

EVANS BANCORP INC
Form 10-Q
November 05, 2015

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended September 30, 2015

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 001-35021

EVANS BANCORP, INC. .

(Exact name of registrant as specified in its charter)

New York 16-1332767

(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

One Grimsby Drive, Hamburg, NY 14075

(Address of principal executive offices) (Zip Code)

(716) 926-2000 .

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)Smaller reporting company

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, \$.50 par value 4,255,301 shares as of November 5, 2015

Table of Contents

INDEX

EVANS BANCORP, INC. AND SUBSIDIARIES

PART 1. FINANCIAL INFORMATION	PAGE
Item 1. Financial Statements	
<u>Unaudited Consolidated Balance Sheets – September 30, 2015 and December 31, 2014</u>	1
<u>Unaudited Consolidated Statements of Income – Three months ended September 30, 2015 and 2014</u>	2
<u>Unaudited Consolidated Statements of Income – Nine months ended September 30, 2015 and 2014</u>	3
<u>Unaudited Statements of Consolidated Comprehensive Income – Three months ended September 30, 2015 and 2014</u>	4
<u>Unaudited Statements of Consolidated Comprehensive Income – Nine months ended September 30, 2015 and 2014</u>	5
<u>Unaudited Consolidated Statements of Changes in Stockholder’s Equity – Nine months ended September 30, 2015 and 2014</u>	6
<u>Unaudited Consolidated Statements of Cash Flows - Nine months ended September 30, 2015 and 2014</u>	7
<u>Notes to Unaudited Consolidated Financial Statements</u>	9
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	40
Item 3. Quantitative and Qualitative Disclosures About Market Risk	49
<u>Controls and Procedures</u>	50

Item
4.

PART II. OTHER INFORMATION

<u>Legal Proceedings</u>	51
1.	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
2.	
<u>Exhibits</u>	53
6.	
<u>Signatures</u>	54

Table of Contents

PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2015 AND DECEMBER 31, 2014
(in thousands, except share and per share amounts)

	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	\$ 11,623	\$ 8,784
Interest-bearing deposits at banks	28,796	2,114
Securities:		
Available for sale, at fair value (amortized cost: \$103,463 at September 30, 2015; \$94,048 at December 31, 2014)	105,122	95,533
Held to maturity, at amortized cost (fair value: \$1,509 at September 30, 2015; \$1,574 at December 31, 2014)	1,529	1,599
Federal Home Loan Bank common stock, at amortized cost	1,296	1,439
Federal Reserve Bank common stock, at amortized cost	1,487	1,486
Loans, net of allowance for loan losses of \$13,456 at September 30, 2015 and \$12,533 at December 31, 2014	717,783	683,131
Properties and equipment, net of accumulated depreciation of \$15,534 at September 30, 2015 and \$15,129 at December 31, 2014	10,683	10,224
Goodwill	8,101	8,101
Bank-owned life insurance	20,838	20,415
Other assets	13,633	13,983
TOTAL ASSETS	\$ 920,891	\$ 846,809
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Demand	\$ 170,022	\$ 158,631
NOW	79,983	72,670
Regular savings	436,331	363,542
Time	95,967	112,792
Total deposits	782,303	707,635
Securities sold under agreement to repurchase	11,310	13,778
Other short term borrowings	10,000	13,700
Other liabilities	16,275	14,578
Junior subordinated debentures	11,330	11,330
Total liabilities	831,218	761,021
CONTINGENT LIABILITIES AND COMMITMENTS		

STOCKHOLDERS' EQUITY:

Common stock, \$.50 par value, 10,000,000 shares authorized; 4,247,469 and 4,241,797 shares issued at September 30, 2015 and December 31, 2014, respectively, and 4,238,448 and 4,203,684 outstanding at September 30, 2015 and December 31, 2014, respectively	2,126	2,123
Capital surplus	43,086	43,102
Treasury stock, at cost, 9,021 shares and 38,113 at September 30, 2015 and December 31, 2014, respectively	(112)	(751)
Retained earnings	45,868	42,822
Accumulated other comprehensive loss, net of tax	(1,295)	(1,508)
Total stockholders' equity	89,673	85,788
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 \$ 920,891	 \$ 846,809

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(in thousands, except share and per share amounts)

	Three Months Ended September 30,	
	2015	2014
INTEREST INCOME		
Loans	\$ 8,403	\$ 7,865
Interest bearing deposits at banks	16	1
Securities:		
Taxable	407	469
Non-taxable	273	241
Total interest income	9,099	8,576
INTEREST EXPENSE		
Deposits	828	752
Other borrowings	49	64
Junior subordinated debentures	83	82
Total interest expense	960	898
NET INTEREST INCOME	8,139	7,678
PROVISION FOR LOAN LOSSES	396	327
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	7,743	7,351
NON-INTEREST INCOME		
Bank charges	455	482
Insurance service and fees	1,972	1,888
Data center income	25	85
Gain on loans sold	34	87
Gain on insurance settlement	734	-
Bank-owned life insurance	134	137
Other	903	831
Total non-interest income	4,257	3,510
NON-INTEREST EXPENSE		
Salaries and employee benefits	5,253	4,792
Litigation expense	(175)	-
Occupancy	675	720
Repairs and maintenance	230	190
Advertising and public relations	188	146
Professional services	673	438
Technology and communications	354	247
Amortization of intangibles	-	27
FDIC insurance	151	137
Other	931	788
Total non-interest expense	8,280	7,485
INCOME BEFORE INCOME TAXES	3,720	3,376
INCOME TAX PROVISION	1,211	1,086
NET INCOME	\$ 2,509	\$ 2,290

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Net income per common share-basic	\$ 0.59	\$ 0.55
Net income per common share-diluted	\$ 0.58	\$ 0.54
Cash dividends per common share	\$ 0.36	\$ 0.34
Weighted average number of common shares outstanding	4,241,156	4,184,491
Weighted average number of diluted shares outstanding	4,312,275	4,260,759

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

PART I - FINANCIAL INFORMATION
 ITEM 1 - FINANCIAL STATEMENTS
 EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF INCOME
 NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
 (in thousands, except share and per share amounts)

	Nine Months Ended September 30,	
	2015	2014
INTEREST INCOME		
Loans	\$ 24,149	\$ 23,253
Interest bearing deposits at banks	50	32
Securities:		
Taxable	1,242	1,374
Non-taxable	750	729
Total interest income	26,191	25,388
INTEREST EXPENSE		
Deposits	2,471	2,264
Other borrowings	109	225
Junior subordinated debentures	243	241
Total interest expense	2,823	2,730
NET INTEREST INCOME	23,368	22,658
PROVISION FOR LOAN LOSSES	1,012	655
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	22,356	22,003
NON-INTEREST INCOME		
Bank charges	1,275	1,406
Insurance service and fees	5,623	5,606
Data center income	117	292
Gain on loans sold	115	127
Gain on insurance settlement	734	-
Bank-owned life insurance	423	434
Other	2,513	2,094
Total non-interest income	10,800	9,959
NON-INTEREST EXPENSE		
Salaries and employee benefits	15,114	14,052
Litigation expense	(175)	1,000

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Occupancy	2,066	2,148
Repairs and maintenance	618	547
Advertising and public relations	630	648
Professional services	1,855	1,374
Technology and communications	876	826
Amortization of intangibles	-	108
FDIC insurance	446	410
Other	2,604	2,322
Total non-interest expense	24,034	23,435
INCOME BEFORE INCOME TAXES	9,122	8,527
INCOME TAX PROVISION	3,033	2,646
NET INCOME	\$ 6,089	\$ 5,881
Net income per common share-basic	\$ 1.44	\$ 1.41
Net income per common share-diluted	\$ 1.41	\$ 1.38
Cash dividends per common share	\$ 0.72	\$ 0.65
Weighted average number of common shares outstanding	4,232,201	4,183,777
Weighted average number of diluted shares outstanding	4,306,532	4,266,341

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
THREE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(in thousands, except share and per share amounts)

	Three Months Ended September 30,	
	2015	2014
NET INCOME	\$ 2,509	\$ 2,290
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Unrealized gain (loss) on available-for-sale securities:		
Unrealized gain (loss) on available-for-sale securities	412	(171)
Less: Reclassification of gain on sale of securities	-	-
	412	(171)
Defined benefit pension plans:		
Amortization of prior service cost	23	4
Amortization of actuarial assumptions	13	14
Total	36	18
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	448	(153)
COMPREHENSIVE INCOME	\$ 2,957	\$ 2,137

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

PART I - FINANCIAL INFORMATION
 ITEM 1 - FINANCIAL STATEMENTS
 EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
 NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(in thousands, except share and per share amounts)

	Nine Months Ended September 30,	
	2015	2014
NET INCOME	\$ 6,089	\$ 5,881
OTHER COMPREHENSIVE INCOME, NET OF TAX:		
Unrealized gain on available-for-sale securities:		
Unrealized gain on available-for-sale securities	106	618
Less: Reclassification of gain on sale of securities	-	-
	106	618
Defined benefit pension plans:		
Amortization of prior service cost	33	12
Amortization of actuarial assumptions	74	46
Total	107	58
OTHER COMPREHENSIVE INCOME, NET OF TAX	213	676
COMPREHENSIVE INCOME	\$ 6,302	\$ 6,557

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

EVANS BANCORP, INC. AND

SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS'

EQUITY

NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(in thousands, except share and per share amounts)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance, December 31, 2013	\$ 2,106	\$ 42,619	\$ 37,370	\$ (1,263)	\$ (120)	\$ 80,712
Net Income			5,881			5,881
Other comprehensive income				676		676
Cash dividends (\$0.65 per common share)			(2,730)			(2,730)
Stock options and restricted stock expense		352				352
Excess tax expense from stock-based compensation		72				72
Issued 16,694 restricted shares, net of forfeitures	11	(11)				-
Repurchased 59,800 shares					(1,436)	(1,436)
Reissued 19,351 shares in stock option exercises		(253)			449	196
Reissued 5,400 shares through Dividend Reinvestment Program		9			115	124
Issued 7,186 shares through Employee Stock Purchase Plan	3	124				127
Balance, September 30, 2014	\$ 2,120	\$ 42,912	\$ 40,521	\$ (587)	\$ (992)	\$ 83,974
Balance, December 31, 2014	\$ 2,123	\$ 43,102	\$ 42,822	\$ (1,508)	\$ (751)	\$ 85,788
Net Income			6,089			6,089
Other comprehensive income				213		213
Cash dividends (\$0.72 per common share)			(3,043)			(3,043)
Stock options and restricted stock expense		384				384
Excess tax expense from stock-based compensation		31				31
Reissued 20,592 restricted shares, net of 588 forfeitures		(503)			503	-

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Repurchased 8,676 shares					(210)	(210)
Reissued 11,832 shares in stock option exercises	(46)				212	166
Reissued 5,582 shares through Dividend Reinvestment Program	4				134	138
Issued 5,672 shares in Employee Stock Purchase Plan	3	114				117
Balance, September 30, 2015	\$ 2,126	\$ 43,086	\$ 45,868	\$ (1,295)	\$ (112)	\$ 89,673

See Notes to Unaudited Consolidated Financial Statements

6

Table of Contents

PART I - FINANCIAL INFORMATION
ITEM 1 - FINANCIAL STATEMENTS
EVANS BANCORP, INC. AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
(in thousands)

	Nine Months Ended September 30,	
	2015	2014
OPERATING ACTIVITIES:		
Interest received	\$ 25,623	\$ 25,293
Fees received	9,424	9,481
Interest paid	(2,901)	(2,738)
Cash paid to employees and vendors	(23,860)	(21,937)
Cash contributed to pension plan	(165)	(110)
Income taxes paid	(601)	(3,141)
Proceeds from sale of loans held for resale	13,063	9,978
Originations of loans held for resale	(12,800)	(10,600)
Net cash provided by operating activities	7,783	6,226
INVESTING ACTIVITIES:		
Available for sales securities:		
Purchases	(28,457)	(11,446)
Proceeds from maturities, calls, and payments	19,148	12,212
Held to maturity securities:		
Purchases	(346)	(498)
Proceeds from maturities, calls, and payments	416	1,122
Proceeds from property insurance	1,183	-
Additions to properties and equipment	(1,255)	(433)
Purchase of tax credit investment	(832)	(1,577)
Net increase in loans	(35,312)	(37,528)
Net cash used in investing activities	(45,455)	(38,148)
FINANCING ACTIVITIES:		
(Repayments of) proceeds from borrowings, net	(6,168)	1,295
Net increase in deposits	74,668	3,184
Dividends paid	(1,517)	(1,304)

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Repurchase of treasury stock	(210)	(1,436)
Issuance of common stock	117	127
Reissuance of treasury stock	303	320
Net cash provided by financing activities	67,193	2,186
Net increase (decrease) in cash and equivalents	29,521	(29,736)
CASH AND CASH EQUIVALENTS:		
Beginning of period	10,898	41,954
End of period	\$ 40,419	\$ 12,218

(continued)

Table of Contents

PART I - FINANCIAL INFORMATION
 ITEM 1 - FINANCIAL STATEMENTS
 EVANS BANCORP, INC. AND SUBSIDIARIES
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014
 (in thousands)

	Nine Months Ended September 30,	
	2015	2014
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net income	\$ 6,089	\$ 5,881
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,120	1,195
Deferred tax expense	645	18
Provision for loan losses	1,012	655
Gain on loans sold	(115)	(127)
Gain on proceeds from insurance	(734)	-
Stock options and restricted stock expense	384	352
Proceeds from sale of loans held for resale	13,063	9,978
Originations of loans held for resale	(12,800)	(10,600)
Cash contributed to pension plan	(165)	(110)
Changes in assets and liabilities affecting cash flow:		
Other assets	(1,436)	(21)
Other liabilities	720	(995)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 7,783	\$ 6,226

See Notes to Unaudited Consolidated Financial Statements

Table of Contents

PART 1 – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

EVANS BANCORP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2015 AND 2014

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies followed by Evans Bancorp, Inc. (the “Company”), a financial holding company, and its two direct, wholly-owned subsidiaries: (i) Evans Bank, National Association (the “Bank”), and the Bank’s subsidiaries, Evans National Leasing, Inc. (“ENL”), Evans National Holding Corp. (“ENHC”) and Suchak Data Systems, LLC (“SDS”); and (ii) Evans National Financial Services, LLC (“ENFS”), and ENFS’s subsidiary, The Evans Agency, LLC (“TEA”), and TEA’s subsidiaries, Frontier Claims Services, Inc. (“FCS”) and ENB Associates Inc. (“ENBA”), in the preparation of the accompanying interim unaudited consolidated financial statements conform with U.S. generally accepted accounting principles (“GAAP”) and with general practice within the industries in which it operates. Except as the context otherwise requires, the Company and its direct and indirect subsidiaries are collectively referred to in this report as the “Company.”

