business Loans, Consumer Loans, Home Equity, Non-Owner Occupied Commercial Real Estate, and Residential Real Estate.

The impact of the change from the incurred loss model to the current expected credit loss model and the reclassification of loans for the identification of new portfolio loan segments under CECL is detailed below (in thousands).

	Pre-adoption	January 1, 2023 Adoption Impact	As Reported
	\$	\$	\$
Assets			
ACL on debt securities available for sale	-	-	-
ACL on loans			
Commercial Real Estate	6,074	(6,074)	-
Consumer Real Estate	5,442	(5,442)	-
Commercial and Industrial	2,151	(2,151)	-
Consumer	67	183	250
Agriculture	-	3,537	3,537
Business Loans	-	3,382	3,382
Home Equity	-	2,129	2,129
Non-Owner Occupied CRE	-	875	875
Residential Real Estate	-	4,658	4,658
Unallocated	417	(417)	-
	14,151	680	14,831
Liabilities			
ACL for unfunded commitments	1,017	103	1,120
	\$ 15,168	\$ 783	\$ 15,951

Concurrently, on January 1, 2023, the Corporation adopted ASU 2022-02, “Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures”, the effective date of the guidance, on a prospective basis. ASU 2022-02 eliminated the accounting guidance for TDRs by creditors, while enhancing disclosure requirements for certain loan refinancing and restructuring activities by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying TDR recognition and measurement guidance, creditors will determine whether a modification results in a new loan or continuation of existing loan. Additionally, ASU 2022-02 requires an entity to disclose current-period gross write-offs by year of origination for financing receivables within the scope of Subtopic 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost.

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.

Investment Securities

Management classifies its debt securities at the time of purchase as available for sale (AFS) or held to maturity (HTM). At December 31, 2023 and 2022, all debt securities were classified as AFS, meaning that the Corporation intends to hold them for an indefinite period of time, but not necessarily to maturity. AFS debt securities are stated at estimated fair value, adjusted for amortization of premiums and accretion of discounts which are recognized as adjustments of interest income through call date or maturity. The related unrealized gains and losses are reported as other comprehensive income or loss, net of tax, until realized.

Allowance for Credit Losses- Available for Sale securities

The Corporation is required to conduct a credit loss evaluation on AFS securities to determine whether the Corporation has the intent to sell the security or it is more likely than not that it will be required to sell the security before recovery. If these situations apply, the guidance requires the Corporation to reduce the security's amortized cost basis down to its fair value through earnings. The Corporation also evaluates the unrealized losses on AFS securities to determine if a security's decline in fair value below its amortized cost basis is due to credit factors. The evaluation is based upon factors such as the creditworthiness of the underlying borrowers, performance of the

underlying collateral, if applicable, and the level of credit support in the security structure. Management also evaluates other factors and circumstances that may be indicative of a decline in the fair value of the security due to a credit factor. This includes, but is not limited to, an evaluation of the type of security, and extent to which the fair value has been less than amortized cost, and near-term prospects of the issuer. If this assessment indicates that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. Under ASU 2016-13, if the present value of the cash flows expected to be collected is less than the amortized cost, an allowance for credit losses (ACL) is recorded, which is limited by the amount that the fair value is less than the amortized cost. Any additional amount of loss would be due to non-credit factors and is recorded in accumulated other comprehensive income (AOCI), net of tax. If a credit loss is recognized in earnings, subsequent improvements to the expectation of collectability will be recognized through the ACL. If the fair value of the security increases above its amortized cost, the unrealized gain will be recorded in AOCI, net of tax, on the consolidated statements of financial condition.

Equity Securities

Equity securities include common stocks of public companies and a Community Reinvestment Act-qualified mutual fund 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”)

The Bank adopted ASU No. 2016-13 effective January 1, 2023. Financial statement amounts related to *Investment Securities* recorded as of December 31, 2022 and for the periods ending December 31, 2022 are presented in accordance with the accounting policies described in the following sections. The following sections were carried forward from the Annual Report on Form 10-K for the year ended December 31, 2022.

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-Loans

The allowance for credit losses (ACL) is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers historical loss experience, current conditions, and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Corporation measures the ACL using the following methods. Historical credit loss experience is the basis for the estimation of expected credit losses. The Corporation applies historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Reasonable and supportable forecast adjustment is based on the unemployment forecast, BBB Rated Corporate Bond Spread, GDP Growth, Retail Sales, Asset Prices, and Management Judgement. The reasonable and supportable period is the life of the loan as credit loss models used produce reasonable estimates of losses over the life of the loan. The qualitative adjustments for current conditions are based upon changes in lending policies and procedures, loan portfolio trends, lending management experience, asset quality, loan review, underlying collateral, credit concentrations, and external factors. These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve.

The Corporation has elected to exclude accrued interest receivable from the measurement of its ACL. When a loan is placed on non-accrual status, any outstanding accrued interest is reversed against interest income.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore, should be individually assessed. We evaluate all commercial loans that meet the following criteria: 1) when it is determined that foreclosure is probable, 2) substandard, doubtful and nonperforming loans when repayment is expected to be provided substantially through the operation or sale of the collateral, 3) when it is determined by management that a loan does not share similar risk characteristics with other loans. Specific reserves are established based on the following three acceptable methods for measuring the ACL: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral when the loan is collateral dependent. Our individual loan evaluations consist primarily of the fair value of collateral method because most of our loans are collateral dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the loan balance.

In terms of the Corporation's loan portfolio, Consumer loans are deemed to have the most risk and therefore carry a higher qualitative adjustment than other portfolio segments. These loans are highly dependent on their financial condition and therefore are more dependent on economic conditions. Business loans are considered to have more risk than the Agriculture, Home Equity, and Residential Real Estate loans as these loans have accounted for higher levels of charge-offs. The Corporation's Non-Owner Occupied CRE portfolio has performed well historically with no losses in the look-back period. Overall, the Corporation has historically experienced very low levels of delinquencies, non-accrual loans, and charge-offs. Qualitative factors are set and adjusted accordingly.

Allowance for Credit Losses-Loans – Prior to the Adoption of ASU 2016-13

Prior to the adoption of *ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, the Bank calculated our ALL using an incurred loan loss methodology. The following policy related to the ALL in prior periods.

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.

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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.

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.

Non-Accrual Loans

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 \$1,325,000 as of December 31, 2023, and \$1,017,000 as of December 31, 2022. 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. 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, 2023, or December 31, 2022.

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 \$2,151,000 of MSRs as of December 31, 2023, compared to \$2,030,000 as of December 31, 2022. The value of MSRs increased during 2023 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. 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, 2023 and 2022.

	December 31,	
	2023	2022
	\$	\$
Beginning Balance	2,030	1,768
Additions	247	344
Amortization	(64)	(22)
Disposals	(62)	(60)
Ending Balance	2,151	2,030

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 Corporation, (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank-Owned Life Insurance (BOLI)

BOLI is carried by the Corporation at the cash surrender value of the underlying policies. Income earned on the policies is based on any increase in cash surrender value less the cost of the insurance, which varies according to age and health of the insured. The life insurance policies owned by the Corporation had a cash surrender value of \$35,632,000 and \$34,805,000 as of December 31, 2023, and 2022, respectively.