The accompanying consolidated financial statements are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the Company’s financial position and results of operations for the interim periods have been made. During the nine month period ended September 30, 2015, the Company revised the unaudited Consolidated Statement of Cash Flows for the nine month period ended September 30, 2014 to correct errors involving a \$631 thousand increase within “Net cash provided by operating activities”, a \$631 thousand increase in “Net cash used in investing activities”, a \$120 thousand increase within “Depreciation and amortization”, \$726 thousand increase within “Change in other assets affecting cash flow”, and a \$216 thousand increase within “Change in other liabilities affecting cash flow” line items. The Company has assessed the materiality of this correction and concluded, based on qualitative and quantitative considerations, in accordance with Staff Accounting Bulletin No. 99, that the adjustments were not material to our previously reported financial statements.

The results of operations for the three and nine month periods ended September 30, 2015 are not necessarily indicative of the results to be expected for the full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Table of Contents

2. SECURITIES

The amortized cost of securities and their approximate fair value at September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015 (in thousands)			
	Amortized Cost	Unrealized Gains	Losses	Fair Value
Available for Sale:				
Debt securities:				
U.S. government agencies	\$ 22,004	\$ 288	\$ (89)	\$ 22,203
States and political subdivisions	39,897	857	(42)	40,712
Total debt securities	\$ 61,901	\$ 1,145	\$ (131)	\$ 62,915
Mortgage-backed securities:				
FNMA	\$ 15,369	\$ 506	\$ -	\$ 15,875
FHLMC	4,919	95	(46)	4,968
GNMA	7,503	112	(35)	7,580
CMO	13,771	86	(73)	13,784
Total mortgage-backed securities	\$ 41,562	\$ 799	\$ (154)	\$ 42,207
Total securities designated as available for sale	\$ 103,463	\$ 1,944	\$ (285)	\$ 105,122
Held to Maturity:				
Debt securities				
States and political subdivisions	\$ 1,529	\$ 7	\$ (27)	\$ 1,509
Total securities designated as held to maturity	\$ 1,529	\$ 7	\$ (27)	\$ 1,509

December 31, 2014
(in thousands)

Amortized Cost	Unrealized Gains	Losses	Fair Value
-------------------	---------------------	--------	---------------

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Available for Sale:

Debt securities:

U.S. government agencies	\$ 26,687	\$ 305	\$ (275)	\$ 26,717
States and political subdivisions	30,182	927	(49)	31,060
Total debt securities	\$ 56,869	\$ 1,232	\$ (324)	\$ 57,777

Mortgage-backed securities:

FNMA	\$ 14,653	\$ 516	\$ (15)	\$ 15,154
FHLMC	5,901	121	(64)	5,958
GNMA	6,014	143	(27)	6,130
CMO	10,611	42	(139)	10,514
Total mortgage-backed securities	\$ 37,179	\$ 822	\$ (245)	\$ 37,756

Total securities designated as available for sale	\$ 94,048	\$ 2,054	\$ (569)	\$ 95,533
---	-----------	----------	----------	-----------

Held to Maturity:

Debt securities

States and political subdivisions	\$ 1,599	\$ 7	\$ (32)	\$ 1,574
-----------------------------------	----------	------	---------	----------

Total securities designated as held to maturity	\$ 1,599	\$ 7	\$ (32)	\$ 1,574
---	----------	------	---------	----------

Table of Contents

Available for sale securities with a total fair value of \$73.7 million and \$68.8 million at September 30, 2015 and December 31, 2014, respectively, were pledged as collateral to secure public deposits and for other purposes required or permitted by law.

The Company uses the Federal Home Loan Bank of New York (“FHLBNY”) as its primary source of overnight funds and also has several long-term advances with FHLBNY. The Company had \$10.0 million in borrowed funds as of September 30, 2015, and had a total of \$13.7 million in borrowed funds with FHLBNY at December 31, 2014. The Company has placed sufficient collateral in the form of residential and commercial real estate loans at FHLBNY that meet FHLB collateral requirements. As a member of the Federal Home Loan Bank (“FHLB”) System, the Bank is required to hold stock in FHLBNY. The Bank held \$1.3 million and \$1.4 million in FHLBNY stock as of September 30, 2015 and December 31, 2014, respectively, at amortized cost. The Company regularly evaluates investments in FHLBNY for impairment, considering liquidity, operating performance, capital position, stock repurchase and dividend history. At this time, the Company does not believe any impairment in FHLBNY stock is warranted.

The scheduled maturities of debt and mortgage-backed securities at September 30, 2015 and December 31, 2014 are summarized below. All maturity amounts are contractual maturities. Actual maturities may differ from contractual maturities because certain issuers have the right to call or prepay obligations with or without call premiums.

	September 30, 2015		December 31, 2014	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in thousands)		(in thousands)	
Debt securities available for sale:				
Due in one year or less	\$ 2,874	\$ 2,888	\$ 8,172	\$ 8,256
Due after one year through five years	31,177	31,691	22,118	22,597
Due after five years through ten years	19,509	19,875	20,517	20,589
Due after ten years	8,341	8,461	6,062	6,335
	61,901	62,915	56,869	57,777
Mortgage-backed securities available for sale	41,562	42,207	37,179	37,756

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Total available for sale securities	\$ 103,463	\$ 105,122	\$ 94,048	\$ 95,533
Debt securities held to maturity:				
Due in one year or less	\$ 368	\$ 368	\$ 478	\$ 477
Due after one year through five years	214	212	77	78
Due after five years through ten years	841	830	932	914
Due after ten years	106	99	112	105
	1,529	1,509	1,599	1,574
Total held to maturity securities	\$ 1,529	\$ 1,509	\$ 1,599	\$ 1,574

Information regarding unrealized losses within the Company's available for sale securities at September 30, 2015 and December 31, 2014 is summarized below. The securities are primarily U.S. government-guaranteed agency securities or municipal securities. All unrealized losses are considered temporary and related to market interest rate fluctuations.

Table of Contents

September 30, 2015

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Available for Sale:						
Debt securities:						
U.S. government agencies	\$ 4,595	\$ (24)	\$ 5,935	\$ (65)	\$ 10,530	\$ (89)
States and political subdivisions	5,634	(23)	1,125	(19)	6,759	(42)
Total debt securities	\$ 10,229	\$ (47)	\$ 7,060	\$ (84)	\$ 17,289	\$ (131)
Mortgage-backed securities:						
FNMA	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FHLMC	-	-	1,308	(46)	1,308	(46)
GNMA	3,662	(30)	599	(5)	4,261	(35)
CMO'S	4,974	(24)	3,862	(49)	8,836	(73)
Total mortgage-backed securities	\$ 8,636	\$ (54)	\$ 5,769	\$ (100)	\$ 14,405	\$ (154)
Held To Maturity:						
Debt securities:						
States and political subdivisions	\$ -	\$ -	\$ 1,141	\$ (27)	\$ 1,141	\$ (27)
Total temporarily impaired securities	\$ 18,865	\$ (101)	\$ 13,970	\$ (211)	\$ 32,835	\$ (312)

December 31, 2014

Edgar Filing: EVANS BANCORP INC - Form 10-Q

	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Available for Sale:						
Debt securities:						
U.S. government agencies	\$ 3,906	\$ (26)	\$ 7,751	\$ (249)	\$ 11,657	\$ (275)
States and political subdivisions	4,752	(9)	1,902	(40)	6,654	(49)
Total debt securities	\$ 8,658	\$ (35)	\$ 9,653	\$ (289)	\$ 18,311	\$ (324)
Mortgage-backed securities:						
FNMA	\$ 1,498	\$ (10)	\$ 1,731	- \$ (5)	\$ 3,229	\$ (15)
FHLMC	-	-	1,482	(64)	1,482	(64)
GNMA	-	-	2,079	(27)	2,079	(27)
CMO'S	1,722	(11)	4,290	(128)	6,012	(139)
Total mortgage-backed securities	\$ 3,220	\$ (21)	\$ 9,582	\$ (224)	\$ 12,802	\$ (245)
Held To Maturity:						
Debt securities:						
States and political subdivisions	\$ 371	\$ (1)	\$ 556	\$ (31)	\$ 927	\$ (32)
Total temporarily impaired securities	\$ 12,249	\$ (57)	\$ 19,791	\$ (544)	\$ 32,040	\$ (601)

Table of Contents

Management has assessed the securities available for sale in an unrealized loss position at September 30, 2015 and December 31, 2014 and determined the decline in fair value below amortized cost to be temporary. In making this determination, management considered the period of time the securities were in a loss position, the percentage decline in comparison to the securities' amortized cost, and the financial condition of the issuer (primarily government or government-sponsored enterprises). In addition, management does not intend to sell these securities and it is not more likely than not that the Company will be required to sell these securities before recovery of their amortized cost. Management believes the decline in fair value is primarily related to market interest rate fluctuations and not to the credit deterioration of the individual issuers.

The Company had not recorded any other-than-temporary impairment ("OTTI") charges as of September 30, 2015 and did not record any OTTI charges during 2014. Nevertheless, it remains possible that there could be deterioration in the asset quality of the securities portfolio in the future. The credit worthiness of the Company's portfolio is largely reliant on the ability of U.S. government sponsored agencies such as FHLB, Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA"), and Federal Home Loan Mortgage Corporation ("FHLMC"), and municipalities throughout New York State to meet their obligations. In addition, dysfunctional markets could materially alter the liquidity, interest rate, and pricing risk of the portfolio. The relatively stable past performance is not a guarantee for similar performance of the Company's securities portfolio going forward.

3. FAIR VALUE MEASUREMENTS

The Company follows the provisions of ASC Topic 820, "Fair Value Measurements and Disclosures." Those provisions relate to financial assets and liabilities carried at fair value and fair value disclosures related to financial assets and liabilities. ASC Topic 820 defines fair value and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

There are three levels of inputs to fair value measurements:

- Level 1, meaning the use of quoted prices for identical instruments in active markets;
- Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and
- Level 3, meaning the use of unobservable inputs.

Observable market data should be used when available.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following table presents, for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a recurring basis at September 30, 2015 and December 31, 2014:

(in thousands)	Level 1	Level 2	Level 3	Fair Value
September 30, 2015				
Securities available-for-sale:				
U.S. government agencies	\$ -	\$ 22,203	\$ -	\$ 22,203
States and political subdivisions	-	40,712	-	40,712
Mortgage-backed securities	-	42,207	-	42,207
Mortgage servicing rights	-	-	549	549
December 31, 2014				
Securities available-for-sale:				
U.S. government agencies	\$ -	\$ 26,717	\$ -	\$ 26,717
States and political subdivisions	-	31,060	-	31,060
Mortgage-backed securities	-	37,756	-	37,756
Mortgage servicing rights	-	-	518	518

Table of Contents

Securities available for sale

Fair values for securities are determined using independent pricing services and market-participating brokers. The Company's independent pricing service utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade on a daily basis, the evaluated pricing applications apply information as applicable through processes, such as benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. In addition, model processes, such as the Option Adjusted Spread model, are used to assess interest rate impact and develop prepayment scenarios. The models and the process take into account market convention. For each asset class, a team of evaluators gathers information from market sources and integrates relevant credit information, perceived market movements and sector news into the evaluated pricing applications and models. The company's service provider may occasionally determine that it does not have sufficient verifiable information to value a particular security. In these cases the Company will utilize valuations from another pricing service.

Management believes that it has a sufficient understanding of the third party service's valuation models, assumptions and inputs used in determining the fair value of securities to enable management to maintain an appropriate system of internal control. On a quarterly basis, the Company reviews changes in the market value of its security portfolio. Individual changes in valuations are reviewed for consistency with general interest rate movements and any known credit concerns for specific securities. Additionally, on an annual basis, the Company has its entire security portfolio priced by a second pricing service to determine consistency with another market evaluator. If, during the Company's review or when comparing with another servicer, a material difference between pricing evaluations were to exist, the Company would submit an inquiry to the service provider regarding the data used to value a particular security. If the Company determines it has market information that would support a different valuation than the initial evaluation it can submit a challenge for a change to that security's valuation. There were no material differences in valuations noted in the first, second, or third quarters of 2015 or during fiscal year 2014.

Securities available for sale are classified as Level 2 in the fair value hierarchy as the valuation provided by the third-party provider uses observable market data.

Mortgage servicing rights

Mortgage servicing rights ("MSRs") do not trade in an active, open market with readily observable prices. Accordingly, the Company obtains the fair value of the MSRs using a third-party pricing provider. The provider determines the fair value by discounting projected net servicing cash flows of the remaining servicing portfolio. The valuation model used by the provider considers market loan prepayment predictions and other economic factors which management considers to be significant unobservable inputs. The fair value of MSRs is mostly affected by changes in mortgage interest rates since rate changes cause the loan prepayment acceleration factors to increase or decrease. Management has a sufficient understanding of the third party service's valuation models, assumptions and inputs used in

determining the fair value of MSRs to enable management to maintain an appropriate system of internal control. Mortgage servicing rights are classified within Level 3 of the fair value hierarchy as the valuation is model driven and primarily based on unobservable inputs.

The following table summarizes the changes in fair value for mortgage servicing rights during the three and nine month periods ended September 30, 2015 and 2014, respectively:

(in thousands)	Three months ended	
	September 30, 2015	September 30, 2014
Mortgage servicing rights -July 1	\$ 565	\$ 471
Losses included in earnings	(46)	(12)
Additions from loan sales	30	61
Mortgage servicing rights -September 30	\$ 549	\$ 520

Table of Contents

(in thousands)	Nine months ended September 30,	
	2015	2014
Mortgage servicing rights - January 1	\$ 518	\$ 509
Losses included in earnings	(87)	(81)
Additions from loan sales	118	92
Mortgage servicing rights - September 30	\$ 549	\$ 520

Quantitative information about the significant unobservable inputs used in the fair value measurement of MSRs at the respective dates is as follows:

	9/30/2015		12/31/2014	
Servicing fees	0.25	%	0.25	%
Discount rate	9.49	%	9.52	%
Prepayment rate (CPR)	9.21	%	9.28	%

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A NONRECURRING BASIS

The Company is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets using fair value measurements. The following table presents for each of the fair-value hierarchy levels as defined in this footnote, those financial instruments which are measured at fair value on a nonrecurring basis at September 30, 2015 and December 31, 2014:

(in thousands)	Level 1	Level 2	Level 3	Fair Value
September 30, 2015				
Impaired loans	\$ -	-	11,191	\$ 11,191
December 31, 2014				
Impaired loans	\$ -	-	13,716	\$ 13,716

Impaired loans

The Company evaluates and values impaired loans at the time the loan is identified as impaired, and the fair values of such loans are estimated using Level 3 inputs in the fair value hierarchy. Each loan's collateral has a unique appraisal and management's discount of the value is based on factors unique to each impaired loan. The significant unobservable input in determining the fair value is management's subjective discount on appraisals of the collateral securing the loan, which ranges from 10%-50%. Collateral may consist of real estate and/or business assets including equipment, inventory and/or accounts receivable and the value of these assets is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, estimated costs to sell, and/or management's expertise and knowledge of the client and the client's business.

Table of Contents

The Company has an appraisal policy in which appraisals are obtained upon a commercial loan being downgraded on the Company internal loan rating scale to a 5 (special mention) or a 6 (substandard) depending on the amount of the loan, the type of loan and the type of collateral. All impaired commercial loans are either graded a 6 or 7 on the internal loan rating scale. For consumer loans, the Company obtains appraisals when a loan becomes 90 days past due or is determined to be impaired, whichever occurs first. Subsequent to the downgrade or reaching 90 days past due, if the loan remains outstanding and impaired for at least one year more, management may require another follow-up appraisal. Between receipts of updated appraisals, if necessary, management may perform an internal valuation based on any known changing conditions in the marketplace such as sales of similar properties, a change in the condition of the collateral, or feedback from local appraisers. Impaired loans had a gross value of \$12.1 million, with a valuation allowance of \$0.9 million, at September 30, 2015, compared to a gross value for impaired loans of \$15.0 million, with a valuation allowance of \$1.3 million, at December 31, 2014.

FAIR VALUE OF FINANCIAL INSTRUMENTS

At September 30, 2015 and December 31, 2014, the estimated fair values of the Company's financial instruments, including those that are not measured and reported at fair value on a recurring basis or nonrecurring basis, were as follows:

	September 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)		(in thousands)	
Financial assets:				
Level 1:				
Cash and cash equivalents	\$ 40,419	\$ 40,419	\$ 10,898	\$ 10,898
Level 2:				
Available for sale securities	105,122	105,122	95,533	95,533
FHLB and FRB stock	2,783	2,783	2,925	2,925
Level 3:				
Held to maturity securities	1,529	1,509	1,599	1,574
Loans, net	717,783	728,901	683,131	685,148
Mortgage servicing rights	549	549	518	518

Financial liabilities:

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Level 1:				
Demand deposits	\$ 170,022	\$ 170,022	\$ 158,631	\$ 158,631
NOW deposits	79,983	79,983	72,670	72,670
Regular savings deposits	436,331	436,331	363,542	363,542
Commitments to extend credit	249	249	245	245
Securities sold under agreement to repurchase	11,310	11,310	13,778	13,778
Level 2:				
Other borrowed funds	10,000	9,951	13,700	13,700
Junior subordinated debentures	11,330	11,330	11,330	11,330
Level 3:				
Time deposits	95,967	96,709	112,792	113,854

16

Table of Contents

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value.

Cash and Cash Equivalents. For these short-term instruments, the carrying amount is a reasonable estimate of fair value. "Cash and Cash Equivalents" includes interest-bearing deposits at other banks.

FHLB and FRB stock. The carrying value of FHLB and FRB stock approximate fair value.

Securities held to maturity. The Company holds certain municipal bonds as held-to-maturity. These bonds are generally small in dollar amount and are issued only by certain local municipalities within the Company's market area. The original terms are negotiated directly and on an individual basis consistent with our loan and credit guidelines. These bonds are not traded on the open market and management intends to hold the bonds to maturity. The fair value of held-to-maturity securities is estimated by discounting the future cash flows using the current rates at which similar agreements would be made with municipalities with similar credit ratings and for the same remaining maturities.

Loans and Leases, net. The fair value of fixed rate loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, net of the appropriate portion of the allowance for loan losses. For variable rate loans, the carrying amount is a reasonable estimate of fair value. This fair value calculation is not necessarily indicative of the exit price, as defined in ASC 820.

Deposits. The fair value of demand deposits, NOW accounts, muni-vest accounts and regular savings accounts is the amount payable on demand at the reporting date. The fair value of time deposits is estimated using the rates currently offered for deposits of similar remaining maturities.

Junior Subordinated Debentures. There is no active market for the Company's debentures. The fair value of the junior subordinated debentures is determined using an expected present value technique. The fair value of the adjustable-rate debentures approximates their face amount.

Commitments to extend credit and standby letters of credit. As described in Note 8 - "Contingent Liabilities and Commitments" to these Unaudited Consolidated Financial Statements, the Company was a party to financial instruments with off-balance sheet risk at September 30, 2015 and December 31, 2014. Such financial instruments

consist of commitments to extend permanent financing and letters of credit. If the options are exercised by the prospective borrowers, these financial instruments will become interest-earning assets of the Company. If the options expire, the Company retains any fees paid by the counterparty in order to obtain the commitment or guarantee. The fees collected for these commitments are recorded as “unearned commitment fees” in Other Liabilities. The carrying value approximates the fair value.

Securities Sold Under Agreement to Repurchase. The fair value of the securities sold under agreement to repurchase approximates its carrying value.

Other Borrowed Funds. The fair value of the short-term portion of other borrowed funds approximates its carrying value. The fair value of the long-term portion of other borrowed funds is estimated using a discounted cash flow analysis based on the Company’s current incremental borrowing rates for similar types of borrowing arrangements.

Table of Contents

4. LOANS AND THE ALLOWANCE FOR LOAN LOSSES

Loan Portfolio Composition

The following table presents selected information on the composition of the Company's loan portfolio as of the dates indicated:

	September 30, 2015	December 31, 2014
Mortgage loans on real estate:	(\$ in thousands)	
Residential mortgages	\$ 99,210	\$ 98,374
Commercial and multi-family	386,723	363,252
Construction-Residential	746	721
Construction-Commercial	48,191	40,986
Home equities	59,901	59,948
Total real estate loans	594,771	563,281
Commercial and industrial loans	132,780	129,456
Consumer loans	1,623	1,764
Other	1,311	404
Net deferred loan origination costs	754	759
Total gross loans	731,239	695,664
Allowance for loan losses	(13,456)	(12,533)
Loans, net	\$ 717,783	\$ 683,131

The Bank sells certain fixed rate residential mortgages to FNMA while maintaining the servicing rights for those mortgages. In the three month period ended September 30, 2015, the Bank sold mortgages to FNMA totaling \$3.3 million, as compared with \$6.6 million in mortgages sold to FNMA in the three month period ended September 30, 2014. During the nine month periods ended September 30, 2015 and 2014, the Bank sold \$12.9 million and \$9.9 million in mortgages, respectively, to FNMA. At September 30, 2015, the Bank had a loan servicing portfolio principal balance of \$77.9 million upon which it earns servicing fees, as compared with \$71.6 million at December 31,

2014. The value of the mortgage servicing rights for that portfolio was \$0.5 million at both September 30, 2015 and December 31, 2014. At September 30, 2015, there were \$0.3 million in residential mortgage loans held-for-sale, compared with \$0.4 million in residential mortgages held-for-sale at December 31, 2014. The Company had no commercial loans held-for-sale at September 30, 2015 or December 31, 2014. The Company has never been contacted by FNMA to repurchase any loans due to improper documentation or fraud.

As noted in Note 1, these financial statements should be read in conjunction with the Audited Consolidated Financial Statements and the Notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014. Disclosures related to the basis for accounting for loans, the method for recognizing interest income on loans, the policy for placing loans on nonaccrual status and the subsequent recording of payments and resuming accrual of interest, the policy for determining past due status, a description of the Company's accounting policies and methodology used to estimate the allowance for loan losses, the policy for charging-off loans, the accounting policies for impaired loans, and more descriptive information on the Company's credit risk ratings are all contained in the Notes to the Audited Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Unless otherwise noted in this Form 10-Q, the policies and methodology described in the Annual Report for the year ended December 31, 2014 are consistent with those utilized by the Company in the three and nine month periods ended September 30, 2015.

Table of Contents

Credit Quality Indicators

The Bank monitors the credit risk in its loan portfolio by reviewing certain credit quality indicators (“CQI”). The primary CQI for its commercial mortgage and commercial and industrial (“C&I”) portfolios is the individual loan’s credit risk rating. The following list provides a description of the credit risk ratings that are used internally by the Bank when assessing the adequacy of its allowance for loan and lease losses:

- 1-3-Pass
- 4-Watch
- 5-O.A.E.M. (Other Assets Especially Mentioned) or Special Mention
- 6-Substandard
- 7-Doubtful
- 8-Loss

The Company’s consumer loans, including residential mortgages and home equities, are not individually risk rated or reviewed in the Company’s loan review process. Consumers are not required to provide the Company with updated financial information as are commercial customers. Consumer loans also carry smaller balances. Given the lack of updated information after the initial underwriting of the loan and small size of individual loans, the Company uses delinquency status as the primary credit quality indicator for consumer loans.

The following tables provide data, at the class level, of credit quality indicators of certain loans and leases for the dates specified:

September 30, 2015
(\$ in thousands)

Corporate Credit Exposure – By Credit Rating	Commercial Real Estate Construction	Commercial and Multi-Family Mortgages	Total Commercial Real Estate	Commercial and Industrial
3	\$ 38,396	\$ 324,311	\$ 362,707	\$ 75,139
4	4,482	43,321	47,803	41,121
5	5,313	13,292	18,605	8,038
6	-	5,383	5,383	8,482

Edgar Filing: EVANS BANCORP INC - Form 10-Q

7	-	416	416	-
Total	\$ 48,191	\$ 386,723	\$ 434,914	\$ 132,780

December 31, 2014
(\$ in thousands)

Corporate Credit Exposure – By Credit Rating	Commercial Real Estate Construction	Commercial and Multi-Family Mortgages	Total Commercial Real Estate	Commercial and Industrial
3	\$ 29,421	\$ 299,798	\$ 329,219	\$ 83,789
4	10,492	50,691	61,183	30,223
5	1,073	7,853	8,926	8,662
6	-	4,757	4,757	6,613
7	-	153	153	169
Total	\$ 40,986	\$ 363,252	\$ 404,238	\$ 129,456

19

Table of Contents

Past Due Loans

The following tables provide an analysis of the age of the recorded investment in loans that are past due as of the dates indicated:

September 30, 2015

(\$ in thousands)

	30-59 days	60-89 days	90+ days	Total Past Due	Current Balance	Total Balance	90+ Days Accruing	Non-accruing Loans
Commercial and industrial	\$ 345	\$ -	\$ 188	\$ 533	\$ 132,247	\$ 132,780	\$ 163	\$ 5,152
Residential real estate:								
Residential	8	267	560	835	98,375	99,210	184	1,101
Construction	-	-	-	-	746	746	-	-
Commercial real estate:								
Commercial	-	-	893	893	385,830	386,723	233	760
Construction	-	-	-	-	48,191	48,191	-	-
Home equities	360	741	190	1,291	58,610	59,901	-	553
Consumer	27	1	9	37	1,586	1,623	9	15
Other	-	-	-	-	1,311	1,311	-	-
Total Loans	\$ 740	\$ 1,009	\$ 1,840	\$ 3,589	\$ 726,896	\$ 730,485	\$ 589	\$ 7,581

NOTE: Loan and lease balances do not include \$754 thousand in net deferred loan origination costs as of September 30, 2015.