Leases

The Corporation 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 Corporation may also lease certain office equipment under operating leases. Many of the Corporation's leases include both lease (e.g., minimum rent payments) and non-lease components (e.g., common-area or other maintenance costs). The Corporation 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 Corporation 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 Corporation 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 Corporation 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 Corporation 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 March 2023, the FASB issued ASU 2023-02, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. ASU 2023-02 permits reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. ASU 2023-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2023. This Update is not expected to have a significant impact on the Corporation's financial statements.

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (TOPIC 280): Improvements to Reportable Segment Disclosures*, which requires public entities to disclose information about their reportable segments' significant expenses on an interim and annual basis. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted.

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Public entities are required to adopt the changes retrospectively, recasting each prior-period disclosure for which a comparative income statement is presented in the period of adoption. This Update is not expected to have a significant impact on the Corporation's financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes Taxes (Topic 740): Improvements to Income Tax Disclosures*, which provides for improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. This guidance is effective for public business entities for annual period beginning after December 15, 2024. This Update is not expected to have a significant impact on the Corporation's financial statements.

NOTE B - SECURITIES

(DOLLARS IN THOUSANDS)

DEBT SECURITIES

The amortized cost, gross unrealized gains and losses, estimated fair value, and allowance for credit losses of investment securities held at December 31, 2023 are as follows:

	Amortized Cost \$	Gross Unrealized Gains \$	Gross Unrealized Losses \$	Allowance for Credit Losses \$	Fair Value \$
December 31, 2023					
U. S. Treasuries	19,869	-	(1,710)	-	18,159
U.S. government agencies	19,400	-	(1,862)	-	17,538
U.S. agency mortgage-backed securities	43,753	-	(3,597)	-	40,156
U.S. agency collateralized mortgage obligations	21,841	-	(2,004)	-	19,837
Non-agency MBS/CMO	59,281	22	(3,116)	-	56,187
Asset-backed securities	66,391	20	(1,106)	-	65,305
Corporate bonds	61,122	-	(6,118)	-	55,004
Obligations of states and political subdivisions	211,400	1	(24,018)	-	187,383
Total securities available for sale	503,057	43	(43,531)	-	459,569

The amortized cost, gross unrealized gains and losses, and estimated fair value of investment securities held at December 31, 2022, 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

The amortized cost and fair value of debt securities available for sale at December 31, 2023, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities due to certain call or prepayment provisions.

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CONTRACTUAL MATURITY OF DEBT SECURITIES
(DOLLARS IN THOUSANDS)

	Amortized Cost \$	Fair Value \$
Due in one year or less	4,351	4,280
Due after one year through five years	103,985	95,621
Due after five years through ten years	67,391	57,942
Due after ten years	327,330	301,726
Total debt securities	503,057	459,569

Securities available for sale with a par value of \$117,525,000 and \$116,179,000 at December 31, 2023 and 2022, 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 \$109,651,000 at December 31, 2023, and \$107,071,000 at December 31, 2022.

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	
	2023	2022
	\$	\$
Proceeds from sales	61,089	28,590
Gross realized gains	4	191
Gross realized losses	1,375	149

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Notes to Consolidated Financial Statements

Information pertaining to securities with gross unrealized losses for which an allowance for credit losses has not been recorded at December 31, 2023, and December 31, 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

UNREALIZED LOSSES 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
	\$	\$	\$	\$	\$	\$
As of December 31, 2023						
U.S. Treasuries	-	-	18,159	(1,710)	18,159	(1,710)
U.S. government agencies	-	-	17,538	(1,862)	17,538	(1,862)
U.S. agency mortgage-backed securities	-	-	40,147	(3,597)	40,147	(3,597)
U.S. agency collateralized mortgage obligations	-	-	19,837	(2,004)	19,837	(2,004)
Non-Agency MBS/CMO	11,189	(119)	41,966	(2,997)	53,155	(3,116)
Asset-backed securities	2,661	(47)	57,049	(1,059)	59,710	(1,106)
Corporate bonds	-	-	55,004	(6,118)	55,004	(6,118)
Obligations of states & political subdivisions	-	-	186,819	(24,018)	186,819	(24,018)
Total unrealized losses	13,850	(166)	436,519	(43,365)	450,369	(43,531)
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 unrealized losses	254,255	(20,231)	258,687	(40,934)	512,942	(61,165)

In the debt security portfolio, there are 319 positions carrying unrealized losses as of December 31, 2023. There were no instruments with current expected credit losses at December 31, 2023.

The Corporation evaluates fixed income positions for current expected credit loss at least on a quarterly basis, and more frequently when economic and market concerns warrant such evaluation. The Corporation does not intend to sell the securities in an unrealized loss position and is unlikely to be required to sell these securities before a recovery of fair value, which may be maturity. The Corporation concluded that the decline in fair value of these securities was not indicative of a credit loss. No securities in the portfolio required an allowance for credit losses to be recorded during the year ended December 31, 2023, and no impairment was recorded during the year ended December 31, 2022.

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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, 2023 and December 31, 2022.

(DOLLARS IN THOUSANDS)	Amortized Cost \$	Gross Unrealized Gains \$	Gross Unrealized Losses \$	Fair Value \$
December 31, 2023				
CRA-qualified mutual funds	7,734	-	-	7,734
Bank stocks	1,754	144	(181)	1,717
Total equity securities	<u>9,488</u>	<u>144</u>	<u>(181)</u>	<u>9,451</u>

(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>

The following table presents the net gains and losses on the Corporation's equity investments recognized in earnings during the year ended December 31, 2023 and 2022, and the portion of unrealized gains and losses for the periods that relates to equity investments held as of December 31, 2023 and 2022.

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

	Year Ended December 31, 2023 \$	Year Ended December 31, 2022 \$
Net gains (losses) recognized in equity securities during the period	(125)	(32)
Less: Net gains realized on the sale of equity securities during the period	-	(52)
Unrealized gains (losses) recognized in equity securities held at reporting date	<u>(125)</u>	<u>(84)</u>

There were no proceeds from the sale of equity securities during 2023 and \$151,000 during 2022.