Table of Contents

December 31, 2014

(\$ in thousands)

	30-59 days	60-89 days	90+ days	Total Past Due	Current Balance	Total Balance	90+ Days Accruing	Non-accruing Loans
Commercial and industrial	\$ 153	\$ 60	\$ 274	\$ 487	\$ 128,969	\$ 129,456	\$ -	\$ 5,500
Residential real estate:								
Residential	848	158	682	1,688	96,686	98,374	-	1,296
Construction	-	-	-	-	721	721	-	-
Commercial real estate:								
Commercial	4,201	3,115	513	7,829	355,423	363,252	-	3,162
Construction	8	-	201	209	40,777	40,986	201	-
Home equities	594	120	192	906	59,042	59,948	-	415
Consumer	13	1	-	14	1,750	1,764	-	17
Other	-	-	-	-	404	404	-	-
Total Loans	\$ 5,817	\$ 3,454	\$ 1,862	\$ 11,133	\$ 683,772	\$ 694,905	\$ 201	\$ 10,390

NOTE: Loan and lease balances do not include \$759 thousand in net deferred loan origination costs as of December 31, 2014.

Table of Contents

Allowance for loan losses

The following tables present the activity in the allowance for loan losses according to portfolio segment, for the nine month periods ended September 30, 2015 and 2014:

September 30, 2015

(\$ in thousands)	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer **	Residential Mortgages*	HELOC	Unallocated	Total
Allowance for loan losses:							
Beginning balance	\$ 4,896	\$ 5,650	\$ 78	\$ 941	\$ 819	\$ 149	\$ 12,533
Charge-offs	(100)	(35)	(17)	(66)	-	-	(218)
Recoveries	88	32	8	1	-	-	129
Provision (Credit)	(198)	1,143	5	70	(8)	-	1,012
Ending balance	\$ 4,686	\$ 6,790	\$ 74	\$ 946	\$ 811	\$ 149	\$ 13,456
Allowance for loan losses:							
Ending balance:							
Individually evaluated for impairment	\$ 735	\$ 83	\$ 44	\$ -	\$ -	\$ -	\$ 862
Collectively evaluated for impairment	3,951	6,707	30	946	811	149	12,594
Total	\$ 4,686	\$ 6,790	\$ 74	\$ 946	\$ 811	\$ 149	\$ 13,456
Loans:							
Ending balance:							
Individually evaluated for impairment	\$ 5,306	\$ 3,331	\$ 44	\$ 2,334	\$ 1,038	\$ -	\$ 12,053
Collectively evaluated for impairment	127,474	431,583	2,890	97,622	58,863	-	718,432
Total	\$ 132,780	\$ 434,914	\$ 2,934	\$ 99,956	\$ 59,901	\$ -	\$ 730,485

* Includes construction loans

** Includes all other consumer loans

NOTE: Loan balances do not include \$754 thousand in net deferred loan origination costs as of September 30, 2015.

22

Table of Contents

September 30, 2014

(\$ in thousands)	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer **	Residential Mortgages*	HELOC	Direct Financing Leases	Unallocated	Total
Allowance for loan losses:								
Beginning balance	\$ 4,489	\$ 4,912	\$ 37	\$ 1,038	\$ 878	\$ -	\$ 149	\$ 11,503
Charge-offs	(913)	(57)	(25)	-	-	-	-	(995)
Recoveries	526	49	37	18	-	162	-	792
Provision (Credit)	(129)	931	25	7	(17)	(162)	-	655
Ending balance	\$ 3,973	\$ 5,835	\$ 74	\$ 1,063	\$ 861	\$ -	\$ 149	\$ 11,955
Allowance for loan losses:								
Ending balance:								
Individually evaluated for impairment	\$ 216	\$ 318	\$ 49	\$ 3	\$ 5	\$ -	\$ -	\$ 591
Collectively evaluated for impairment	3,757	5,517	25	1,060	856	-	149	11,364
Total	\$ 3,973	\$ 5,835	\$ 74	\$ 1,063	\$ 861	\$ -	\$ 149	\$ 11,955
Loans:								
Ending balance:								
Individually evaluated for impairment	\$ 613	\$ 13,808	\$ 49	\$ 2,131	\$ 1,020	\$ -	\$ -	\$ 17,621
Collectively evaluated for impairment	117,291	392,202	2,464	97,899	57,253	-	-	667,109
Total	\$ 117,904	\$ 406,010	\$ 2,513	\$ 100,030	\$ 58,273	\$ -	\$ -	\$ 684,730

* Includes construction loans

** Includes all other consumer loans

NOTE: Loan balances do not include \$610 thousand in net deferred loan origination costs as of September 30, 2014.

Table of Contents

The following tables present the activity in the allowance for loan losses by portfolio segment for the three month periods ended September 30, 2015 and 2014:

September 30, 2015

(\$ in thousands)	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer **	Residential Mortgages*	HELOC	Unallocated	Total
Allowance for loan and lease losses:							
Beginning balance	\$ 4,645	\$ 6,494	\$ 71	\$ 948	\$ 803	\$ 149	\$ 13,110
Charge-offs	(20)	-	(6)	(66)	-	-	(92)
Recoveries	31	9	2	-	-	-	42
Provision	30	287	7	64	8	-	396
Ending balance	\$ 4,686	\$ 6,790	\$ 74	\$ 946	\$ 811	\$ 149	\$ 13,456

September 30, 2014

(\$ in thousands)	Commercial and Industrial	Commercial Real Estate Mortgages*	Consumer **	Residential Mortgages*	HELOC	Direct Financing Leases	Unallocated	Total
Allowance for loan and lease losses:								
Beginning balance	\$ 3,903	\$ 5,545	\$ 46	\$ 1,046	\$ 833	\$ -	\$ 149	\$ 11,522
Charge-offs	(439)	-	(13)	-	-	-	-	(452)
Recoveries	467	10	33	16	-	32	-	558
Provision	42	280	8	1	28	(32)	-	327
Ending balance	\$ 3,973	\$ 5,835	\$ 74	\$ 1,063	\$ 861	\$ -	\$ 149	\$ 11,955

Table of Contents

Impaired Loans

The following tables provide data, at the class level, of impaired loans as of the dates indicated:

	At September 30, 2015					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With no related allowance recorded:	(\$ in thousands)					
Commercial and industrial	\$ 1,064	\$ 1,104	\$ -	\$ 1,153	\$ 37	\$ 12
Residential real estate:						
Residential	2,334	2,402	-	2,272	38	42
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	1,763	1,775	-	1,797	9	61
Construction	1,152	1,153	-	1,107	-	31
Home equities	1,038	1,093	-	1,058	24	19
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total impaired loans	\$ 7,351	\$ 7,527	\$ -	\$ 7,387	\$ 108	\$ 165

	At September 30, 2015					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With a related allowance recorded:	(\$ in thousands)					
	\$ 4,242	\$ 4,462	\$ 735	\$ 4,642	\$ 210	\$ 11

Commercial and industrial Residential real estate:						
Residential	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	416	533	83	427	26	-
Construction	-	-	-	-	-	-
Home equities	-	-	-	-	-	-
Consumer	44	58	44	46	2	3
Other	-	-	-	-	-	-
Total impaired loans	\$ 4,702	\$ 5,053	\$ 862	\$ 5,115	\$ 238	\$ 14

Table of Contents

	At September 30, 2015					
	Recorded Investment (\$ in thousands)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
Total:						
Commercial and industrial	\$ 5,306	\$ 5,566	\$ 735	\$ 5,795	\$ 247	\$ 23
Residential real estate:						
Residential	2,334	2,402	-	2,272	38	42
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	2,179	2,308	83	2,224	35	61
Construction	1,152	1,153	-	1,107	-	31
Home equities	1,038	1,093	-	1,058	24	19
Consumer	44	58	44	46	2	3
Other	-	-	-	-	-	-
Total impaired loans	\$ 12,053	\$ 12,580	\$ 862	\$ 12,502	\$ 346	\$ 179

	At December 31, 2014					
	Recorded Investment (in thousands)	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With no related allowance recorded:						
Commercial and industrial	\$ 1,017	\$ 1,022	\$ -	\$ 1,096	\$ 9	\$ 66
Residential real estate:						
Residential	2,264	2,435	-	2,271	37	68

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	2,103	2,208	-	2,139	33	91
Construction	1,074	1,074	-	1,169	-	44
Home equities	911	950	-	917	17	22
Consumer	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total impaired loans	\$ 7,369	\$ 7,689	\$ -	\$ 7,592	\$ 96	\$ 291

26

Table of Contents

	At December 31, 2014					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
With a related allowance recorded:	(in thousands)					
Commercial and industrial	\$ 4,701	\$ 4,734	\$ 988	\$ 4,701	\$ 64	\$ 234
Residential real estate:						
Residential	271	285	3	271	20	-
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	2,640	2,785	274	2,708	96	50
Construction	-	-	-	-	-	-
Home equities	-	-	-	-	-	-
Consumer	48	60	48	49	5	6
Other	-	-	-	-	-	-
Total impaired loans	\$ 7,660	\$ 7,864	\$ 1,313	\$ 7,729	\$ 185	\$ 290

	At December 31, 2014					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Foregone	Interest Income Recognized
Total:	(in thousands)					
Commercial and industrial	\$ 5,718	\$ 5,756	\$ 988	\$ 5,797	\$ 73	\$ 300
Residential real estate:						
Residential	2,535	2,720	3	2,542	57	68
Construction	-	-	-	-	-	-
Commercial real estate:						
Commercial	4,743	4,993	274	4,847	129	141
Construction	1,074	1,074	-	1,169	-	44
Home equities	911	950	-	917	17	22
Consumer	48	60	48	49	5	6

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Other	-	-	-	-	-	-
Total impaired loans	\$ 15,029	\$ 15,553	\$ 1,313	\$ 15,321	\$ 281	\$ 581

27

Table of Contents

Non-performing loans

The following table sets forth information regarding non-performing loans as of the dates specified:

	September 30, 2015	December 31, 2014		
	(\$ in thousands)			
Non-accruing loans:				
Commercial and industrial loans	\$ 5,152	\$ 5,500		
Residential real estate:				
Residential	1,101	1,296		
Construction	-	-		
Commercial real estate:				
Commercial and multi-family	760	3,162		
Construction	-	-		
Home equities	553	415		
Consumer loans	15	17		
Other	-	-		
Total non-accruing loans	\$ 7,581	\$ 10,390		
Accruing loans 90+ days past due	589	201		
Total non-performing loans	\$ 8,170	\$ 10,591		
Total non-performing loans to total assets	0.89	%	1.25	%
Total non-performing loans to total loans	1.12	%	1.52	%

Table of Contents

Troubled debt restructurings

The Company had \$6.6 million in loans that were restructured in a troubled debt restructuring (“TDR”) at both September 30, 2015, and December 31, 2014. \$2.1 million and \$1.9 million of those balances were in non-accrual status at September 30, 2015 and December 31, 2014, respectively. Any TDR that is placed on non-accrual is not reverted back to accruing status until the borrower makes timely payments as contracted for at least six months and future collection under the revised terms is probable. All of the Company’s restructurings were allowed in an effort to maximize its ability to collect on loans where borrowers were experiencing financial difficulty. The Company did not engage in any re-modifications during the three and nine month periods ended September 30, 2015 and 2014.

The reserve for a TDR is based upon the present value of the future expected cash flows discounted at the loan’s original effective rate or upon the fair value of the collateral less costs to sell, if the loan is deemed collateral dependent. This reserve methodology is used because all TDR loans are considered impaired. As of September 30, 2015, there were no commitments to lend additional funds to debtors owing on loans whose terms have been modified in TDRs.

The following tables summarize the loans that were classified as troubled debt restructurings as of the dates indicated:

	September 30, 2015			
	(\$ in thousands)			
	Total	Nonaccruing	Accruing	Related Allowance
Commercial and industrial	\$ 693	\$ 539	\$ 154	\$ 188
Residential real estate:				
Residential	1,803	571	1,232	-
Construction	-	-	-	-
Commercial real estate:				
Commercial and multi family	2,179	760	1,419	83
Construction	1,153	-	1,153	-
Home equities	702	216	486	-
Consumer loans	29	-	29	29
Other	-	-	-	-
Total troubled restructured loans	\$ 6,559	\$ 2,086	\$ 4,473	\$ 300

Table of Contents

	December 31, 2014 (\$ in thousands)			
	Total	Nonaccruing	Accruing	Related Allowance
Commercial and industrial	\$ 492	\$ 274	\$ 218	\$ 173
Residential real estate:				
Residential	1,833	594	1,239	-
Construction	-	-	-	-
Commercial real estate:				
Commercial and multi family	2,428	847	1,581	33
Construction	1,074	-	1,074	-
Home equities	728	233	495	-
Consumer loans	31	-	31	31
Other	-	-	-	-
Total troubled restructured loans	\$ 6,586	\$ 1,948	\$ 4,638	\$ 237

The Company's TDRs have various agreements that involve deferral of principal payments, or interest-only payments, for a period (usually 12 months or less) to allow the customer time to improve cash flow or sell the property. Other common types of concessions leading to the designation of a TDR are lines of credit that are termed out and extensions of maturities at rates that are less than market given the risk profile of the borrower.

Table of Contents

The following table shows the data for TDR activity by type of concession granted to the borrower for the three and nine month periods ended September 30, 2015 and 2014:

Troubled Debt Restructurings by Type of Concession	Three months ended September 30, 2015 (\$ in thousands)			Three months ended September 30, 2014 (\$ in thousands)		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial	-	-	-	-	\$ -	-
Residential Real Estate & Construction:						
Extension of maturity & rate reduction	-	-	-	1	210	\$ 210
Commercial Real Estate & Construction	-	-	-	-	-	-
Home Equities:						
Extension of maturity	-	-	-	7	524	524
Combination of concessions	-	-	-	1	65	65
Direct financing leases	-	-	-	-	-	-
Consumer loans	-	-	-	1	31	31
Other	-	-	-	-	-	-

Nine months ended September 30, 2015
(\$ in thousands)

Nine months ended September 30, 2014
(\$ in thousands)

Troubled Debt Restructurings by Type of Concession	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial and Industrial:						
Deferral of principal	3	\$ 541	\$ 541	-	\$ -	\$ -
Residential Real Estate & Construction:						
Extension of maturity & rate reduction	-	-	-	1	210	210
Extension of maturity	-	-	-	2	632	632
Commercial Real Estate & Construction	-	-	-	-	-	-
Home Equities:						
Extension of maturity	-	-	-	9	589	589
Extension of maturity & rate reduction	-	-	-	1	20	20
Combination of concessions	-	-	-	1	65	65
Direct financing leases	-	-	-	-	-	-
Consumer loans	-	-	-	1	31	31
Other	-	-	-	-	-	-

Table of Contents

The general practice of the Bank is to work with borrowers so that they are able to pay back their loan in full. If a borrower continues to be delinquent or cannot meet the terms of a TDR and the loan is determined to be uncollectible, the loan will be charged-off. The following table presents loans which were classified as TDRs during the previous 12 months which defaulted during the three and nine month periods ended September 30, 2015 and 2014:

	Three months ended September 30, 2015 (\$ in thousands)		Three months ended September 30, 2014 (\$ in thousands)	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted				
Commercial and Industrial	-	\$ -	-	-
Residential Real Estate:				
Residential	1	127	-	-
Construction	-	-	-	-
Commercial Real Estate:				
Commercial and Multi-Family	1	416	-	-
Construction	-	-	-	-
Home Equities	-	-	-	-
Consumer loans	-	-	-	-
Other	-	-	-	-

	Nine months ended September 30, 2015 (\$ in thousands)		Nine months ended September 30, 2014 (\$ in thousands)	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Troubled Debt Restructurings That Subsequently Defaulted				
Commercial and Industrial	-	\$ -	1	\$ 71
Residential Real Estate:				
Residential	1	127	-	-
Construction	-	-	-	-
Commercial Real Estate:				
Commercial and Multi-Family	2	661	-	-

Construction	-	-	-	-
Home Equities	1	19	1	54
Consumer loans	-	-	-	-
Other	-	-	-	-

Table of Contents

5. PER SHARE DATA

The common stock per share information is based upon the weighted average number of shares outstanding during each period. For the three and nine month periods ended September 30, 2015, the Company had an average of 71,119 and 74,331 dilutive shares outstanding, respectively. The Company had an average of 76,268 and 82,564 dilutive shares outstanding for the three and nine month periods ended September 30, 2014, respectively.

Potential common shares that would have the effect of increasing diluted earnings per share are considered to be anti-dilutive and not included in calculating diluted earnings per share. For the three and nine month periods ended September 30, 2015, there was an average of 37,800 and 38,077 anti-dilutive shares outstanding, respectively, that were not included in calculating diluted earnings per share because their effect was anti-dilutive. There were 9,000 potentially anti-dilutive shares outstanding for the three and nine month periods ended September 30, 2014.

6. OTHER COMPREHENSIVE INCOME

The following tables summarize the changes in the components of accumulated other comprehensive income (loss) during the three and nine month periods ended September 30, 2015 and 2014:

	Balance at June 30, 2015 (in thousands)	Net Change	Balance at September 30, 2015
Net unrealized gain on investment securities	\$ 605	\$ 412	\$ 1,017
Net defined benefit pension plan adjustments	(2,348)	36	(2,312)
Total	\$ (1,743)	\$ 448	\$ (1,295)

	Balance at June 30, 2014 (in thousands)	Net Change	Balance at September 30, 2014
Net unrealized gain (loss) on investment securities	\$ 980	\$ (171)	\$ 809

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Net defined benefit pension plan adjustments	(1,414)	18	(1,396)
Total	\$ (434)	\$ (153)	\$ (587)

	Balance at December 31, 2014	Net Change	Balance at September 30, 2015
	(in thousands)		
Net unrealized gain on investment securities	\$ 911	\$ 106	\$ 1,017
Net defined benefit pension plan adjustments	(2,419)	107	(2,312)
Total	\$ (1,508)	\$ 213	\$ (1,295)

	Balance at December 31, 2013	Net Change	Balance at September 30, 2014
	(in thousands)		
Net unrealized gain on investment securities	\$ 191	\$ 618	\$ 809
Net defined benefit pension plan adjustments	(1,454)	58	(1,396)
Total	\$ (1,263)	\$ 676	\$ (587)

Table of Contents

	Three months ended September 30, 2015 (in thousands)			Three months ended September 30, 2014 (in thousands)		
	Income Tax		Net-of-Tax Amount	Income Tax		Net-of-Tax Amount
	Before-Tax Amount	(Provision) Benefit		Before-Tax Amount	(Provision) Benefit	
Unrealized gain (loss) on investment securities:						
Unrealized gain (loss) on investment securities	\$ 673	\$ (261)	\$ 412	\$ (281)	\$ 110	\$ (171)
Reclassification from accumulated other comprehensive income for gains (losses)	-	-	-	-	-	-
Net change	673	(261)	412	(281)	110	(171)
Defined benefit pension plan adjustments:						
Net actuarial gain (loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reclassifications from accumulated other comprehensive income for gains (losses)						
Amortization of prior service cost (a)	37	(14)	23	7	(3)	4
Amortization of actuarial loss (a)	20	(7)	13	25	(11)	14
Net change	57	(21)	36	32	(14)	18
Other Comprehensive Income (Loss)	\$ 730	\$ (282)	\$ 448	\$ (249)	\$ 96	\$ (153)

(a) Included in net periodic pension cost, as described in Note 9 – “Net Periodic Benefit Costs”

	Nine months ended September 30, 2015 (in thousands)			Nine months ended September 30, 2014 (in thousands)		
	Income Tax		Net-of-Tax Amount	Income Tax		Net-of-Tax Amount
	Before-Tax Amount	(Provision) Benefit		Before-Tax Amount	(Provision) Benefit	
Unrealized gain (loss) on investment securities:						
Unrealized gain (loss) on investment securities	\$ 173	\$ (67)	\$ 106	\$ 1,007	\$ (389)	\$ 618

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Reclassification from accumulated other comprehensive income for gains (losses)	-	-	-	-	-	-
Net change	173	(67)	106	1,007	(389)	618
Defined benefit pension plan adjustments:						
Net actuarial gain (loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reclassifications from accumulated other comprehensive income for gains (losses)						
Amortization of prior service cost (a)	53	(20)	33	22	(10)	12
Amortization of actuarial loss (a)	120	(46)	74	77	(31)	46
Net change	173	(66)	107	99	(41)	58
Other Comprehensive Income (Loss)	\$ 346	\$ (133)	\$ 213	\$ 1,106	\$ (430)	\$ 676

(a) Included in net periodic pension cost, as described in Note 9 – “Net Periodic Benefit Costs”

Table of Contents

7. SEGMENT INFORMATION

The Company is comprised of two primary business segments, banking and insurance agency activities. The following tables set forth information regarding these segments for the three and nine month periods ended September 30, 2015 and 2014.

	Three months ended September 30, 2015		
	Banking Activities (in thousands)	Insurance Agency Activities	Total
Net interest income (expense)	\$ 8,169	\$ (30)	\$ 8,139
Provision for loan losses	396	-	396
Net interest income (expense) after provision for loan losses	7,773	(30)	7,743
Non-interest income	2,285	-	2,285
Insurance service and fees	170	1,802	1,972
Amortization expense	-	-	-
Non-interest expense	7,033	1,247	8,280
Income before income taxes	3,195	525	3,720
Income tax provision	1,013	198	1,211
Net income	\$ 2,182	\$ 327	\$ 2,509

	Three months ended September 30, 2014		
	Banking Activities (in thousands)	Insurance Agency Activities	Total

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Net interest income (expense)	\$ 7,707	\$ (29)	\$ 7,678
Provision for loan losses	327	-	327
Net interest income (expense) after provision for loan losses	7,380	(29)	7,351
Non-interest income	1,622	-	1,622
Insurance service and fees	156	1,732	1,888
Amortization expense	-	27	27
Non-interest expense	6,363	1,095	7,458
Income before income taxes	2,795	581	3,376
Income tax provision	862	224	1,086
Net income	\$ 1,933	\$ 357	\$ 2,290

Table of Contents

	Nine months ended September 30, 2015		
	Banking	Insurance Agency	Total
	Activities	Activities	
	(in thousands)		
Net interest income (expense)	\$ 23,455	\$ (87)	\$ 23,368
Provision for loan losses	1,012	-	1,012
Net interest income (expense) after provision for loan losses	22,443	(87)	22,356
Non-interest income	5,177	-	5,177
Insurance service and fees	524	5,099	5,623
Amortization expense	-	-	-
Non-interest expense	20,604	3,430	24,034
Income before income taxes	7,540	1,582	9,122
Income tax provision	2,423	610	3,033
Net income	\$ 5,117	\$ 972	\$ 6,089

	Nine months ended September 30, 2014		
	Banking	Insurance Agency	Total
	Activities	Activities	
	(in thousands)		
Net interest income (expense)	\$ 22,744	\$ (86)	\$ 22,658
Provision for loan losses	655	-	655
Net interest income (expense) after provision for loan losses	22,089	(86)	22,003
Non-interest income	4,353	-	4,353
Insurance service and fees	454	5,152	5,606
Amortization expense	-	108	108
Non-interest expense	20,134	3,193	23,327

Income before income taxes	6,762	1,765	8,527
Income tax provision	1,967	679	2,646
Net income	\$ 4,795	\$ 1,086	\$ 5,881

8. CONTINGENT LIABILITIES AND COMMITMENTS

The unaudited consolidated financial statements do not reflect various commitments and contingent liabilities, which arise in the normal course of business, and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities consist of commitments to extend credit and standby letters of credit. A summary of the Bank's commitments and contingent liabilities is as follows:

	September 30, 2015 (in thousands)	December 31, 2014
Commitments to extend credit	\$ 224,466	\$ 212,193
Standby letters of credit	3,799	2,430
Total	\$ 228,265	\$ 214,623

Table of Contents

Commitments to extend credit and standby letters of credit include some exposure to credit loss in the event of nonperformance by the customer. The Bank's credit policies and procedures for credit commitments and financial guarantees are the same as those for extensions of credit that are recorded on the Company's unaudited consolidated balance sheets. Because these instruments have fixed maturity dates, and because they may expire without being drawn upon, they do not necessarily represent cash requirements of the Bank. The Bank did not incur any losses on its commitments and did not record a reserve for its commitments during the first nine months of 2015 or during 2014.

Certain lending commitments for construction residential mortgage loans are considered derivative instruments under the guidelines of GAAP. The changes in the fair value of these commitments, due to interest rate risk, are not recorded on the consolidated balance sheets as the fair value of these derivatives is not considered to be material.

The Company is subject to possible litigation proceedings in the normal course of business. On September 10, 2015, without any admission of liability or responsibility, the Company and the Bank reached a settlement with the Office of the Attorney General for the State of New York ("NYAG"). The settlement agreement formally ended litigation commenced by the NYAG in September 2014 against the Company and the Bank regarding residential lending practices. The settlement agreement entered into with the NYAG is described in greater detail in Part II, Item 1 of this report.

The Company has reduced its reserve relating to this litigation to \$825,000, the amount of the settlement agreement. The reserve was originally recorded in the second quarter of 2014 in the amount of \$1 million.