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Notes to Consolidated Financial Statements

NOTE C - LOANS AND ALLOWANCE FOR CREDIT LOSSES

The following table presents the Corporation's loan portfolio by category of loans as of December 31, 2023 (in thousands):

	December 31, 2023 \$
Agriculture	257,372
Business Loans	354,252
Consumer	6,392
Home Equity	107,176
Non-Owner Occupied Commercial Real Estate	135,117
Residential Real Estate (a)	497,553
Gross loans prior to deferred costs	1,357,862
Deferred loan costs, net	2,216
Allowance for credit losses	(15,176)
Total net loans (b)	1,344,902

- (a) Real estate loans serviced for others, which are not included in the Consolidated Balance Sheets, totaled \$301,822,000 as of December 31, 2023.
- (b) Refer to Note A, Accounting Pronouncements Adopted in 2023 for details of reclassification of the portfolio segments related to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

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The following table presents the Corporation's loan portfolio, prior to the adoption of ASC 326, by category of loans and the impact of the change from the adoption of the standard (in thousands):

	December 31, 2022	Adoption Impact	Post Adoption January, 1 2023
	\$	\$	\$
Agriculture	-	238,734	238,734
Business Loans	-	336,340	336,340
Home Equity	-	98,854	98,854
Non-Owner Occupied CRE	-	111,333	111,333
Residential Real Estate (a)	-	397,260	397,260
Commercial real estate			
Commercial mortgages	210,823	(210,823)	-
Agriculture mortgages	221,167	(221,167)	-
Construction	86,793	(86,793)	-
Total commercial real estate	518,783	(518,783)	-
Consumer real estate (a)			
1-4 family residential mortgages	410,301	(410,301)	-
Home equity loans	11,937	(11,937)	-
Home equity lines of credit	98,349	(98,349)	-
Total consumer real estate	520,587	(520,587)	-
Commercial and industrial			
Commercial and industrial	87,528	(87,528)	-
Tax-free loans	28,664	(28,664)	-
Agriculture loans	27,122	(27,122)	-
Total commercial and industrial	143,314	(143,314)	-
Consumer	5,769	163	5,932
Gross loans prior to deferred fees	1,188,453	-	1,188,453
Deferred loan costs, net	2,664		
Allowance for credit losses	(14,151)		
Total net loans	1,176,966		

(a) Real estate loans serviced for others, which are not included in the Consolidated Balance Sheets, totaled \$298,375,000 as of December 31, 2022.

Credit Quality Indicators

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, 2023 and 2022. The grading analysis estimates the capability of the borrower to repay the contractual obligations under the loan agreements as scheduled or at all. The Corporation's internal commercial credit risk grading system is based on experiences with similarly graded loans.

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

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

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Based on the most recent analysis performed, the following table presents the recorded investment by internal risk rating system for Commercial Credit exposure as of December 31, 2023 in accordance with ASC 326 (in thousands):

	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
December 31, 2023									
Agriculture									
Risk Rating									
Pass	\$ 47,599	\$ 41,741	\$ 49,276	\$ 18,699	\$ 14,793	\$ 58,459	\$ 21,157	\$ -	\$ 251,724
Special Mention	60	9	96	697	170	1,136	204	-	2,372
Substandard	-	-	424	719	361	1,772	-	-	3,276
Doubtful	-	-	-	-	-	-	-	-	-
Total	<u>\$ 47,659</u>	<u>\$ 41,750</u>	<u>\$ 49,796</u>	<u>\$ 20,115</u>	<u>\$ 15,324</u>	<u>\$ 61,367</u>	<u>\$ 21,361</u>	<u>\$ -</u>	<u>\$ 257,372</u>
Agriculture									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business Loans									
Risk Rating									
Pass	\$ 43,670	\$ 102,419	\$ 64,030	\$ 36,675	\$ 17,785	\$ 45,583	\$ 37,269	\$ -	\$ 347,431
Special Mention	-	43	426	-	-	270	100	-	839
Substandard	3,152	1,369	-	263	-	838	360	-	5,982
Doubtful	-	-	-	-	-	-	-	-	-
Total	<u>\$ 46,822</u>	<u>\$ 103,831</u>	<u>\$ 64,456</u>	<u>\$ 36,938</u>	<u>\$ 17,785</u>	<u>\$ 46,691</u>	<u>\$ 37,729</u>	<u>\$ -</u>	<u>\$ 354,252</u>
Business Loans									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-Owner Occupied CRE									
Risk Rating									
Pass	\$ 26,757	\$ 43,976	\$ 27,377	\$ 12,849	\$ 7,705	\$ 12,397	\$ 375	\$ -	\$ 131,436
Special Mention	392	639	-	-	-	37	-	-	1,068
Substandard	-	-	-	-	2,312	301	-	-	2,613
Doubtful	-	-	-	-	-	-	-	-	-
Total	<u>\$ 27,149</u>	<u>\$ 44,615</u>	<u>\$ 27,377</u>	<u>\$ 12,849</u>	<u>\$ 10,017</u>	<u>\$ 12,735</u>	<u>\$ 375</u>	<u>\$ -</u>	<u>\$ 135,117</u>
Non-Owner Occupied CRE									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total									
Risk Rating									
Pass	\$ 118,026	\$ 188,136	\$ 140,683	\$ 68,223	\$ 40,283	\$ 116,439	\$ 58,801	\$ -	\$ 730,591
Special Mention	452	691	522	697	170	1,443	304	-	4,279
Substandard	3,152	1,369	424	982	2,673	2,911	360	-	11,871
Doubtful	-	-	-	-	-	-	-	-	-
Total (a)	<u>\$ 121,630</u>	<u>\$ 190,196</u>	<u>\$ 141,629</u>	<u>\$ 69,902</u>	<u>\$ 43,126</u>	<u>\$ 120,793</u>	<u>\$ 59,465</u>	<u>\$ -</u>	<u>\$ 746,741</u>

(a) Refer to Note A, Accounting Pronouncements Adopted in 2023 for details of reclassification of the portfolio segments related to adoption of ASU 2016-13 Financial Instruments - Credit (Topic 326): Measurement of Credit Losses on Financial Instruments.

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Notes to Consolidated Financial Statements

The following table presents the recorded investment in loans by internal risk rating system for Commercial Credit Exposure as of December 31, 2022 in accordance with ASC 310 (in thousands):

December 31, 2022	Commercial						Total
	Commercial Mortgages	Agriculture Mortgages	Construction	Commercial and Industrial	Tax-free Loans	Agriculture Loans	
	\$	\$	\$	\$	\$	\$	\$
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

For consumer loans, the Corporation evaluates credit quality based on whether the loan is considered performing or non-performing. Non-performing loans consist of those loans greater than 90 days delinquent and nonaccrual loans. 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.

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The following table presents the balances of consumer loans by classes of the loan portfolio based on payment performance as of December 31, 2023 in accordance with ASC 326 (in thousands):

	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	2020	2019	Prior			
Consumer									
Payment Performance									
Performing	\$ 3,251	\$ 1,085	\$ 351	\$ 176	\$ 31	\$ 3	\$ 1,482	\$ -	\$ 6,379
Nonperforming	-	13	-	-	-	-	-	-	13
Total	<u>\$ 3,251</u>	<u>\$ 1,098</u>	<u>\$ 351</u>	<u>\$ 176</u>	<u>\$ 31</u>	<u>\$ 3</u>	<u>\$ 1,482</u>	<u>\$ -</u>	<u>\$ 6,392</u>
Consumer									
Current period gross charge-offs	\$ -	\$ 40	\$ 17	\$ 1	\$ 1	\$ 6	\$ -	\$ -	\$ 65
Home equity									
Payment Performance									
Performing	\$ 7,086	\$ 18,476	\$ 1,049	\$ 564	\$ 529	\$ 1,847	\$ 76,076	1,399	107,026
Nonperforming	-	-	-	-	-	-	150	-	150
Total	<u>\$ 7,086</u>	<u>\$ 18,476</u>	<u>\$ 1,049</u>	<u>\$ 564</u>	<u>\$ 529</u>	<u>\$ 1,847</u>	<u>\$ 76,226</u>	<u>\$ 1,399</u>	<u>\$ 107,176</u>
Home equity									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Real Estate									
Payment Performance									
Performing	\$ 123,368	\$ 148,835	\$ 105,283	\$ 43,961	\$ 31,514	\$ 44,236	\$ -	\$ -	\$ 497,197
Nonperforming	-	-	356	-	-	-	-	-	356
Total	<u>\$ 123,368</u>	<u>\$ 148,835</u>	<u>\$ 105,639</u>	<u>\$ 43,961</u>	<u>\$ 31,514</u>	<u>\$ 44,236</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 497,553</u>
Residential Real Estate									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total									
Payment Performance									
Performing	\$ 133,705	\$ 168,396	\$ 106,683	\$ 44,701	\$ 32,074	\$ 46,086	\$ 77,558	\$ 1,399	\$ 610,602
Nonperforming	-	13	356	-	-	-	150	-	519
Total (a)	<u>\$ 133,705</u>	<u>\$ 168,409</u>	<u>\$ 107,039</u>	<u>\$ 44,701</u>	<u>\$ 32,074</u>	<u>\$ 46,086</u>	<u>\$ 77,708</u>	<u>\$ 1,399</u>	<u>\$ 611,121</u>

(a) Refer to Note A, Accounting Pronouncements Adopted in 2023 for details of reclassification of the portfolio segments related to adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

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Notes to Consolidated Financial Statements

The following table presents the balances of consumer loans by classes of the loan portfolio based on payment performance as of December 31, 2022 in accordance with ASC 310 (in thousands):

CONSUMER CREDIT EXPOSURE

CREDIT RISK PROFILE BY PAYMENT PERFORMANCE

(DOLLARS IN THOUSANDS)

December 31, 2022	1-4 Family Residential Mortgages	Home Equity Loans	Home Equity Lines of Credit	Consumer	Total
Payment performance:	\$	\$	\$	\$	\$
Performing	409,854	11,598	98,349	5,739	525,540
Non-performing	447	339	-	30	816
Total	410,301	11,937	98,349	5,769	526,356

Age Analysis of Past Due Loans Receivable

The following tables present an age analysis of the Corporation's past due loans, segregated by loan portfolio class, as of December 31, 2023:

	December 31, 2023					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Loans
Agriculture	\$ 257,372	\$ -	\$ -	\$ -	\$ -	\$ 257,372
Business Loans	354,008	130	-	114	244	354,252
Consumer	6,361	15	3	13	31	6,392
Home Equity	106,787	170	69	150	389	107,176
Non-Owner Occupied CRE	135,117	-	-	-	-	135,117
Residential Real Estate	495,952	1,245	-	356	1,601	497,553
Total (a)	\$ 1,355,597	\$ 1,560	\$ 72	\$ 633	\$ 2,265	\$ 1,357,862

(a) Refer to Note A, Accounting Pronouncements Adopted in 2023 for details of reclassification of the portfolio segments related to adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

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The following table presents the classes of the loan portfolio summarized by the past-due status as of December 31, 2022 (in thousands):

December 31, 2022						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Loans Receivable > 90 Days and Accruing
	\$	\$	\$	\$	\$	\$
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
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
Total	1,096	21	4,347	5,464	1,182,989	1,188,453

Nonperforming Loans

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 90 days still accruing interest as of December 31, 2023, (in thousands):

	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Total Nonperforming
Agriculture	\$ 941	\$ -	\$ 941	\$ -	\$ 941
Business Loans	1,817	-	1,817	-	1,817
Consumer Loans	-	-	-	13	13
Home Equity	-	-	-	150	150
Non-Owner Occupied CRE	-	-	-	-	-
Residential Real Estate	-	-	-	356	356
Total (a)	\$ 2,758	\$ -	\$ 2,758	\$ 519	\$ 3,277

(a) Refer to Note A, Accounting Pronouncements Adopted in 2023 for details of reclassification of the portfolio segments related to adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

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Notes to Consolidated Financial Statements

The following table presents nonaccrual loans by classes of the loan portfolio as of December 31, 2022 (in thousands):

NON-ACCRUAL LOANS BY LOAN CLASS

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

As of December 31, 2022, all of the Corporation's commercial loans on nonaccrual status were also considered impaired.

The following table presents, by class of loans, the collateral-dependent nonaccrual loans and type of collateral as of December 31, 2023 (in thousands).

	Real Estate	Other	None	Total
Agriculture	\$ 941	\$ -	\$ -	\$ 941
Business Loans	1,817	-	-	1,817
Consumer Loans	-	-	-	-
Home Equity	-	-	-	-
Non-Owner Occupied	-	-	-	-
Residential Real Estate	-	-	-	-
Total	\$ 2,758	\$ -	\$ -	\$ 2,758

Modifications to Borrowers Experiencing Financial Difficulty

The Corporation may grant a modification to borrowers in financial distress by providing a temporary reduction in interest rate, or an extension of a loan's stated maturity date. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

The Corporation identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future. There were no modifications of loans to borrowers experiencing financial difficulty during the year ended December 31, 2023.

There were no payment defaults for loans granted modifications due to a borrower experiencing financial difficulty within twelve months of the modification date, during the year ended December 31, 2023.

As described in Note 1, the Corporation adopted ASU 2022-02 on January 1, 2023, which eliminated the recognition and measurement of troubled debt restructurings (TDRs). There was one TDR as of December 31, 2022 with a balance of \$442,000.00

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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 details activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

	Beginning Balance	Impact of adopting ASC 326	Charge-offs	Recoveries	Provisions (Reductions)	Ending Balance
Allowance for credit losses:						
Commercial Real Estate	\$ 6,074	\$ (6,074)	\$ -	\$ -	\$ -	\$ -
Consumer Real Estate	5,442	(5,442)	-	-	-	-
Commercial & Industrial	2,151	(2,151)	-	-	-	-
Agriculture	-	3,537	-	71	(502)	3,106
Business Loans	-	3,382	-	11	(709)	2,684
Consumer Loans	67	183	(64)	4	165	355
Home Equity	-	2,129	-	-	212	2,341
Non-Owner Occupied CRE	-	875	-	-	(57)	818
Residential Real Estate	-	4,658	-	8	1,206	5,872
Unallocated	417	(417)	-	-	-	-
Total (a)	\$ 14,151	\$ 680	\$ (64)	\$ 94	\$ 315	\$ 15,176

(a) Refer to Note A, Accounting Pronouncements Adopted in 2023 for details of reclassification of the portfolio segments related to adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.

During the year ended December 31, 2023, management charged off \$64,000 in loans while recovering \$94,000 and added \$315,000 to the provision for credit losses related to loans and added \$205,000 to the provision for off-balance sheet credit exposure for a combined provision of \$520,000.