9. NET PERIODIC BENEFIT COSTS

On January 31, 2008, the Bank froze its defined benefit pension plan. The plan covered substantially all Company employees. The plan provides benefits that are based on the employees' compensation and years of service. Under the freeze, eligible employees will receive, at retirement, the benefits already earned through January 31, 2008, but have not accrued any additional benefits since then. As a result, service cost is no longer incurred.

The Bank uses an actuarial method of amortizing prior service cost and unrecognized net gains or losses which result from actual expense and assumptions being different than those that are projected. The amortization method the Bank used recognized the prior service cost and net gains or losses over the average remaining service period of active

employees.

The Bank also maintains a nonqualified supplemental executive retirement plan covering certain members of the Company's senior management. The Bank uses an actuarial method of amortizing unrecognized net gains or losses which result from actual expense and assumptions being different than those that are projected. The amortization method the Bank uses recognizes the net gains or losses over the average remaining service period of active employees.

The Bank contributed \$165 thousand to the defined benefit pension plan in the first nine months of 2015.

The following table presents the net periodic cost for the Bank's defined benefit pension plan and supplemental executive retirement plan for the three and nine month periods ended September 30, 2015 and 2014:

37

Table of Contents

Three months ended
September 30,
(in thousands)

	Pension Benefits		Supplemental Executive Retirement Plan	
	2015	2014	2015	2014
Service cost	\$ -	\$ -	\$ 49	\$ 40
Interest cost	51	52	37	37
Expected return on plan assets	(77)	(76)	-	-
Amortization of prior service cost	-	-	8	7
Amortization of the net loss	18	5	33	20
Net periodic cost (benefit)	\$ (8)	\$ (19)	\$ 127	\$ 104

Nine months ended September
30,
(in thousands)

	Pension Benefits		Supplemental Executive Retirement Plan	
	2015	2014	2015	2014
Service cost	\$ -	\$ -	\$ 147	\$ 124
Interest cost	153	155	111	117
Expected return on plan assets	(231)	(229)	-	-
Amortization of prior service cost	-	-	24	22
Amortization of the net loss	54	15	97	62
Net periodic cost (benefit)	\$ (24)	\$ (59)	\$ 379	\$ 325

10. SUBSEQUENT EVENTS

Effective November 5, 2015 Gary Kajtoch resigned, for personal reasons, as Executive Vice President, Treasurer and Chief Financial Officer of the Company. In connection with his resignation, the Company and Mr. Kajtoch entered into an agreement and release. Under the agreement the Company will pay a lump sum of \$350,000, which will be recognized as a charge to earnings in the fourth quarter of 2015.

Table of Contents

11. RECENT ACCOUNTING PRONOUNCEMENTS

Accounting Standards Update (“ASU”) 2014-04, Reclassification of Collateralized Mortgage Loans upon a Troubled Debt Restructuring. The objective of this ASU is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, such that all or a portion of the loan should be derecognized and the real estate property recognized. The main provisions would also require additional disclosures regarding the amount of foreclosed residential real estate property held by the creditor and the recorded investments of consumer mortgage loans that are in the process of foreclosure at each interim and annual reporting period. This ASU became effective for the Company in fiscal years and interim periods within those years, beginning after December 15, 2014. The Company has adopted this guidance for the reporting periods after December 15, 2014. The adoption did not have a material impact on its financial statements.

ASU 2014-09, Revenue from Contracts with Customers. The objective of this proposed ASU is to require entities to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU will replace most existing revenue recognition guidance under U.S. GAAP when it becomes effective. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early application is not permitted. The standard allows an entity to apply the amendments in the ASU using either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Table of Contents

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Quarterly Report on Form 10-Q may contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that involve substantial risks and uncertainties. When used in this report, or in the documents incorporated by reference herein, the words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "seek," and similar expressions identify such forward-looking statements. These forward-looking statements include statements regarding the Company's business plans, prospects, growth and operating strategies, statements regarding the asset quality of the Company's loan and investment portfolios, and estimates of the Company's risks and future costs and benefits.

These forward-looking statements are based largely on the expectations of the Company's management and are subject to a number of risks and uncertainties, including but not limited to: general economic conditions, either nationally or in the Company's market areas, that are worse than expected; increased competition among depository or other financial institutions; inflation and changes in the interest rate environment that reduce the Company's margins or reduce the fair value of financial instruments; changes in laws or government regulations affecting financial institutions, including changes in regulatory fees, monetary policy, and capital requirements; the Company's ability to enter new markets successfully and capitalize on growth opportunities; the Company's ability to successfully integrate acquired entities; changes in accounting pronouncements and practices, as adopted by financial institution regulatory agencies, the Financial Accounting Standards Board and the Public Company Accounting Oversight Board; changes in consumer spending, borrowing and saving habits; changes in the Company's organization, compensation and benefit plans; and other factors discussed elsewhere in this Quarterly Report on Form 10-Q, as well as in the Company's periodic reports filed with the SEC, in particular the "Risk Factors" discussed in Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Many of these factors are beyond the Company's control and are difficult to predict.

Because of these and other uncertainties, the Company's actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained herein. Forward-looking statements speak only as of the date they are made. The Company undertakes no obligation to publicly update or revise forward-looking information, whether as a result of new, updated information, future events or otherwise.

APPLICATION OF CRITICAL ACCOUNTING ESTIMATES

The Company's Unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q are prepared in accordance with U.S. GAAP and follow general practices within the industries in which it

operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the Company's Unaudited Consolidated Financial Statements and Notes. These estimates, assumptions, and judgments are based on information available as of the date of the Unaudited Consolidated Financial Statements. Accordingly, as this information changes, the Unaudited Consolidated Financial Statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments, and as such, have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and the information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available. When third-party information is not available, valuation adjustments are estimated in good faith by management primarily through the use of internal cash flow modeling techniques. Refer to Note 3 – "Fair Value Measurements" to the Company's Unaudited Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for further detail on fair value measurement.

Significant accounting policies followed by the Company are presented in Note 1 – "Organization and Summary of Significant Accounting Policies" to the Audited Consolidated Financial Statements included in Item 8 in its Annual Report on Form 10-K for the year ended December 31, 2014. These policies, along with the disclosures presented in the other Notes to the Company's Audited Consolidated Financial Statements contained in its Annual Report on Form 10-K and in this financial review, provide information on how significant assets and liabilities are presented in the Company's Unaudited Consolidated Financial Statements and how those values are determined.

Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses and valuation of goodwill to be the accounting areas that require the most subjective or complex judgments, and, as such, could be most subject to revision as new information becomes available.

Table of Contents

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable losses in the Company's loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment on the part of management and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the Company's Unaudited Consolidated Balance Sheets. Note 1 to the Audited Consolidated Financial Statements included in Item 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 describes the methodology used to determine the allowance for loan losses.

Goodwill

The amount of goodwill reflected in the Company's Unaudited Consolidated Financial Statements is required to be tested by management for impairment on at least an annual basis. The test for impairment of goodwill on the identified reporting unit is considered a critical accounting estimate because it requires judgment on the part of management and the use of estimates related to the growth assumptions and market multiples used in the valuation model. The goodwill impairment testing is performed annually as of December 31st. No impairment charges were incurred in the most recent test and the fair value of the tested reporting unit substantially exceeded its fair value. There were no triggering events in the nine month period ended September 30, 2015 that resulted in an interim impairment test.

ANALYSIS OF FINANCIAL CONDITION

Loan Activity

Total loans grew to \$731.2 million at September 30, 2015, a \$20.4 million, or 2.9%, increase from total loans of \$710.8 million at June 30, 2015, and a \$35.6 million, or 5.1%, increase from total loans of \$695.7 million at December 31, 2014.

Loans secured by real estate were \$594.8 million at September 30, 2015, reflecting a \$17.3 million, or 3.0%, increase from \$577.5 million at June 30, 2015, and a \$31.5 million, or 5.6%, increase from \$563.3 million at December 31,

2014. The Company's commercial real estate portfolio, which has historically been the fastest growing part of the real estate portfolio, grew to \$386.7 million, a \$12.8 million, or 3.4%, increase from \$373.9 million at June 30, 2015, while the Company's residential real estate loan portfolio increased \$0.9 million, or 1.0%, to \$99.2 million from \$98.3 million over that same period. Commercial construction loans grew to \$48.2 million at September 30, 2015, a \$3.0 million, or 6.5%, increase from \$45.2 million at June 30, 2015. The balance of the home equity loan portfolio increased 0.9% to \$59.9 million at September 30, 2015, while the balance of the residential construction loan portfolio of \$0.7 million was flat when compared to the prior quarter.

The Bank sells certain fixed rate residential mortgages to FNMA, while maintaining the servicing rights for those mortgages. In the three month period ended September 30, 2015, the Bank sold mortgages to FNMA totaling \$3.3 million, compared with \$7.1 million in residential mortgages sold during the three month period ended June 30, 2015. At September 30, 2015, the Bank had a loan servicing portfolio principal balance of \$77.9 million upon which it earns servicing fees, compared with \$77.3 at June 30, 2015 and \$71.6 million at December 31, 2014. The value of the mortgage servicing rights for that portfolio was \$0.5 million at September 30, 2015 and \$0.6 million at both June 30, 2015 and December 31, 2014. At September 30, 2015, there were \$0.3 million in residential mortgage loans held-for-sale, compared with \$1.0 million and \$0.4 million in residential mortgage loans held-for-sale at June 30, 2015 and December 31, 2014, respectively. The Company had no commercial loans held-for-sale at September 30, 2015, June 30, 2015, or December 31, 2014. The Company has never been contacted by FNMA to repurchase any loans due to improper documentation or fraud. In the third quarter of 2015, residential mortgage originations of \$8.9 million were \$1.5 million, or 14.3%, lower than the second quarter of 2015. Residential mortgages sold in the third quarter of 2015 equated to approximately 36.5% of the residential mortgages originated by the Company during this quarter, as compared with 67.6% and 65.3% of residential mortgages originated during the second quarter of 2015 and the third quarter of 2014, respectively.

The Company's commercial and industrial ("C&I") lending has been a focus for growth opportunities, as a way to diversify its overall loan portfolio. The C&I portfolio grew to \$132.8 million at September 30, 2015, representing a \$3.0 million, or 2.3%, increase from \$129.8 million at June 30, 2015 and a \$3.3 million, or 2.6%, increase from \$129.5 million at December 31, 2014.

Table of Contents

Credit Quality of Loan Portfolio

Total non-performing loans, defined as accruing loans greater than 90 days past due and non-accrual loans, totaled \$8.2 million, or 1.12% of total loans outstanding, as of September 30, 2015, compared with \$11.0 million, or 1.55% of total loans outstanding, as of June 30, 2015, and \$10.6 million, or 1.52% of total loans outstanding at December 31, 2014. The \$2.8 million decrease in non-performing loans as compared to the prior quarter was due to the pay-off of a large non-accrual loan.

Commercial credits graded as “special mention” and “substandard” were \$40.5 million at September 30, 2015, a decrease of \$5.3 million, or 11.6%, from \$45.8 million at June 30, 2015 but an increase of \$11.5 million, or 39.7%, from \$29.0 million at December 31, 2014. This decrease from the prior quarter is attributable to large pay-offs of two commercial loan relationships. As noted in Note 4 to the Company’s Unaudited Financial Statements included in Part I of this Quarterly Report on Form 10-Q, internal risk ratings are the credit quality indicators used by the Company’s management to determine the appropriate allowance for loan losses for commercial credits. “Special mention” and “substandard” loans are weaker credits with a higher risk of loss categorized as “criticized” credits rather than “pass” or “watch” credits.

The allowance for loan losses totaled \$13.5 million, or 1.84% of total loans outstanding as of September 30, 2015, compared with \$13.1 million, or 1.84% of total loans outstanding at June 30, 2015 and \$12.5 million, or 1.80% of total loans outstanding as of December 31, 2014. The \$0.4 million increase in the allowance during the third quarter of 2015 compared with the second quarter of 2015 was driven by general loan growth during the quarter and is not attributable to any specific credit. The net charge-off ratio for the third quarter of 2015 was 0.03% of average net loans, compared with a ratio of 0.05% in the second quarter of 2015 and no charge-offs taken in the fourth quarter of 2014.

The coverage ratio of the allowance for loan losses to non-performing loans was 164.7% at September 30, 2015, compared with 119.2% at June 30, 2015 and 118.3% at December 31, 2014. The third quarter coverage ratio increased from the prior quarter due to a \$2.6 million, or 25.6%, decrease in total non-accrual loans.

Investing Activities

Total securities were \$109.4 million at September 30, 2015, compared with \$109.5 million at June 30, 2015 and \$100.1 million at December 31, 2014. Interest-bearing deposits at other banks of \$28.8 million, which consist of overnight funds kept at correspondent banks and the Federal Reserve, decreased from \$34.2 million at June 30, 2015 but increased from \$2.1 million at December 31, 2014. Interest-bearing deposits at other banks had increased during the first quarter of 2015 due to an increase in the Company’s total deposits, driven primarily by increases in regular savings, demand deposits, and NOW accounts. The decrease in interest-bearing deposits at other banks in the third quarter of 2015 was due to loan growth, which increased 2.9% during the third quarter of 2015. Securities and

interest-bearing deposits at correspondent banks made up 16.5% of the Bank's total average interest earning assets in the third quarter of 2015, compared with 18.3% in the second quarter of 2015 and 13.3% in the fourth quarter of 2014.