The ACL is maintained at a level determined to be adequate to absorb estimated expected credit losses within the loan portfolio over the contractual life of an instrument that considers historical loss experience, current conditions, and forecasts of future economic conditions as of the balance sheet date. The Corporation develops and documents a systematic ACL methodology based on the following portfolio segments: Agriculture, Business Loans, Consumer Loans, Home Equity, Non-Owner Occupied CRE, and Residential Real Estate. The following are key risks within each portfolio segment:

Agriculture – Loans made to individuals or operating companies within the Agricultural industry. These loans are generally secured by a first lien mortgage on agricultural land. The primary source of repayment is the income and assets of the borrower. The condition of the agriculture industry as well as the condition of the national economy is an important indicator of risk for this segment.

Business Loans —Loans made to operating companies or manufacturers for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing. The primary source of repayment for these loans is cash flow from the operations of the company. The condition of the national economy is an important indicator of risk, but there are also more specific risks depending on the industry of the company. This segment also includes loans made to finance construction of buildings or other structures, as well as to finance the acquisition and development of raw land for various purposes. While the risk of these loans is generally confined to the construction period, if there are problems, the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal. The condition of the national economy is an important indicator of risk, but there are also more specific risks depending on the type of project and the experience and resources of the developer.

Consumer - Loans made to individuals that may be secured by assets other than 1-4 family residences, as well as unsecured loans. This segment includes personal loans and lines of credit that may be secured or unsecured. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the national economy, in particular the unemployment rate, is an important indicator of risk for this segment. The value of the collateral, if there is any, is less likely to be a source of repayment due to less certain collateral values.

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Home Equity— This segment generally includes lines of credit and term loans secured by the equity in the borrower's residence. The primary source of repayment for these facilities is the income and assets of the borrower. The condition of the national economy, in particular the unemployment rate, is an important indicator of risk for this segment. The state of the national housing market can also have a significant impact on this segment because low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

Non-Owner Occupied CRE - Loans secured by commercial purpose real estate for various purposes such as hotels, retail, multifamily and health care. The primary sources of repayment for these loans are the operations of the individual projects and global cash flows of the debtors. The condition of the national economy is an important indicator of risk, but there are also more specific risks depending on the collateral type and the business prospects of the lessee.

Residential Real Estate—Loans secured by first liens on 1-4 family residential mortgages. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the national economy, in particular the unemployment rate, is an important indicator of risk for this segment. The state of the national housing market can also have a significant impact on this segment because low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

The December 31, 2023 ending balance of the allowance for credit losses related to loans was up \$1,025,000, or 7.2%, from December 31, 2022, and the allowance as a percentage of total loans was 1.12% as of December 31, 2023, and 1.19% as of December 31, 2022.

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Notes to Consolidated Financial Statements

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

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

	Commercial Real Estate	Commercial Consumer Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
	\$	\$	\$	\$	\$	\$
Allowance for credit losses:						
Beginning balance	6,263	3,834	2,112	87	635	12,931
Charge-offs	(84)	-	(44)	(19)	-	(147)
Recoveries	10	10	42	5	-	67
Provision (credit)	(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

During the year ended December 31, 2022, management charged off \$147,000 in loans while recovering \$67,000 and added \$1,300,000 to the provision. The unallocated portion of the allowance was 2.9% of total reserves as of December 31, 2022.

During the year ended December 31, 2022, net provision expense was recorded for Consumer Real Estate and Commercial and Industrial but a credit provision was recorded for Commercial Real Estate and Consumer. The provision expense was primarily related to growth in those sectors of the loan portfolio through December 31, 2022, while the credit provision was primarily related to declining qualitative factors in several areas.

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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,	
	2023	2022
	\$	\$
Land	5,043	5,043
Buildings and improvements	32,364	30,780
Furniture and equipment	11,246	10,330
Construction in process	275	1,298
Total	48,928	47,451
Less accumulated depreciation	(23,644)	(22,118)
Premises and equipment	25,284	25,333

Depreciation expense, which is included in operating expenses, amounted to \$1,601,000 for 2023, and \$1,335,000 for 2022. 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, 2023 and 2022, 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 11 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, 2023, the Bank held \$7,360,000 in stock of the FHLB compared to \$5,552,000 as of December 31, 2022.

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 8.25% annualized on activity stock and 5.35% annualized on membership stock as of December 31, 2023. 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 \$1,143,000 of Federal Reserve Bank stock and \$37,000 of Atlantic Community Bancshares, Inc. stock, the Bank Holding Company of ACBB, as of December 31, 2023, compared to \$1,081,000 and \$37,000, respectively, as of December 31, 2022.

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Notes to Consolidated Financial Statements

NOTE F – DEPOSITS
(DOLLARS IN THOUSANDS)

Deposits by major classifications are summarized as follows:

	December 31,	
	2023	2022
	\$	\$
Non-interest bearing demand	611,968	672,342
Interest-bearing demand	214,033	164,208
NOW accounts	99,738	139,846
Money market deposit accounts	158,446	163,836
Savings accounts	308,913	364,897
Time deposits under \$250,000	274,569	124,144
Time deposits of \$250,000 or more	59,131	9,685
Total deposits	1,726,798	1,638,958

At December 31, 2023, the scheduled maturities of time deposits are as follows:

2024	249,641
2025	44,621
2026	15,338
2027	2,366
2028	21,734
Total	333,700

At December 31, 2023, the Bank held \$39,092,000 in brokered deposits compared to \$19,518,000 as of December 31, 2022.

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, 2023 and 2022:

	2023	2022
	\$	\$
Total short-term borrowings outstanding at year end	-	16,000
Average interest rate at year end	-	3.00%
Maximum outstanding at any month end	13,500	24,000
Average amount outstanding for the year	5,587	13,336
Weighted-average interest rate for the year	3.53%	2.29%

As of December 31, 2023, the Corporation had approved unsecured Federal funds lines of \$30 million. The Corporation also has the ability to borrow from the Federal Reserve through either the Discount Window or the Bank Term Funding Program (BTFP). The amount of borrowing available through the Discount Window was \$48.9 million, while the BTFP availability was \$20.0 million as of December 31, 2023. As of December 31, 2022, the Corporation had \$52.6 million in available borrowings at the Discount Window. 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, 2023, and 2022, are summarized as follows:

		December 31,			
		2023		2022	
		Weighted-Average		Weighted-Average	
		Amount	Rate	Amount	Rate
		\$	%	\$	%
FHLB fixed rate loans					
2023		-	-	13,816	2.77
2024		17,406	2.02	17,406	2.02
2025		15,984	2.16	12,984	1.47
2026		28,158	4.47	-	-
2027		16,833	4.11	13,833	4.01
2028		22,847	3.81	-	-
Total other borrowings		101,228	3.47	58,039	1.89

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 \$687.7 million as of December 31, 2023 with remaining borrowing capacity of \$583.3 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, 2023 and 2022 was as follows:

		December 31,		Rate	Issued Amount	Date Issued	Maturity
		2023	2022				
Issued by	Ranking	Carrying Amount	Carrying Amount				
		\$	\$	%	\$		
ENB Financial Corp	Subordinated (1)(2)	19,840	19,760	4.00%	20,000	12/30/20	12/30/30
ENB Financial Corp	Subordinated (1)(3)	19,716	19,636	5.75%	20,000	07/22/22	09/30/32
Total		39,556	39,396				

- (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, 2023, a total of 79,490 shares were repurchased at a total cost of \$1,357,000, for an average cost per share of \$17.07. 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 46,033 shares issued through the ESPP in 2023 with 349,886 shares issued since existence. The DRP was started in 2005 with 19,421 shares issued in 2022 and 263,044 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 5,731 shares were issued in connection with this plan in 2023 and 49,925 since existence. In 2022, there were 39,617 shares issued through the ESPP, 14,170 shares issued through the DRP, and 4,245 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 2023 and 2022 was 71,185 and 58,032, respectively.

The Corporation entered into employment agreements with a number of its key personnel. The initial term of each employment agreement is three (3) years. 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, 2023, the Corporation recorded \$62,000 of stock-based compensation expense, compared to \$11,000 for the year ended December 31, 2022. Expected future compensation expense relating to the restricted stock units is \$125,000 over the remaining vesting period.

The following is a summary of the status of the Corporation's nonvested restricted stock as of December 31, 2023, and changes therein during the year then ended:

	Number of Restricted Stock Units	Weighted-Average Grant Date Fair Value
Nonvested at December 31, 2022	11,960	16.80
Granted	1,439	\$ 13.90
Vested	3,539	16.80
Forfeited	1,340	16.80
Nonvested at December 31, 2023	8,520	\$ 16.31

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 \$22,500 for 2023 and \$20,500 for 2022, for persons under age 50, and for persons over age 50 were \$30,000 in 2023 and \$27,000 in 2022. 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 for 2023 and 2022.

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 \$330,000 in 2023 and \$305,000 in 2022. Total expenses of the plan were \$986,000 and \$941,000, for 2023 and 2022, 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 death benefit value of \$6,069,000 at December 31, 2023, and \$6,787,000 at December 31, 2022. The cash surrender value of the above policies totaled \$4,786,000 and \$5,275,000 as of December 31, 2023, and 2022, 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,			
	2023		2022	
	\$	%	\$	%
Income tax at statutory rate	3,110	21.0	3,553	21.0
Tax-exempt interest income	(885)	(6.0)	(1,052)	(6.2)
Non-deductible interest expense	376	2.5	89	0.5
Bank-owned life insurance	(174)	(1.2)	(307)	(1.8)
Other	9	0.1	4	0.0
Income tax expense	2,436	16.4	2,287	13.5

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 2020.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

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

	Year Ended December 31,	
	2023	2022
	\$	\$
Current tax expense	2,268	2,352
Deferred tax expense (benefit)	168	(65)
Income tax expense	2,436	2,287

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

	December 31,	
	2023	2022
	\$	\$
Deferred tax assets		
Allowance for credit losses	3,187	2,972
Allowance for off-balance sheet extensions of credit	278	214
Net unrealized holding losses on securities available for sale	9,132	12,837
Interest on non-accrual loans	9	10
Other	592	664
Total deferred tax assets	13,198	16,697
Deferred tax liabilities		
Premises and equipment	(1,184)	(936)
Mortgage servicing rights	(464)	(334)
Discount on investment securities	(288)	(210)
Other	(574)	(655)
Total deferred tax liabilities	(2,510)	(2,135)
Net deferred tax assets	10,688	14,562

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, 2023 and 2022, 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, 2023 and December 31, 2022, compared to regulatory levels.

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Notes to Consolidated Financial Statements

CAPITAL LEVELS
(DOLLARS IN THOUSANDS)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provision	
	\$	%	\$	%	\$	%
As of December 31, 2023						
Total Capital to Risk-Weighted Assets						
Consolidated.....	210,066	14.8	N/A	N/A	N/A	N/A
Bank.....	204,290	14.4	113,182	8.0	141,477	10.0
Tier I Capital to Risk-Weighted Assets						
Consolidated.....	154,009	10.9	N/A	N/A	N/A	N/A
Bank.....	187,790	13.3	84,886	6.0	113,182	8.0
Common Equity Tier I Capital to Risk-Weighted Assets						
Consolidated.....	154,009	10.9	N/A	N/A	N/A	N/A
Bank.....	187,790	13.3	63,665	4.5	91,960	6.5
Tier I Capital to Average Assets						
Consolidated.....	154,009	7.7	N/A	N/A	N/A	N/A
Bank.....	187,790	9.4	80,295	4.0	100,369	5.0
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

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 2024, without the approval of the OCC, of approximately \$22.6 million, plus an additional amount equal to the Corporation's net profits for 2024, 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. An analysis of the activity with respect to such aggregate loans to related parties is shown below.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

LOANS TO INSIDERS
(DOLLARS IN THOUSANDS)

	Year Ended December 31, 2023 \$	Year Ended December 31, 2022 \$
Balance, beginning of year	2,624	194
Advances	1,369	1,398
Repayments	(2,025)	(1,614)
Other changes	-	2,646
Balance, end of year	<u>1,968</u>	<u>2,624</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.

Deposits from the insiders totaled \$1,792,000 as of December 31, 2023, and \$1,417,000 as of December 31, 2022.

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, 2023, firm loan commitments totaled approximately \$91.5 million; unused lines of credit totaled \$504.7 million; and open letters of credit totaled \$18.3 million. The sum of these commitments, \$614.5 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 credit loss experience on the loan portfolio taken as a whole. Commitments to extend credit on December 31, 2022, totaled \$596.4 million, representing firm loan commitments of \$117.5 million, unused lines of credit of \$467.8 million, and open letters of credit totaling \$11.1 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, 2023, the Corporation's legal lending limit was \$30,644,000, and the Corporation's lending policy internal limit was \$22,983,000. This compared to a legal lending limit of \$28,961,000, and lending policy limit of \$21,721,000 as of December 31, 2022. As of December 31, 2023 and 2022, no lending relationships exceeded the Corporation's internal lending policy limit.

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

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 \$604.7 million, or 44.5%, of the \$1,357.9 million gross loans outstanding as of December 31, 2023. This compares to \$520.6 million, or 43.8%, of the \$1,188.5 million of gross loans outstanding as of December 31, 2022. Residential real estate consists of first mortgages and home equity loans.

The Corporation remains focused on agricultural purpose loans, of which the vast majority are real estate secured. Agricultural mortgages made up 19.0% of gross loans as of December 31, 2023, compared to 18.6% as of December 31, 2022; 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, 2023, the largest specific industry type categories were non-residential real estate investment loans of \$102.4 million, or 7.5% of gross loans, dairy cattle and milk production loans of \$90.9 million, or 6.7% of gross loans, and residential real estate investment loans with a balance of \$62.1 million, or 4.6% of gross loans.