The Company's highest concentration in its securities portfolio was in available for sale U.S. government sponsored mortgage-backed securities at 38.0% of the total investment securities at September 30, 2015, compared with 39.2% at June 30, 2015 and 38.9% at December 31, 2014. The concentration in tax-advantaged debt securities issued by state and political subdivisions and U.S. government-sponsored agency bonds was 36.5% and 20.1%, respectively, of the total securities portfolio at September 30, 2015, compared with 36.8% and 22.6% at June 30, 2015 and 27.5% and 32.0% at December 31, 2014.

Management believes that the credit quality of the securities portfolio as a whole is strong, as the portfolio has no individual securities in a significant unrealized loss position. Interest rates have remained low, resulting in an increase in the net unrealized gain position of the available-for-sale investment portfolio to \$1.7 million at September 30, 2015 from \$1.0 million at June 30, 2015 and \$1.5 million at December 31, 2014.

The Company monitors extension and prepayment risk in the securities portfolio to limit potential exposures. Available-for-sale securities with a total fair value of \$73.7 million at September 30, 2015, compared with \$68.6 million at June 30, 2015 and \$68.8 million at December 31, 2014, were pledged as collateral to secure public deposits and for other purposes required or permitted by law. The Company has no direct exposure to subprime mortgages, nor does the Company hold private mortgage-backed securities, credit default swaps, or FNMA or FHLMC preferred stock investments in its investment portfolio.

Table of Contents

Funding Activities

Total deposits at September 30, 2015 were \$782.3 million, an \$8.1 million, or 1.1%, increase from \$774.2 million at June 30, 2015, and a \$74.7 million, or 10.6% increase, when compared with total deposits of \$707.6 million at December 31, 2014. The growth in the Company's total deposits from December 31, 2014 was due mainly to increases in savings deposits, NOW accounts, and demand deposits. In the first quarter of 2015 the Bank introduced a new money market account that has been successful in acquiring new customer deposit relationships and providing cross sell opportunities. This product continued to have success in the third quarter of 2015, as it contributed to the \$4.3 million growth in regular savings deposits compared with June 30, 2015. The increase in total deposits in the third quarter of 2015 was primarily a result of the \$6.2 million, or 3.8%, increase in demand deposits.

As of September 30, 2015, the Company had \$10.0 million in other borrowings, which included the Bank's overnight line of credit and other advances with the FHLB NY, compared with \$10.0 million in other borrowings at June 30, 2015 and \$13.7 million at December 31, 2014.

Table of Contents

ANALYSIS OF RESULTS OF OPERATIONS

Average Balance Sheet

The following tables present the significant categories of the assets and liabilities of the Company, interest income and interest expense, and the corresponding yields earned and rates paid for the periods indicated. The assets and liabilities are presented as daily averages. The average loan balances include both performing and non-performing loans. Investments are included at amortized cost. Yields are presented on a non-tax-equivalent basis.

	Three months ended September 30, 2015			Three months ended September 30, 2014		
	Average Outstanding Balance (dollars in thousands)	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance (dollars in thousands)	Interest Earned/ Paid	Yield/ Rate
ASSETS						
Interest-earning assets:						
Loans, net	\$ 706,568	\$ 8,403	4.76 %	\$ 666,029	\$ 7,865	4.72 %
Taxable securities	70,376	407	2.31 %	73,590	469	2.55 %
Tax-exempt securities	41,963	273	2.60 %	32,496	241	2.97 %
Interest bearing deposits at banks	27,500	16	0.23 %	2,134	1	0.19 %
Total interest-earning assets	846,407	\$ 9,099	4.30 %	774,249	\$ 8,576	4.43 %
Non interest-earning assets:						
Cash and due from banks	13,351			13,744		
Premises and equipment, net	10,561			10,873		
Other assets	42,191			40,112		
Total Assets	\$ 912,510			\$ 838,978		
LIABILITIES & STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
NOW	\$ 78,335	\$ 78	0.40 %	\$ 72,337	\$ 81	0.45 %
Regular savings	431,127	442	0.41 %	370,982	249	0.27 %
Time deposits	97,321	308	1.27 %	108,580	422	1.55 %
Other borrowed funds	10,000	44	1.76 %	10,049	57	2.27 %
Junior subordinated debentures	11,330	83	2.93 %	11,330	82	2.89 %
Securities sold U/A to repurchase	10,783	5	0.19 %	14,213	7	0.20 %

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Total interest-bearing liabilities	638,896	\$ 960	0.60 %	587,491	\$ 898	0.61 %
Noninterest-bearing liabilities:						
Demand deposits	168,883			155,508		
Other	15,122			11,465		
Total liabilities	\$ 822,901			\$ 754,464		
Stockholders' equity	89,609			84,514		
Total Liabilities and Equity	\$ 912,510			\$ 838,978		
Net interest earnings		\$ 8,139			\$ 7,678	
Net interest margin			3.85 %			3.97 %
Interest rate spread			3.70 %			3.82 %

Table of Contents

	Nine months ended September 30, 2015			Nine months ended September 30, 2014		
	Average Outstanding Balance (dollars in thousands)	Interest Earned/ Paid	Yield/ Rate	Average Outstanding Balance (dollars in thousands)	Interest Earned/ Paid	Yield/ Rate
ASSETS						
Interest-earning assets:						
Loans, net	\$ 693,652	\$ 24,149	4.64 %	\$ 651,509	\$ 23,253	4.76 %
Taxable securities	69,114	1,242	2.40 %	71,986	1,374	2.54 %
Tax-exempt securities	36,551	750	2.74 %	33,015	729	2.94 %
Interest bearing deposits at banks	28,500	50	0.23 %	17,409	32	0.25 %
Total interest-earning assets	827,817	\$ 26,191	4.22 %	773,919	\$ 25,388	4.37 %
Non interest-earning assets:						
Cash and due from banks	12,404			12,519		
Premises and equipment, net	10,291			11,043		
Other assets	42,266			39,867		
Total Assets	\$ 892,778			\$ 837,348		
LIABILITIES & STOCKHOLDERS' EQUITY						
Interest-bearing liabilities:						
NOW	\$ 78,130	\$ 241	0.41 %	\$ 72,460	\$ 239	0.44 %
Regular savings	410,912	1,114	0.36 %	381,238	767	0.27 %
Time deposits	104,812	1,116	1.42 %	108,943	1,258	1.54 %
Other borrowed funds	9,539	93	1.30 %	8,898	205	3.07 %
Junior subordinated debentures	11,330	243	2.86 %	11,330	241	2.84 %
Securities sold U/A to repurchase	11,624	16	0.18 %	14,183	20	0.19 %
Total interest-bearing liabilities	626,347	\$ 2,823	0.60 %	597,052	\$ 2,730	0.61 %
Noninterest-bearing liabilities:						
Demand deposits	163,651			146,704		
Other	14,521			11,223		
Total liabilities	\$ 804,519			\$ 754,979		

Edgar Filing: EVANS BANCORP INC - Form 10-Q

Stockholders' equity	88,259	82,369
Total Liabilities and Equity	\$ 892,778	\$ 837,348
Net interest earnings	\$ 23,368	\$ 22,658
Net interest margin	3.76 %	3.90 %
Interest rate spread	3.62 %	3.76 %

45

Table of Contents

Net Income

Net income was \$2.5 million, or \$0.58 per diluted share, in the third quarter of 2015 up from \$2.3 million, or \$0.54 per diluted share, in the third quarter of 2014, primarily due to increased net interest income and a \$0.7 million gain from an insurance settlement. As a result, return on average equity was 11.20% for the third quarter of 2015 compared with 10.84% in the third quarter of 2014.

For the nine months ended September 30, 2015, Evans recorded net income of \$6.1 million, or \$1.41 per diluted share, compared with net income of \$5.9 million, or \$1.38 per diluted share, in the same period in 2014, which included a \$1.0 million pre-tax litigation expense in the second quarter.

Other Results of Operations – Quarterly Comparison

Net interest income was \$8.1 million in the third quarter, up \$0.5 million from the prior-year period and the trailing second quarter. Growth in loans and non-interest bearing demand deposits drove the increase over both periods.

Net interest margin of 3.85% decreased 12 basis points from 3.97% in the 2014 third quarter, driven by decreases in the yield on investment securities. When compared with net interest margin of 3.61% in the trailing second quarter, net interest margin was up 24 basis points, mostly due to interest earned on the payoff of a large non-accrual loan and growth of the loan portfolio.

The provision for loan losses was \$396 thousand in the 2015 third quarter, up from \$326 thousand in the prior-year period, but down \$19 thousand from the trailing second quarter of 2015.

Non-interest income was \$4.3 million, or 34.3% of total revenue, in the quarter, up \$0.7 million, or 21.3%, from the prior-year period. This increase reflects a \$0.7 million gain from an insurance settlement related to a fire sustained at a branch location. Insurance agency revenue of \$2.0 million was up \$0.1 million, or 4.5%, from the 2014 third quarter, due mostly to increases in financial services and employee benefits revenue. Compared with the trailing second quarter of 2015, total non-interest income increased by \$0.7 million primarily due to the insurance settlement gain.

Total non-interest expense was \$8.3 million in the third quarter, an increase of 10.6%, or \$0.8 million, from the prior-year period. Personnel expenses, the largest expense category for the Company, were up \$0.5 million, or 9.6%, from last year's third quarter, and reflect annual merit increases and personnel hires to support the Company's continued growth. Professional services were \$0.7 million, up \$0.2 million, or nearly 54% year-over-year due mostly to higher legal expenses related to the New York State Attorney General suit that was settled in the quarter. As a result of the legal settlement, Evans recorded a \$175 thousand reversal of a previously established litigation reserve in the quarter.

Compared with the trailing second quarter of 2015, total non-interest expense was up \$39 thousand, or 0.5%. The slight increase reflects higher personnel expenses partially offset by the \$175 thousand litigation reserve reversal,

which partially offset these increases..

Income tax expense for the quarter was \$1.2 million, representing an effective tax rate of 32.6% compared with an effective tax rate of 32.2% in the third quarter of 2014.

Other Results of Operations – Year-to-Date Comparison

Net interest income was \$23.4 million for the first nine months of 2015, up \$0.7 million or 3.1% from the first nine months of 2014. The increase in net interest income from prior year-to-date net interest income is attributed to a 3.8% increase in interest income on loans, driven by the growth in average loans of 6.5% or \$42.1 million.

46

Table of Contents

The Company's net interest margin decreased by 14 basis points to 3.76% in the first nine months of 2015, compared with 3.90% in the first nine months of 2014. The Company's average interest-earning assets increased by 7.0% when compared to the same period in the prior year; however, yields on those assets decreased 15 basis points when compared with the prior year period. As described above, the Company's declining yield on interest-earning assets has been negatively impacted by the current competitive and interest rate environments.

Provision for loan losses of \$1.0 million increased \$0.4 million in the first nine months of 2015 when compared with the first nine months of 2014. The year-over-year increase is attributed to an \$8.2 million, or 25.1%, increase in criticized commercial loans since September 30, 2014.

Non-interest income for the first nine months of 2015 increased \$0.8 million or 8.4% from the prior year period to \$10.8 million, representing 31.6% of total revenue for the first nine months of 2015 compared with 30.5% of total revenue for the first nine months of 2014. The increase in non-interest income year over year was largely driven by the \$0.7 million gain on insurance proceeds related to a fire sustained at a branch location. Other non-interest income increased \$0.4 million, or 20.0%, in the first nine months of 2015 when compared with the first nine months of 2014, as a result of increased loan fees due to the strong loan growth in the first nine months of 2015. Data center income and bank charges decreased 59.9% and 9.4%, respectively, in the first nine months of 2015, compared with the prior year period. Insurance service and fees decreased 3.1% in the first nine months of 2015 compared with the first nine months of 2014, driven by a \$0.2 million decrease in property and casualty insurance when compared with the prior year period.

Total non-interest expense increased \$0.6 million, or 2.5%, in the first nine months of 2015 compared with the first nine months of 2014, mostly due to a \$1.1 million increase in salaries and employee benefits expense and a \$0.5 million increase in professional services expense during the first nine months of 2015. The year-over-year increase in salary and benefits expense reflects annual merit increases and personnel hires to support the Company's growth strategy.

The Company's efficiency ratio for the first nine months of 2015 improved to 70.34% compared with 71.52% during the same prior-year period, mostly due to the combination of \$0.7 million in insurance proceeds in the current year and the \$1.0 million litigation expense incurred in 2014.

Income tax expense for the nine months ended September 30, 2015, was \$3.0 million, representing an effective tax rate of 33.3%, compared with an effective tax rate of 31.0% in the prior year period. The effective tax rate increased due to a lower than expected percentage of tax exempt income to total income recognized in the first nine months of 2015 as compared with the first nine months of 2014.