To evaluate risk for the securities portfolio, the Corporation reviews both geographical concentration and credit ratings. The largest geographical concentrations as of December 31, 2023, were obligations of states and political subdivisions located in the states of Pennsylvania and California. Based on fair market value, the Corporation had 19% of its portfolio invested in Pennsylvania municipals and 19% in California. As of December 31, 2023, no municipal bonds were below an A credit rating.

The Corporation held \$61.1 million of corporate bonds based on amortized cost as of December 31, 2023. Out of the \$61.1 million of total corporate securities, \$57.1 million is domestic and \$4.0 million is foreign-issued debt. Most of the Corporation's foreign-issued debt is from the United Kingdom, Australia, and Switzerland. In addition, \$37.2 million, or 60.9%, 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, 2023, 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. 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.

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.

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Notes to Consolidated Financial Statements

The following table represents the Consolidated Balance Sheet classification of the Corporation's Right-of-Use (ROU) assets and lease liabilities.

Lease Consolidated Balance Sheets Classification

(Dollars in Thousands)	Classification	December 31, 2023	December 31, 2022
Lease Right-of-Use Assets			
Operating lease right-of use assets	Other Assets	\$ 2,736	\$ 3,117
Lease Liabilities			
Operating lease liabilities	Other Liabilities	\$ 2,781	\$ 3,145

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, 2023	December 31, 2022
Weighted-average remaining lease term		
Operating leases	12.2 years	12.5 years
Weighted-average discount rate		
Operating leases	2.85%	2.88%

The total rent expense for all operating leases was \$468,000 and \$326,000 for the years ended December 31, 2023 and 2022, 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, 2023 were as follows:

(Dollars in Thousands)	Operating Leases
Twelve Months Ended:	
December 31, 2024	\$ 457
December 31, 2025	346
December 31, 2026	239
December 31, 2027	228
December 31, 2028	233
Thereafter	1,818
Total Future Minimum Lease Payments	3,321
Amounts Representing Interests	(540)
Present Value of Net Future Minimum Lease Payments	\$ 2,781

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, 2023 and December 31, 2022, 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, 2023			
	Level I	Level II	Level III	Total
	\$	\$	\$	\$
U.S. Treasuries	18,159	-	-	18,159
U.S. government agencies	-	17,538	-	17,538
U.S. agency mortgage-backed securities	-	40,156	-	40,156
U. S. agency collateralized mortgage obligations	-	19,837	-	19,837
Non-agency MBS/CMO	-	56,187	-	56,187
Asset-backed securities	-	65,305	-	65,305
Corporate bonds	-	55,004	-	55,004
Obligations of states and political subdivisions	-	187,383	-	187,383
Marketable equity securities	9,451	-	-	9,451
Total securities	27,610	441,410	-	469,020

On December 31, 2023, 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, 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 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, 2023 and December 31, 2022, by level within the fair value hierarchy:

ASSETS MEASURED ON A NONRECURRING BASIS

(DOLLARS IN THOUSANDS)

	December 31, 2023			
	Level I	Level II	Level III	Total
	\$	\$	\$	\$
Assets:				
Individually analyzed Loans	-	-	3,144	3,144
	-	-	3,144	3,144

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

The Corporation had a total of \$3,144,000 of individually analyzed loans as of December 31, 2023. As of December 31, 2022, the Corporation had a total of \$4,620,000 of impaired loans with no specific allocation against these loans. The value of impaired loans is generally determined through independent appraisals of the underlying collateral.

ENB FINANCIAL CORP
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, 2023				
	Fair Value	Valuation	Unobservable	Range
	Estimate	Techniques	Input	(Weighted Avg)
Individually analyzed loans	3,144	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -20% (-20%)
			Liquidation expenses (2)	0% to -10% (-10%)
December 31, 2022				
	Fair Value	Valuation	Unobservable	Range
	Estimate	Techniques	Input	(Weighted Avg)
Impaired loans	4,620	Appraisal of collateral (1)	Appraisal adjustments (2)	0% to -20% (-20%)
			Liquidation expenses (2)	0% to -10% (-10%)

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

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

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

NOTE S - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables provide the carrying amount for each class of assets and liabilities and the fair value for certain financial instruments that are not required to be measured or reported at fair value on the Corporation's Consolidated Balance Sheets as of December 31, 2023 and December 31, 2022:

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

(DOLLARS IN THOUSANDS)

	December 31, 2023				
	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	88,996	88,996	88,996	-	-
Regulatory stock	8,540	8,540	8,540	-	-
Loans held for sale	352	352	352	-	-
Loans, net of allowance	1,344,902	1,300,300	-	-	1,300,300
Mortgage servicing assets	2,151	2,904	-	-	2,904
Accrued interest receivable	7,015	7,015	7,015	-	-
Bank owned life insurance	35,632	35,632	35,632	-	-
Financial Liabilities:					
Demand deposits	611,968	611,968	611,968	-	-
Interest-bearing demand deposits	214,033	214,033	214,033	-	-
NOW accounts	99,738	99,738	99,738	-	-
Money market deposit accounts	158,446	158,446	158,446	-	-
Savings accounts	308,913	308,913	308,913	-	-
Time deposits	333,700	331,680	-	-	331,680
Total deposits	1,726,798	1,724,778	1,393,098	-	331,680
Short-term debt					
Short-term debt	-	-	-	-	-
Long-term debt					
Long-term debt	101,228	101,509	-	-	101,509
Subordinated debt					
Subordinated debt	39,556	33,976	-	-	33,976
Accrued interest payable					
Accrued interest payable	2,203	2,203	2,203	-	-

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

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

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

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

NOTE T – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The activity in accumulated other comprehensive income (loss) for the years ended December 31, 2023 and 2022 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, 2023	<u><u>(48,292)</u></u>
Other comprehensive income before reclassifications	12,854
Amount reclassified from accumulated other comprehensive income	<u>1,083</u>
Period change	<u>13,937</u>
Balance at December 31, 2023	<u><u>(34,355)</u></u>
Balance at January 1, 2022	<u><u>3,441</u></u>
Other comprehensive loss before reclassifications	(51,700)
Amount reclassified from accumulated other comprehensive loss	<u>(33)</u>
Period change	<u>(51,733)</u>
Balance at December 31, 2022	<u><u>(48,292)</u></u>

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

(2) Amounts in parentheses indicate debits.

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

	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) For the Year Ended December 31,	
	2023 \$	2022 \$
		Affected Line Item in the Consolidated Statements of Income
Securities available for sale:		
Net securities (losses) gains reclassified into earnings	(1,371)	42 (Losses) gains on sale of debt securities, net
Related income tax benefit (expense)	<u>288</u>	<u>(9) Provision for federal income taxes</u>
Net effect on accumulated other comprehensive income (loss) for the period	<u>(1,083)</u>	33
Total reclassifications for the period	<u><u>(1,083)</u></u>	<u>33</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,	
	2023	2022
	\$	\$
Assets		
Cash	2,969	4,601
Equity securities	1,717	1,773
Equity in bank subsidiary	153,434	129,615
Other assets	1,100	768
Total assets	159,220	136,757
Liabilities		
Subordinated debt	39,556	39,396
Other Liabilities	10	26
Total Liabilities	39,566	39,422
Stockholders' Equity		
Common stock	574	574
Capital surplus	4,072	4,437
Retained earnings	150,596	142,677
Accumulated other loss, net of tax	(34,355)	(48,292)
Treasury stock	(1,233)	(2,061)
Total stockholders' equity	119,654	97,335
Total liabilities and stockholders' equity	159,220	136,757

Condensed Statements of Comprehensive Income (Loss)

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2023	2022
	\$	\$
Income		
Dividend income - investment securities	71	67
Losses on equity securities, net	(126)	(32)
Dividend income	3,837	3,810
Undistributed earnings of bank subsidiary	10,438	12,161
Total income	14,220	16,006
Expense		
Subordinated debt interest expense	1,950	1,311
Shareholder expenses	176	150
Other expenses	234	279
Total expense	2,360	1,740
Benefit for income taxes	(515)	(365)
Net Income	12,375	14,631
Comprehensive Income (Loss)	26,312	(37,102)

ENB FINANCIAL CORP
Notes to Consolidated Financial Statements

Condensed Statements of Cash Flows

(DOLLARS IN THOUSANDS)

	Year Ended December 31,	
	2023	2022
	\$	\$
Cash Flows from Operating Activities:		
Net Income	12,375	14,631
Equity in undistributed earnings of subsidiaries	(10,438)	(12,161)
Losses on equity securities, net	125	32
Net amortization of subordinated debt fees	160	116
Net increase in other assets	(332)	(316)
Net decrease in other liabilities	(16)	(15)
Net cash provided by operating activities	1,874	2,287
Cash Flows from Investing Activities:		
Proceeds from sales of equity securities	-	151
Purchases of equity securities	(70)	(213)
Net cash used for investing activities	(70)	(62)
Cash Flows from Financing Activities:		
Proceeds from sale of treasury stock	973	1,064
Proceeds from issuance of subordinated debt	-	19,600
Dividend to bank subsidiary	-	(17,000)
Treasury stock purchased	(572)	(116)
Dividends paid	(3,837)	(3,810)
Net cash used for financing activities	(3,436)	(262)
Cash and Cash Equivalents:		
Net change in cash and cash equivalents	(1,632)	1,963
Cash and cash equivalents at beginning of period	4,601	2,638
Cash and cash equivalents at end of period	2,969	4,601

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, 2023, 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, 2023, 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, 2023, 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, 2023, 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 22, 2024

Item 9B. Other Information

During the three months ended December 31, 2023, no director or officer of the Corporation adopted or terminated a Rule 10b5-1 trading arrangement, as each term is defined in Item 408(a) of Regulation S-K.

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 7, 2024, 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 2023.

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 7, 2024, 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 7, 2024, 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 7, 2024, 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 7, 2024, 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.)
- 10.7 Employment Agreement by and among ENB Financial Corp, The Ephrata National Bank and Joselyn D. Strohm dated as of June 5, 2023. (Incorporated herein by reference to Exhibit 10.1 of the Corporation's Form 8-K filed with the SEC on June 7, 2023.)
- 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.)

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- 21 Subsidiaries of the Registrant
- 23 Consent of Independent Registered Public Accounting Firm
- 31.1 Section 302 Chief Executive Officer Certification (Required by Rule 13a-14(a)/15a-14(a)).
- 31.2 Section 302 Principal Financial Officer Certification (Required by Rule 13a-14(a)/15a-14(a)).
- 32.1 Section 1350 Chief Executive Officer Certification (Required by Rule 13a-14(b)).
- 32.2 Section 1350 Principal Financial Officer Certification (Required by Rule 13a-14(b)).
- 101 Interactive Data File

(c) NOT APPLICABLE.

Item 16. Form 10-K Summary

None

SIGNATURES

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

ENB FINANCIAL CORP

By: /s/ Jeffrey S. Stauffer
 Jeffrey S. Stauffer, Chairman of the Board, Chief Executive Officer and President

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

<u>/s/ Jeffrey S. Stauffer</u> (Jeffrey S. Stauffer)	Chairman of the Board, Chief Executive Officer and President (Principal Executive Officer)	March 22, 2024
<u>/s/ Rachel G. Bitner</u> (Rachel G. Bitner)	Treasurer (Principal Financial Officer)	March 22, 2024
<u>/s/ Joshua E. Hoffman</u> (Joshua E. Hoffman)	Director	March 22, 2024
<u>/s/ Willis R. Lefever</u> (Willis R. Lefever)	Director	March 22, 2024
<u>/s/ Jay S. Martin</u> (Jay S. Martin)	Director	March 22, 2024
<u>/s/ Susan Young Nicholas, Esq.</u> (Susan Young Nicholas)	Director	March 22, 2024
<u>/s/ Dr. Brian K. Reed</u> (Dr. Brian K. Reed)	Director	March 22, 2024

ENB FINANCIAL CORP

<u>/s/ J. Daniel Stoltzfus</u> (J. Daniel Stoltzfus)	Director	March 22, 2024
<u>/s/ Mark C. Wagner</u> (Mark C. Wagner)	Director	March 22, 2024
<u>/s/ Judith A. Weaver</u> (Judith A. Weaver)	Director	March 22, 2024
<u>/s/ Roger L. Zimmerman</u> (Roger L. Zimmerman)	Director	March 22, 2024

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 22, 2024, 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, 2023.

S.R. Snodgrass P.C.

King of Prussia, Pennsylvania
March 22, 2024

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 22, 2024

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 22, 2024

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, 2023, 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 22, 2024

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, 2023, 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 22, 2024

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 \$12.45 to \$16.99 in 2023 and \$16.00 to \$22.40 in 2022. In 2023, the Corporation paid cash dividends of \$0.68 per share, compared to \$0.68 paid in 2022. The following table presents the quarterly high and low prices of the Corporation's common stock for the years 2023 and 2022, respectively, along with the quarterly dividend amount.

Quarter	2023			2022		
	High \$	Low \$	Dividend \$	High \$	Low \$	Dividend \$
First Quarter	16.99	13.45	0.17	22.40	21.15	0.17
Second Quarter	15.00	12.45	0.17	22.40	17.67	0.17
Third Quarter	14.90	12.65	0.17	18.55	16.10	0.17
Fourth Quarter	15.00	12.64	0.17	18.03	16.00	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:

Janney Montgomery Scott

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

Morgan Stanley

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

Hazlett, Burt & Watson, Inc.

Lancaster, PA
(800) 657-9944
(717) 397-5988

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 43078
Providence, RI 02940-3078
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 in 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 ENB Financial Corp's Transfer Agent, Computershare Shareholder Services.

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 7, 2024, 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, PO Box 457, Ephrata, PA 17522-0457 or by phone at (717) 738-5401.



ENB Financial Corp

31 East Main Street
PO Box 457
Ephrata, Pennsylvania 17522
enbfc.com