CAPITAL

The Company consistently maintains regulatory capital ratios significantly above the federal “well capitalized” standard, including a Tier 1 leverage ratio of 10.32% and 10.84% at September 30, 2015 and December 31, 2014, respectively. New minimum capital ratios, known as “Basel III”, became effective for the Company and the Bank on January 1, 2015 and will be fully phased-in on January 1, 2019. As of September 30, 2015, the Company and the Bank met all applicable capital adequacy requirements under the Basel III capital rules.

Book value per share of the Company’s common stock was \$21.16 at September 30, 2015, compared with \$20.41 at December 31, 2014. Tangible book value per share (a non-GAAP measure) at September 30, 2015 was \$19.25, compared with \$18.48 at December 31, 2014.

Table of Contents

Tangible book value per share is a non-GAAP financial measure. The Company calculates tangible book value per share by dividing tangible book value by the number of common shares outstanding, as compared to GAAP book value per share, which the Company calculates by dividing GAAP book value by the number of common shares outstanding. Management believes that this information is consistent with treatment by bank regulatory agencies, which exclude intangible assets from the calculation of risk-based capital ratios. Accordingly, management believes that this non-GAAP financial measure provides information that is important to investors and that is useful in understanding the Company's capital position and ratios. Further, management believes that presentation of this measure, together with the accompanying reconciliation, provides a complete understanding of factors and trends affecting the Company's business and allows investors to view the Company's performance in a manner similar to management, the financial services industry, bank stock analysts and regulatory agencies. However, this non-GAAP financial measure is supplemental and is not a substitute for an analysis based on GAAP financial measures. Note that other companies may use different calculations for this measure, and, therefore, the Company's presentation of tangible book value per share may not be comparable to similarly titled measures reported by other companies. Investors should review the Company's consolidated financial statements in their entirety and should not rely on any single financial measure.

A reconciliation of this non-GAAP financial measure, tangible book value per share, to the most directly comparable GAAP financial measure, book value, is set forth in the following table:

	September 30, 2015	December 31, 2014
(\$ in thousands, except per share data)		
Stockholders' equity ("book value")	\$ 89,673	\$ 85,788
Goodwill (related to insurance agency reporting unit)	(8,101)	(8,101)
Intangible assets (related to insurance agency reporting unit)	-	-
Tangible book value (non-GAAP)	\$ 81,572	\$ 77,687
Number of common shares outstanding	4,238,448	4,203,684
Tangible book value per share	\$ 19.25	\$ 18.48

On August 18, 2015, the Company declared a cash dividend of \$0.36 per share on the Company's outstanding common stock. The dividend was paid on October 6, 2015 to shareholders of record as of September 15, 2015.

LIQUIDITY

The Bank utilizes cash flows from the investment portfolio and federal funds sold balances to manage the liquidity requirements related to loan demand and deposit fluctuations. The Bank also has many borrowing options. As a member of the FHLB, the Bank is able to borrow funds at competitive rates. Advances of up to \$185.0 million can be drawn on the FHLB via an Overnight Line of Credit Agreement between the Bank and the FHLB. An amount equal to 25% of the Bank's total assets could be borrowed through the advance programs under certain qualifying

circumstances. The Bank also has the ability to purchase up to \$14.0 million in federal funds from its correspondent banks. By placing sufficient collateral in safekeeping at the Federal Reserve Bank, the Bank could borrow at the discount window. The Bank's liquidity needs also can be met by more aggressively pursuing time deposits, or accessing the brokered time deposit market, including the Certificate of Deposit Account Registry Service ("CDARS") network. The Company's primary source of liquidity is dividends from the Bank. Additionally, the Company has access to capital markets as a funding source.

Cash flows from the Bank's investment portfolio are laddered, so that securities mature at regular intervals, to provide funds from principal and interest payments at various times as liquidity needs may arise. Contractual maturities are also laddered, with consideration as to the volatility of market prices. At September 30, 2015, approximately 2.7% of the Bank's securities had contractual maturity dates of one year or less and approximately 32.9% had maturity dates of five years or less.

Table of Contents

Management, on an ongoing basis, closely monitors the Company's liquidity position for compliance with internal policies, and believes that available sources of liquidity are adequate to meet funding needs in the normal course of business. As part of that monitoring process, management calculates the 90-day liquidity each month by analyzing the cash needs of the Bank. Included in the calculation are liquid assets and potential liabilities. Management stresses the potential liabilities calculation to ensure a strong liquidity position. Included in the calculation are assumptions of some significant deposit run-off as well as funds needed for loan closings and investment purchases. At September 30, 2015, in the Company's internal stress test, the Company had net short-term liquidity of \$202.7 million as compared with \$214.6 million at December 31, 2014, due to the usage of cash for loan growth. Available assets of \$142.1 million, divided by public and purchased funds of \$114.3 million, resulted in a long-term liquidity ratio of 124% at September 30, 2015, compared with 88% at December 31, 2014.

Management does not anticipate engaging in any activities, either currently or in the long term, for which adequate funding would not be available and which would therefore result in significant pressure on liquidity.

The Company believes that the Bank maintains a sufficient level of U.S. government and government agency securities and New York State municipal bonds that can be pledged as collateral for municipal deposits.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Additional information responsive to this Item is contained in the Liquidity section of Management's Discussion and Analysis of Financial Condition and Results of Operations, which information is incorporated herein by reference.

Market risk is the risk of loss from adverse changes in market prices and/or interest rates of the Bank's financial instruments. The primary market risk that the Company is exposed to is interest rate risk. The core banking activities of lending and deposit-taking expose the Bank to interest rate risk, which occurs when assets and liabilities reprice at different times and by different amounts as interest rates change. As a result, net interest income earned by the Bank is subject to the effects of changing interest rates. The Bank measures interest rate risk by calculating the variability of net interest income in future periods under various interest rate scenarios using projected balances for interest-earning assets and interest-bearing liabilities. Management's philosophy toward interest rate risk management is to limit the variability of net interest income to changes in net interest rates. The balances of financial instruments used in the projections are based on expected growth from forecasted business opportunities, anticipated prepayments of loans, and expected maturities of investment securities, loans, and deposits. Management supplements the modeling technique described above with analysis of market values of the Bank's financial instruments and changes to

such market values given changes in the interest rates.

The Bank's Asset-Liability Committee, which includes members of senior management, monitors the Bank's interest rate sensitivity with the aid of a model that considers the impact of ongoing lending and deposit taking activities, as well as interrelationships in the magnitude and timing of the repricing of financial instruments, including the effect of changing interest rates on expected prepayments and maturities. When deemed prudent, management has taken actions, and intends to do so in the future, to mitigate exposure to interest rate risk through the use of on- or off-balance sheet financial instruments. Possible actions include, but are not limited to, changing the pricing of loan and deposit products, and modifying the composition of interest-earning assets and interest-bearing liabilities, and reliance on other financial instruments used for interest rate risk management purposes.

49

Table of Contents

The following table demonstrates the possible impact of changes in interest rates on the Bank's net interest income over a 12-month period of time:

SENSITIVITY OF NET INTEREST INCOME TO CHANGES IN INTEREST RATES

Changes in interest rates	Calculated increase in projected annual net interest income (in thousands)	
	September 30, 2015	December 31, 2014
+200 basis points	\$ 1,412	\$ 531
+100 basis points	1,879	1,149
-100 basis points	NM	NM
-200 basis points	NM	NM

Many assumptions were utilized by management to calculate the impact that changes in interest rates may have on the Bank's net interest income. The more significant assumptions related to the rate of prepayments of mortgage-related assets, loan and deposit volumes and pricing, and deposit maturities. The Bank assumed immediate changes in rates including 200 basis point rate changes. In the event that the 200 basis point rate changes cannot be achieved, the applicable rate changes are limited to lesser amounts such that interest rates cannot be less than zero. These assumptions are inherently uncertain and, as a result, the Bank cannot precisely predict the impact of changes in interest rates on net interest income. Actual results may differ significantly due to the timing, magnitude, and frequency of interest rate changes in market conditions and interest rate differentials (spreads) between maturity/repricing categories, as well as any actions such as those previously described, which management may take to counter such changes. In light of the uncertainties and assumptions associated with the process, the amounts presented in the table and changes in such amounts are not considered significant to the Bank's projected net interest income.

ITEM 4 - CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, with the participation of the Company's principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2015 (the end of the period covered by this Report). Based on that evaluation, the Company's principal executive and principal financial officers concluded that as of September 30, 2015 the Company's disclosure controls and procedures were effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No changes in the Company's internal control over financial reporting were identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the fiscal quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

The nature of the Company’s business generates a certain amount of litigation involving matters arising in the ordinary course of business.

On September 10, 2015, the Company and the Bank (collectively, “Evans”), without any admission of liability or responsibility, reached an agreement with the New York State Attorney General (the “NYAG”) to end litigation by jointly filing a Stipulation of Discontinuance in the U.S. District Court for the Western District of New York. This action formally ended the Attorney General’s lawsuit, which was initiated in September of 2014, regarding the Bank’s residential mortgage practices.

Under the settlement, Evans agreed to:

- Provide, in two annual installments, a total grant of \$475,000 to the City of Buffalo’s Office of Strategic Planning to support activities including, but not limited to, home ownership, counseling, financial education, and asset building workshops for home buyers, as well as the restoration and development of affordable housing throughout Buffalo, including but not limited to the East Side of Buffalo.
- Adopt a \$100,000 grant program, to be administered over a three-year period, to encourage homeownership in Buffalo’s East Side neighborhoods.
- Over a two-year period, invest \$200,000 in advertising and marketing designed to reach potential applicants and residents of the complaint area.
- Pay \$50,000 to the New York State Attorney General for costs and fees.
- Revise its commercial and consumer loan policy, and any other applicable policies or summaries of policies, to specifically reflect to the complaint area and to eliminate any minimum dollar requirement for mortgages contained therein. Any necessary training of Evans employees regarding such revisions shall be provided in accordance with the agreement.

In addition, Evans agreed to provide the NYAG with certain reports and data over a two-year period related to Evans’ performance under the settlement agreement, and to provide fair lending training to all Evans’ employees and agents.

As described in detail in Note 8 to the unaudited financial statements included in this report, the Company had previously recorded a reserve relating to the NYAG investigation in the amount of \$1,000,000 but reduced the liability to \$825,000 in the current quarter based on the settlement agreement.

In the opinion of management, there are no other proceedings pending to which the Company is a party or to which its property is subject, which, if determined adversely, would have a material effect on the Company's results of operations or financial condition.

Table of Contents

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In March 2013, the Company announced it had been authorized by its Board of Directors to purchase up to 100,000 shares of the Company's outstanding common stock. In the third quarter of 2015, the Company purchased shares of its common stock as follows:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Maximum Number of Shares that may yet be Purchased Under the Plans or Programs
July 2015:				
July 1, 2015 - July 31, 2015	-	\$ -	-	23,771
August 2015:				
August 1, 2015 -August 31, 2015	-	\$ -	-	23,771
September 2015:				
September 1, 2015 - September 30, 2015	6,701	\$ 23.92	5,279	18,492
Total:	6,701	\$ 23.92	5,279	18,492

(1) 1,422 of the total shares purchased in the period consist of shares constructively tendered to the Company by attestation in satisfaction of the exercise price due upon exercise of options issued pursuant to the Company's 2009 Long-Term Incentive Plan. The "average price paid per share" reported in the table above, with respect to such shares, reflects the cost basis of the Company's treasury shares and the fair market value of the Company's common stock on the purchase date, which was the cost paid by the Company upon acquisition of treasury shares and the closing sales price of the Company's common stock as reported on the NYSE MKT on that date, respectively.

(2) On March 25, 2013, the Board of Directors authorized the Company to repurchase up to 100,000 shares of the Company's common stock. The repurchase program has no fixed expiration date but may be suspended or discontinued at any time. The maximum number of shares that may be purchased under this program as of September 30, 2015 was 18,492.

Table of Contents

ITEM 6 – EXHIBITS

The information called for by this item is incorporated herein by reference to the Exhibit Index included immediately following the signature page to this Quarterly Report on Form 10-Q.

53

Table of Contents

SIGNATURES

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

Evans Bancorp, Inc.

DATE

November 5, 2015

/s/ David J. Nasca
David J. Nasca
President and CEO
(Principal Executive Officer)

DATE

November 5, 2015

/s/ Gary A. Kajtoch
Gary A. Kajtoch
Treasurer
(Principal Financial Officer)

54

Table of Contents

EXHIBIT INDEX

Exhibit

No.	Name
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer pursuant to 18 USC Section 1350 Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer pursuant to 18 USC Section 1350 Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Evans Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Unaudited Consolidated Balance Sheets – September 30, 2015 and December 31, 2014; (ii) Unaudited Consolidated Statements of Income – Three months ended September 30, 2015 and 2014; (iii) Unaudited Consolidated Statements of Income -Nine months ended September 30, 2015 and 2014(iv) Unaudited Statements of Consolidated Comprehensive Income – Three months ended September 30, 2015 and 2014; (v) Unaudited Statements of Consolidated Comprehensive Income -Nine months ended September 30, 2015 and 2014 (vi) Unaudited Consolidated Statements of Stockholder's Equity – Nine months ended September 30, 2015 and 2014; (vii) Unaudited Consolidated Statements of Cash Flows – Nine months ended September 30, 2015 and 2014; and (viii) Notes to Unaudited Consolidated Financial Statements.